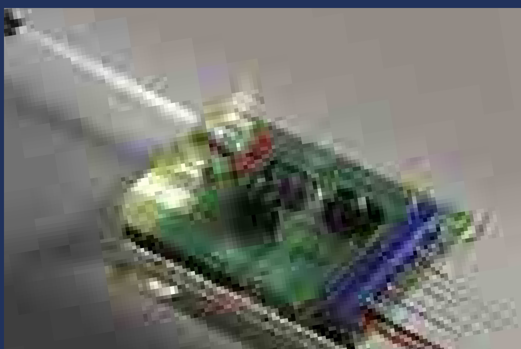
Hudaco

'05

Hudaco Industries Limited Annual Report 2005



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Profile

Hudaco Industries is a South African group of companies specialising in the importation and value added distribution of selected high quality industrial and security products in the southern African region. The replacement market is a particular focus and the group is active in three main areas:

- **Bearings and Power Transmission products**
- **Powered products**
- **Security equipment**

Hudaco sources branded products, mainly on an exclusive basis, directly from leading international manufacturers and to a lesser extent from local manufacturers. Hudaco seeks out niche areas in markets where customers need, and are prepared to pay for, the *value* Hudaco adds to the products it distributes. The value added includes product specification, application and installation training, and troubleshooting combined with ready availability and a fair price.

A network of specialised branches and independent distributors throughout southern Africa serves the industrial replacement part markets and supplies original equipment to the security industry.

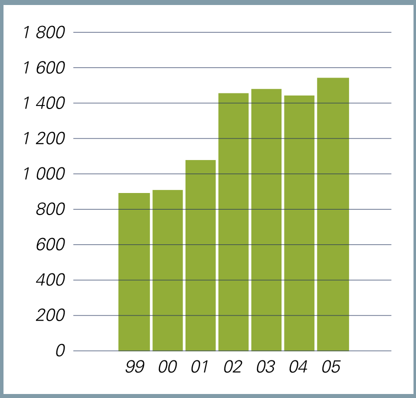
"Value added distribution – our core competency"

Hudaco

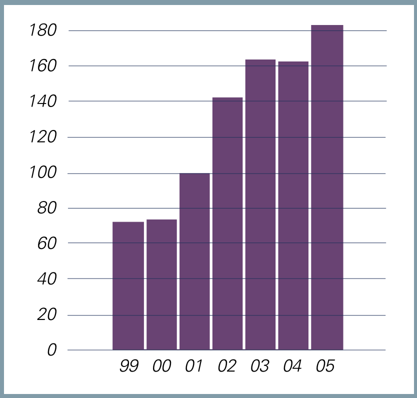
Results in brief

30 November	**2005**	2004	% change
Turnover (Rm)	**1 549**	1 448	7
Operating profit (Rm)	**183**	162	13
Headline earnings (Rm)	**123**	109	13
Attributable earnings (Rm)	**124**	89	40
Headline earnings per share (cents)	**415**	371	12
Dividends per share (cents)	**144**	128	13

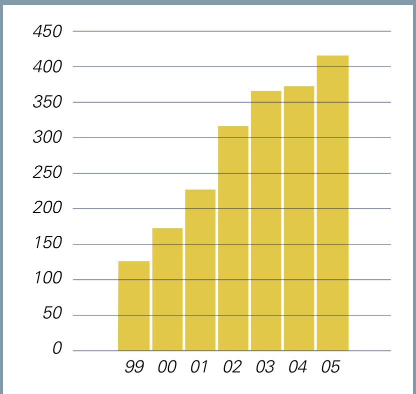
Turnover – Rm



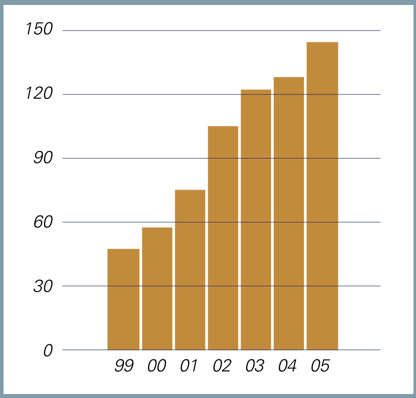
Operating profit – Rm



Headline earnings per share – cents



Distributions per share – cents



Mission

Our mission is to develop and manage a sustainable business for the benefit of all stakeholders.

We aim to produce superior returns for our **shareholders** by building on the base of our existing businesses and by continuously looking for growth opportunities.

We believe that we must continue to earn our strong market shares by offering our **customers** quality products and ready availability.

We establish enduring partnerships with our **suppliers** combining their leading world brands and our distribution strengths in southern Africa.

We believe that a significant part of Hudaco's strength is its **people** who thrive in a decentralised, dynamic and challenging business environment.

We aim to achieve these objectives in a manner which is governed by high standards of ethical conduct, sensitive to the needs of the **communities** in which our businesses operate and conscious of safety and environmental responsibilities.

History of Hudaco Industries

"this year Hudaco celebrates its 20th year as a listed company"

Hudaco Industries derives its name from and traces its existence to Hubert Davies and Company whose history and development has been an integral part of the economic development of southern Africa for 114 years.

The founder, J Hubert Davies, an electrical engineer, came to South Africa in 1889 as a consulting engineer. He started his own business in Johannesburg in 1891, five years after the discovery of gold on the Witwatersrand. He was personally responsible for specifying and organising the supply of equipment for the erection of many electrical and mechanical engineering plants in the various towns and mines of the southern African region.

In 1897 he established himself in Simmonds Street with a staff complement of 70. By the turn of the century the business had become a major supplier of expertise and equipment to customers in mining and mining support industries, town services, construction and power generation on the gold-rich Witwatersrand and further afield. The business was converted into a private company in 1917 allowing senior managers to become shareholders and directors. The company continued to grow in size and diversity and in September 1938 Hubert Davies and Company Limited listed on the Johannesburg Stock Exchange.

In 1974 Blue Circle Limited, a United Kingdom industrial group, acquired a substantial interest in the company and in 1977 it became a wholly owned subsidiary and delisted from the Stock Exchange. During the 1970's Hubert Davies expanded its product offering and its branch network to cover the whole of South Africa and all countries of the subcontinent. In 1976 a strategic decision was made to specialise by product and activity in order to provide better customer service and achieve improved market penetration. This decision also saw the introduction of the company's existing management philosophy of decentralisation of decision-making and responsibility.

In 1981 a further step in this direction saw the establishment of the industrial distribution business of Hubert Davies as a separate autonomous subsidiary under the name Hudaco Industries.

In May 1984 the management of the business, with banks as partners, acquired control of Hudaco Industries from Blue Circle in, which was up until then, the largest South African leveraged buy-out. On 14 November 1985 Hudaco Industries Limited relisted on the Johannesburg Stock Exchange at a subscription price of R1,50 per share and a market capitalisation of R29 million. Since then the group has made several large acquisitions, including listed companies Frencorp, Valard and Elsec, but has stayed faithful to its roots as an industrial distribution business. Today the group employs over 2 000 people, its market capitalisation is R1,2 billion and its shareholders include many blue chip participants in the retirement investment industry.

Seven-year review

R million	**2005**	2004	2003	2002	2001	2000	1999
Group income statement							
Turnover	**1 549**	1 448	1 477	1 451	1 073	908	895
Operating profit	**183**	162	163	142	100	73	72
Net finance revenue	**4**	6	(1)	(8)	(4)	(2)	(11)
Profit before taxation	**187**	168	162	134	96	71	61
Taxation	**59**	54	52	44	28	17	16
Profit after taxation	**128**	114	110	90	68	54	45
Share of associate company profits				2	2	2	3
Minority interest	**5**	5	5	3	7	5	6
Earnings before exceptional/capital items	**123**	109	105	89	63	51	42
Exceptional/capital items – net	**(1)**	20	5	5	4		3
Attributable earnings	**124**	89	100	84	59	51	39
Shares in issue 000 (weighted average)	**29 592**	29 289	28 776	28 264	27 892	29 682	29 912
Earnings per share (cents)							
– headline	**415**	371	365	316	224	171	123
– basic	**420**	303	347	297	210	171	132
Distributions per share (cents)	**144**	128	122	105	75	57	47
Group balance sheet							
Property, plant and equipment	**39**	43	44	45	40	39	43
Goodwill	**64**	43	56	47	20		
Deferred taxation – net	**8**	16	15	17	4	2	2
Inventories	**375**	285	320	315	260	244	238
Accounts receivable	**279**	245	239	251	226	178	180
Accounts payable	**(290)**	(261)	(238)	(250)	(235)	(177)	(153)
Taxation	**(13)**	(25)	(37)	(46)	(29)	(16)	(15)
Net operating assets	**462**	346	399	379	286	270	295
Investment in associate					25	24	23
Employment of capital	**462**	346	399	379	311	294	318
Shareholders' equity	**596**	508	458	396	333	290	277
Minority interest	**24**	26	24	20	38	33	30
Total shareholders' funds	**620**	534	482	416	371	323	307
Amounts due to vendors on acquisitions	**24**	12	21	19	4		23
Net cash	**(182)**	(200)	(104)	(56)	(64)	(29)	(12)
Total capital employed	**462**	346	399	379	311	294	318
Group cash flow							
Cash generated from trading	**195**	175	177	160	110	83	72
Increase in working capital	**(60)**	39	(12)	(56)	22	(4)	25
Cash generated from operating activities	**135**	214	165	104	132	79	97
Net finance revenue	**5**	6	(1)	(7)	(4)	(2)	(10)
Taxation paid	**(63)**	(63)	(56)	(41)	(18)	(16)	(21)
Cash flow from operations	**77**	157	108	56	110	61	66
Cash distributions to shareholders	**(42)**	(39)	(33)	(45)	(17)	(17)	(21)
Retained from operating activities	**35**	118	75	11	93	44	45
Net investment in							
– new businesses etc	**(47)**	(11)	(17)	(3)	(49)		(1)
– property, plant and equipment	**(9)**	(14)	(12)	(17)	(10)	(8)	(3)
Net cash invested	**(56)**	(25)	(29)	(20)	(59)	(8)	(4)
Cash outflow after investments	**(21)**	93	46	(9)	34	36	41
Increase in shareholder funding	**3**	3	2	2	1	1	1
Shares repurchased						(21)	
Decrease in net cash	**(18)**	96	48	(7)	35	16	42

Group at a glance

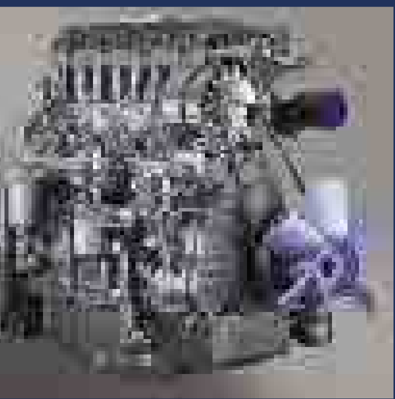
Bearings and Power Transmission products

Principal activity

The distribution of leading brands of anti-friction bearings, geared motors, belting, chain, hydraulics, pneumatics, seals, variable speed drives, clutches, electrical cabling, plugs and other related products to the manufacturing, mining, agricultural and automotive after-markets.

Principal businesses

Abes Technoseal
Bearings International
Belting Supply Services
Bosworth
Ernest Lowe
PHC Clutch
Powermite
Varispeed



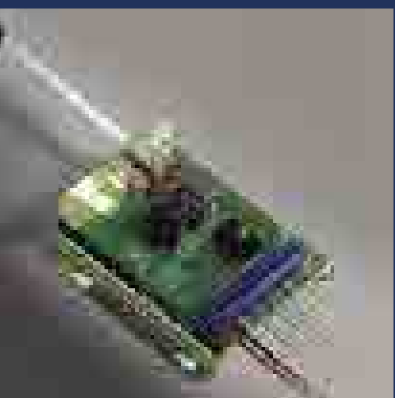
Powered products

Principal activity

The distribution of power tools and outboard motors and the marketing and servicing of Deutz diesel engines and spares to the construction, mining, manufacturing, marine, agricultural and retail markets.

Principal businesses

Deutz Dieselpower (70% owned)
Rutherford



Security equipment

Principal activity

Distributor of intruder detection, closed circuit television, access control and fibre optic equipment.

Principal businesses

Elvey Security Technologies
(South Africa and United Kingdom)

Bearings and Power Transmission products

	2005 Rm	2004 Rm
Turnover	**911**	779
Operating profit	**92**	94
Average net operating assets	**335**	232
Number of employees	**1 541**	1 363

DEUTZ DIESELPOWER

Powered products

	2005 Rm	2004 Rm
Turnover	**376**	350
Operating profit	**72**	60
Average net operating assets	**56**	63
Number of employees	**285**	276

Security equipment

	2005 Rm	2004 Rm
Turnover	**263**	230
Operating profit	**24**	18
Average net operating assets	**72**	78
Number of employees	**151**	152

	Head office and intergroup		Operations discontinued		Group	
	2005	2004	**2005**	2004	**2005 Rm**	2004 Rm
Turnover	**(1)**	(2)		91	**1 549**	1 448
Operating profit	**(5)**	(6)		(4)	**183**	162
Average net operating assets	**(18)**	(26)		44	**445**	391
Number of employees	**23**	25		238	**2 000**	2 054

Non-executive directors

Peter Campbell (68)
Chairman
CA(SA) AMP Harvard
Peter was formerly deputy chairman of Nampak Limited, a position from which he retired in 1997. He remains a non-executive director of Nampak and chairman of Pangbourne Properties Limited and is a non-executive director of Crookes Brothers Limited and Delta Electrical Industries Limited. He joined the board in 1997.

John Gibbon (65)
Director of companies
CA(SA)
John qualified as a chartered accountant with PricewaterhouseCoopers in 1963 and retired as a senior partner in 2001. He is a non-executive director and chairman of the audit committee of three listed companies. He joined the board in 2001.

Peter Joubert (72)
Director of companies
BA DPWM AMP Harvard
Peter was formerly chairman of African Oxygen Limited, a position from which he retired in 1994. He is a director of a number of listed and unlisted companies. He joined the board in 1996.

Nene Molefi (40)
Businesswoman
BSocSc
Nene worked for Eskom for 10 years during which time she was seconded to the Department of Labour as head of human resources management. She served as an executive director of the City of Cape Town overseeing the transformation initiatives of the city and is currently managing director and sole owner of Mandate Molefi, human resource consultants. She joined the board in 2002.

Executive committee

Stephen Connelly* (54)
Group chief executive
ACMA
23 years' service
Stephen immigrated to South Africa in 1976. He joined Valard Limited in 1982 as financial director and was appointed managing director in 1987. He became chief executive of Hudaco in 1992 after Hudaco's acquisition of the Valard group.

Richard Arnestad (62)
Group secretary
CA(SA)
9 years' service
Richard qualified as a chartered accountant with Deloitte in 1972. He joined Everite Group Limited in 1987 and, following their takeover by Group Five Limited, was appointed group secretary. He joined Hudaco as group secretary in 1996.

Bob Cameron-Smith (57)
CEO Rutherford
32 years' service
Bob joined Vickers Instruments in March 1973 and was appointed managing director in 1978. Shortly after the takeover of the Valard group in 1992 he was appointed chief executive of Rutherford.

Leon Coetzer (51)
CEO Deutz Dieselpower
16 years' service
Leon joined Deutz Dieselpower in 1989 as a project manager. In 1996 he was appointed technical director and given responsibility for engine sales. He was appointed chief executive in 1999.

Gilbert Da Silva (58)
CEO Mechanical Power Transmission, Bearings and Power Transmission Products division
ACIS
35 years' service
Gilbert joined Hudaco in 1987 when it purchased the listed Frencorp Limited where he was the financial director. He served as financial director of the Conveyor and Transmission division until 2001 when he was appointed to his current position. He is responsible for Abes Technoseal, Belting Supply Services, Bosworth, Bestobell and Mather & Platt.

Graham Dunford (41)
CEO Electrical Power Transmission, Bearings and Power Transmission Products division
17 years' service
Graham joined Hudaco in 2001 when it purchased Bauer Geared Motors where he was the managing director. He was appointed to his current position in 2005 and is responsible for Ampco, Bauer, Varispeed and Powermite.

Jack Edery (54)
CEO Elvey Security Technologies
BCompt(Hons) CA(SA)
9 years' service
Jack qualified as a chartered accountant with KPMG in 1981. In 1987 he joined Melcorp as financial director. He was appointed financial director of Elvey in 1996 and CEO in 2003.

Graham Gardiner* (59)
CEO Bearings and Power Transmission Products division
35 years' service
Graham joined Hudaco in 1987 when it purchased the listed Frencorp Limited where he was the chief executive. He was appointed to the Hudaco board in 1988 and to the position of divisional chief executive of the Bearings and Power Transmission Products division in 2001.

Tony Patten (51)
CEO Bearings International
23 years' service
Tony began his career at Stewarts & Lloyds in 1974. He joined Hudaco as a branch manager at Circle Pumps, Pinetown in 1982. Since then he has served as general manager of The Roller Chain Company and Consolidated Bearing Company before being appointed chief executive of Bearings International in 2001.

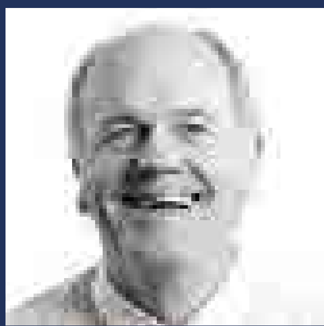
Peter Poole* (58)
Group financial director
BCom CA(SA)
18 years' service
Peter qualified as a chartered accountant with Deloitte in 1970. He left them in 1980, after four years as a partner in Johannesburg and Harare, to join a family manufacturing business in Pretoria. He was appointed group financial director of Hudaco in 1987.

**Executive directors*
Service is with Hudaco and businesses acquired

Members of the board

Stephen Connelly
Group chief executive

Graham Gardiner
CEO Bearings and Power Transmission Products division



Peter Poole
Group financial director

Peter Campbell
Independent non-executive chairman

John Gibbon
Independent non-executive director

Peter Joubert
Independent non-executive director

Nene Molefi
Independent non-executive director

Chairman's report

Peter Campbell
Chairman

Economic environment

Hudaco is a South African group engaged in the business of importing and distributing industrial consumable products. Its customers are mainly within the southern African manufacturing, mining, automotive aftermarket and security industries.

The South African economy is in very good shape. Indications are that economic growth of 3.8% in 2004 will increase to just under 5% in 2005 with the country experiencing its longest sustained period of economic growth in decades. This is a significant achievement and much of the credit must go to the government's sound macro-economic policies of the past ten years. However, if the country is to achieve the government's targeted 6% annual economic growth rate, it needs the construction, mining and manufacturing sectors to start growing at a similar rate. In order for this to happen the national infrastructure needs not only to be in a good state of repair but also to expand to accommodate this growth. This is not yet happening, despite a new sense of urgency at top government level. This resolve needs to overcome obstacles ranging from a dearth of skills in service delivery to regulatory complications in awarding contracts. Private sector investment, particularly in the mining sector, also appears to be held up by poor infrastructure and a lack of clarity on regulatory issues such as future mining royalties, new order mining rights requirements, possible export taxes on unbeneficiated mineral exports and the requirements of the code of good practice on BEE. The country needs to act quickly if it is to take advantage of the current boom in commodity prices.

We are confident however, that over the next two years many of these obstacles will be overcome and, if commodity prices hold, there will be significant growth in three key Hudaco markets – mining, manufacturing and construction – over the next five to ten years. In this scenario, significant numbers of jobs will be created which should improve social conditions in South Africa.

2005 results

Sales of power tools, outboard motors and security equipment were well up on 2004, benefiting from continued robust consumer spending on housing and leisure products. Demand from mining companies was weak. Gold output this year fell 15% to about 300 tons and plans to expand mining of coal, platinum and iron ore, to take advantage of the higher prices for these commodities, only started falling into place towards the year-end. Sales to manufacturers were generally weak with a dearth of project business from mining houses and construction companies.

Compared with the previous four years the Rand was not as volatile; on average it was only slightly stronger than 2004. This put an end to the significant price deflation Hudaco has experienced since the second half of 2002, but the firmer Rand made it difficult to increase selling prices. With expenses rising by local inflation, the group, and in particular the Bearings and Power Transmission division, which had no volume sales growth, was faced with a profit squeeze.

Hudaco's financial results this year are nevertheless satisfactory given the mix of markets served. Total sales at R1,55 billion are 7% up on last year. Operating profit is up 13% to R183 million, most of this increase coming from two acquisitions. Headline earnings per share increased 12% to 415 cents. A final dividend of 102 cents per share has been declared bringing total dividends this year to 144 cents per share, an increase of 13%.

Net cash on hand (cash balances less interest bearing debt) at year-end amounted to R182 million, only slightly down on 2004 notwithstanding the investment of R59 million in new businesses. The return on net operating assets (RONA) in 2005 was 41%, slightly below the 2004 return but well above our target of 30%.

A comprehensive commentary on the financial results is provided in the chief executive's report.

Strategy

We believe Hudaco's business can be categorised as low risk. Past experience shows that sales levels are relatively stable being influenced more by GDP activity than GDFI, although project work provides a welcome boost to sales in many of our businesses. Important financial characteristics are high internal rates of return and cash flows. The business does not require significant investment in property or plant and equipment to operate and the balance sheet consists mainly of working capital. Cash flows are used to fund additional working capital as our businesses grow, pay a market related dividend, and are invested in new businesses when opportunities are found. The group is committed to expanding by acquisition and in 2003 earmarked an amount of R500 million to acquiring new businesses over approximately a five year period.

Opportunities to make meaningful investments in entirely new businesses, within what we regard as our core competency, *value added distribution,* are limited. Patience is required to be successful. The group looked at a number of possible acquisitions

"…..to develop and manage a sustainable business for the benefit of all stakeholders."

this year. One major target, on which we incurred costs of R2 million, failed on price, but we also had successes. Ekurhuleni Bearings and Seals and the Powermite group were acquired, both fitting into our Bearings and Power Transmission products division. Over the past three years the group has invested R120 million in new businesses which enhanced earnings per share by about 12%. Additional free standing opportunities have been identified which will be pursued during 2006. Hudaco's businesses are encouraged to grow sales and profits through market share gain or by adding to their product range. Again, opportunities for meaningful acquisitions of complementary and respected brands arise infrequently and it often takes years of patience before a potential acquisition can be concluded.

In pursuing such opportunities, the group would be prepared to increase its gearing to a debt-to-equity ratio of 50% which gives it further investment capacity of about R400 million at present. Investing such a sum would have the added positive effect of reducing Hudaco's weighted cost of capital and improving shareholder returns.

Black Economic Empowerment

In 2004 and 2005 Hudaco made progress on most aspects of the draft Black Economic Empowerment Scorecard published by the Department of Trade and Industries. In 2006 we will continue to make progress and will align our internally developed scoring methodology with the Department's once its codes of good practice are gazetted.

Hudaco has delayed introducing a BEE shareholder to the group because of the uncertainty surrounding the BEE codes of good practice. However a suitable financial structure has been researched and some of Hudaco's preferred BEE partners have been identified. Given the strong balance sheet, the transaction could be partly vendor financed. This would significantly speed up the transfer of value but would reduce the amount available for acquisitions by up to R150 million. An announcement of a Hudaco BEE ownership transaction can be expected shortly after the final codes on ownership have been gazetted.

Appreciation

During the year Mike Jolly retired from the board. Mike was with the group for 46 years, and served as an executive director for 17. On behalf of the board and his colleagues in the businesses, I thank him for the important contribution he made to the group's success during those years and wish him a happy retirement.

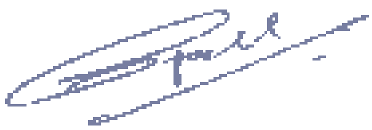
Peter Joubert has indicated that he wishes to retire from the board and therefore will not be standing for re-election at the annual general meeting. We thank him for ten years of extremely valuable service to the board and for the wide experience he brought to its debates.

2005 was a satisfactory year. I wish to thank all my colleagues on the board and the executive and senior management of the group led by Stephen Connelly for their efforts and support this year in working towards the achievement of our objectives. I also take this opportunity to thank all employees for their efforts in 2005 and our suppliers and customers for their ongoing support.

Prospects

Our view is that over the next few years the South African economy could be entering a particularly prosperous period. It appears that spending on infrastructure is about to get underway. If high commodity prices are sustained and certainty is reached on various regulatory issues, an upsurge in mining investment can be expected which would also benefit manufacturers supporting this industry. The consumer side of the economy should remain strong as employment levels improve. These are all important markets for Hudaco and, providing the Rand exchange rate does not strengthen significantly, this could be a very realistic scenario.

Under such circumstances, sales levels in our Bearings and Power Transmission products businesses can be expected to improve steadily in 2006 and accelerate rapidly from 2007, whilst sales levels in our Powered Products and Security Equipment businesses should remain strong. Hudaco's earnings can be expected to grow commensurate with this outlook, modestly in 2006 but more rapidly thereafter.



PL Campbell
Chairman

26 January 2006

Stephen Connelly
Chief executive

Chief executive's review of operations

Business model and management philosophy

Hudaco sources from 1 500 suppliers from all over the world, supplies 20 000 customers through over 100 physical locations mainly in southern Africa and carries 250 000 line items in stock.

Because our main business is the supply of replacement parts to industry, demand is relatively inelastic and sales predictability is low. Supplier lead-times can range from three months to over one year so a key competitive advantage is our comprehensive stockholding from which we strive to offer availability on demand.

A typical sale is a relatively low value transaction. Having the item in stock is a must, but further value can be added in a number of ways including technical application advice and training, preventive maintenance inspections and, increasingly, management of customers' procurement cycles. A high quality branded product offering ensures repeat business, allowing us to develop lasting relationships with customers and enables us to use our own and our suppliers' skills to improve customer productivity.

Given these characteristics, Hudaco has developed a particular management style that has proved successful over many years. Decentralising management by putting decision-making responsibility into the hands of managers at all levels of the organisation is a key Hudaco philosophy. Delegating authority and responsibility allows employees to respond quickly to customers' requirements, instils self-discipline, and encourages and reveals leadership and innovation. In return, high standards of performance and accurate and comprehensive reporting are expected as a matter of course.

Hudaco has over time become experienced in determining the appropriate financial model for each of its businesses based on its own market characteristics. This is explained further in the financial review on page 20.

The Hudaco head office makes investment and disinvestment decisions, including investments in new businesses, by managing the procurement and allocation of group financial resources. It appoints key executives, initiates tactical and strategic moves or advises on them, approves business unit plans, facilitates sharing of skills and experiences and manages investor relations. It deliberately manages only a few centralised services. It also provides cohesion and a sense of commonality to the whole.

2005 results

A detailed explanation of Hudaco's financial objectives and a review of performance against those objectives is contained in the financial review.

Sales of R1,55 billion for the year are up 7% on 2004. Sales in continuing businesses are up a pleasing 5% after declining 1% last year. Acquisitions added a further 8% or R118 million to sales which offset R91 million in sales lost through businesses discontinued in 2004. These statistics do not tell the full story, as behind the scenes it was a very mixed picture.

Powered Products and Security Equipment, both exposed to the consumer boom, particularly in the housing sector, did very well, increasing volume and Rand sales. Powered Products sales increased 7% and operating profit 20% whilst Security Equipment increased sales 14% and operating profit 33%.

Sales by market sector %

		2005
	Manufacturing	**24**
	Mining	**18**
	Security SA and UK	**16**
	Wholesale and retail	**15**
	Automotive	**7**
	Exports	**6**
	Construction	**4**
	Public sector	**4**
	Agriculture	**3**
	Other	**3**

In our Bearings and Power Transmission products businesses trading conditions were very difficult with a general lack of project work from mines and manufacturers which led to unit sales being flat to slightly down. There was also a tendency by some customers who are under profit pressure (particularly gold mines) to buy on price at the expense of quality. Coupled with this was a slightly stronger Rand which made it difficult to increase prices to cover the impact inflation was having on our local distribution expenses. The result was a profit squeeze and the operating profit margin in this division's continuing operations fell by 3% to 9%.

The group gross profit margin at 40% was 2% higher than 2004 due to the closure of Hudaco Friction in December 2004. Expenses as a percentage of sales increased from 27% to 28% for the same reason. Operating profit rose by R21 million (all of which was contributed by acquisitions) to R183 million with the operating profit margin improving from 11% to 12%.

Net interest received of R4 million (last year R6 million) and a 1% decline in the tax rate assisted the group to post a 12% increase in headline earnings per share to 415 cents. The final dividend has been increased to 102 cents (last year – 93 cents) bringing total dividends this year to 144 cents per share (last year – 128 cents), an increase of 13% covered just under three times by earnings per share.

The balance sheet is healthy. Working capital (inventories, accounts receivable and accounts payable) at R364 million is R95 million above 2004 levels of which R47 million is from acquisitions. The balance of the increase is from normal business demands but we closed the year with about R25 million more working capital than planned. Net cash on hand (cash balances less interest bearing debt) at year-end is R182 million, only slightly down on last year notwithstanding cash outlays of R59 million on acquisitions. Cash flow per share of 237 cents is well down on the previous year. Net asset value per share is 2 002 cents.

The return on net operating assets in 2005 was 41%, slightly below the 2004 return but still well above our target of 30%.

Acquisitions

As you have read in the Chairman's report, the group is focused on growth by acquisition. This year we acquired Ekurhuleni Bearings and Seals and the Powermite Group for a total consideration of R87 million, both of which fit into our Bearings and Power Transmission products division. Further details of these acquisitions are contained in its divisional report and the Directors' report. A bid for one significant opportunity in the year failed costing R2 million in due diligence and advisory fees.

Bearings and Power Transmission products

Sales

Operating profit

Contribution to group sales	*59%*
Contribution to operating profit	*49%*

	2005	2004
Sales (Rm)	**911**	779
– Continuing operations	**793**	779
– Operations acquired in 2005	**118**	
Operating profit (Rm)	**92**	94
– Continuing operations	**71**	94
– Operations acquired in 2005	**21**	
Average NOA (Rm)	**335**	232
– Continuing operations	**273**	232
– Operations acquired in 2005	**62**	
Number of employees	**1 541**	1 363

Principal businesses

Bearings International

Mechanical power transmission

Abes Technoseal
Belting Supply Services
Bosworth
Ernest Lowe
PHC Clutch

Electrical power transmission

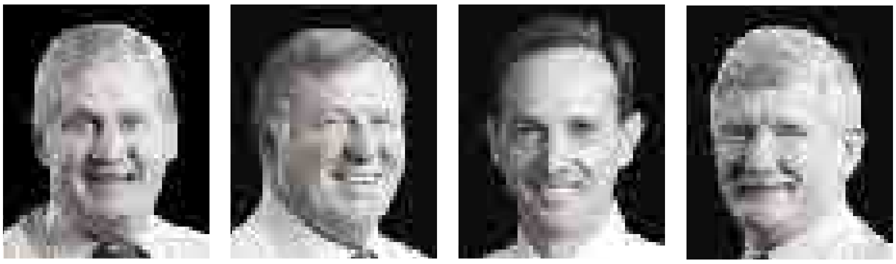
Ampco
Bauer Geared Motors
Powermite
Varispeed

Principal markets served %	
Manufacturing	36
Mining	21
Automotive	12
	69

This division is a leading South African distributor of branded bearings and power transmission products. A complete range of imported bearings, seals, transmission and conveyor chains, couplings, clutches, geared motors, electric motors, variable speed drives and soft starters are offered to the mining, manufacturing, automotive, and agricultural markets. A wide range of standard products are distributed by our flagship industrial distribution business, Bearings International, which has a comprehensive distribution network covering southern Africa including 50 owned branches. Products are sourced from all over the world, with Chinese manufacturers steadily advancing as a source of supply. Where customers require more specialised technical advice or access to special or modified stock items, they use the services of our independently staffed and stocked mechanical or electrical transmission businesses.

During the year the division invested R87 million in two acquisitions. The Powermite group of companies was acquired with effect from the beginning of the financial year for a consideration of R63 million. This business significantly expands Hudaco's footprint in electrical power transmission products, a market we think has attractive growth potential in the medium term. Ekurhuleni Bearings and Seals was acquired in February 2005 for a consideration of R24 million including inventory previously on consignment. This business brought with it the distribution rights for FAG bearings in South Africa, a brand already well accepted by customers but which had been losing market share due to a lack of a proper distribution and pricing strategy. We have worked hard this year to achieve a smooth supply of product at the right prices, a goal we hope to complete in the 2006 financial year. We believe that if this is achieved, FAG could become the principal bearing supplier to Bearings International. This will allow Bearings International to regain market share lost over the last few years as a result of Koyo, our main supplier up until now, increasing its focus on the world automotive market at the expense of the industrial replacement market.

The division's sales pattern was similar to 2004 with sales to manufacturers mixed, good demand from those supplying the local consumer market but weak from those supplying exporters



Left to right

Graham Gardiner
CEO Bearings and Power Transmission division

Gilbert da Silva
CEO Mechanical Power Transmission

Graham Dunford
CEO Electrical Power Transmission

Tony Patten
CEO Bearings International

(particularly mines) or competing against imports. Direct demand from mines was down overall although significantly reduced business from gold mines was offset to a degree by increased demand from platinum mines. In general there was a dearth of project business. Demand from the automotive aftermarket was once again robust, but a decision by two customers to streamline nationwide stockholding resulted in lower overall sales to this market. The firmer Rand meant price increases were hard to achieve, particularly to contract customers and, with expenses rising in line with inflation, the division was faced by a profit squeeze. As a result disappointing results were achieved in 2005. Including Powermite and Ekurhuleni Bearings and Seals, sales increased 17% to R911 million but operating profit declined 2% to R92 million. The division's return on net operating assets (RONA) fell from 41% to 27% this year.

The currently firm Rand means pricing will remain under pressure and as a result the division is only budgeting for a modest increase in sales and operating profit in 2006.

Bearings International – Hudaco's largest individual business with 50 branches countrywide suffered more than most from the Rand's strength. Higher than average exposure to a struggling gold mining industry and (partly as a consequence) a very price competitive environment did not allow the business to widen gross margins to cover growing expense levels. As a result, operating profit declined substantially. We believe this business will do well when investment in mining and the national infrastructure gets underway. However, we are uncertain as to timing and therefore are only budgeting for a slightly better financial performance in 2006.

Mechanical Power Transmission – Abes, Angus Hawken, Belting Supply Services, Bestobell, Bosworth, and Ernest Lowe are Hudaco's specialised mechanical power transmission businesses distributing seals, conveyor belting, pumps and valves, drive pulleys and pneumatic and hydraulic equipment. All except Bosworth produced lower profits in 2005 with Belting Supply Services and Ernest Lowe recording particularly disappointing results. As with Bearings International we believe these businesses will do well when spending on infrastructure and mining investment gets underway but because we are uncertain on timing, we are only budgeting for a small increase in profits in 2006.

PHC Clutch is a leading distributor of light duty automotive clutches to the local automotive aftermarket. Volume sales were 1% down on last year whilst Rand sales were flat, indicating that prices did not increase. However, slightly higher margins offset the impact of local inflation on expenses and operating profit was maintained at last year's very satisfactory level. With record motor vehicle sales over the last few years this business has good medium term prospects and a steady increase in profitability is expected over the next few years.

Electrical Power Transmission – Bauer, Varispeed and now the Powermite group are Hudaco's specialised distributors of electrical power transmission products. This includes geared and electric motors and products that control, monitor and regulate the speed of standard AC motors. Powermite's product range includes cables, plugs, sockets, festoon systems, current collectors and cable reeling equipment. Bauer's results for 2005 were well below those of 2004 as project business virtually dried up, but a bigger order book at year-end indicates that a better 2006 can be expected. Varispeed's results were again excellent in 2005. The Powermite group performed well in its first year with Hudaco, nearly matching its record profits of 2004. With the national emphasis on increasing power generating capacity to cope with demand, prospects are good for these businesses and an increase in profits is expected in 2006.

Principal brands

German precision bearings.
Distributor since March 2005

Ball and roller bearings from Japan.
Sole distributor since 1962

Variable speed drives from Japan.
Sole distributor since 1992

Seals from Germany.
Sole distributor since 1955

Geared motors from Germany.
Sole distributor since 1989

European pneumatic equipment.
Distributor since 1959

Own range of electrical plugs
and sockets since 1974

Clutch kits from Korea.
Sole distributor since 1996

Chief executive's review of operations

Powered products

Sales

Operating profit

Contribution to group sales	*24%*
Contribution to operating profit	*38%*

	2005	2004
Sales (Rm)	**376**	350
Operating profit (Rm)	**72**	60
Average NOA (Rm)	**56**	63
Number of employees	**285**	276

Principal businesses

Deutz Dieselpower
Rutherford

Demand for power tools and outboard marine motors was strong in 2005, again benefiting from low interest rates and robust consumer spending on housing and leisure products. Demand for diesel engines and spares was poor in the first half of the year but picked up noticeably towards the end of the financial year.

Principal markets served %	
General trade and leisure	32
Mining	22
Construction	14
Manufacturing	10
	78

Deutz Dieselpower (DDP) – distributes Deutz diesel engines and spares primarily to the off-highway market. Its main market is mining but it also is a significant supplier of engines and spares to agricultural, military and construction markets and to manufacturers of power generators. DDP's supplier is Deutz Ag of Germany, which owns 30% of the business.

DDP has distributed Deutz diesel engines and spares in southern Africa for 36 years and, as a result, there is a large installed base of engines in the region which is continually growing. Deutz products have always been at the forefront of diesel engine technology. They are constantly improving output to weight ratios, reducing fuel consumption and lowering emission levels which comply with the Euro 3 emission standards. These features are increasingly in demand and, with the current high oil price, result in customers placing less emphasis on the initial cost of the product and more on total cost per unit of output.

Demand for engines by the mining and power generation sectors was lower than expected for most of 2005 but sales activity picked up in the last two months of the financial year. Operating profit increased after a decline last year and, combined with a further improvement in the net operating asset turn, resulted in a very satisfactory return on net operating assets. Returns are at attractive levels notwithstanding the high risk of having only a single supplier to the business. Together with Deutz Ag we are exploring several opportunities to expand sales through the existing DDP infrastructure, even if lower margins are achieved. These initiatives, if successful, will only bear fruit over the next few years. Prospects for 2006 are good and if the increased activity level of October and November 2005 is sustained, this business will post an attractive increase in operating profits.

Rutherford – is the sole South African distributor of Makita and Maktec industrial power tools, Mercury and Mariner outboard motors, Mercruiser inboards and spare parts to independent retail outlets from warehouses in Johannesburg, Cape Town and Durban. Makita of Japan is the largest manufacturer of professional and industrial power tools in the world, with factories in Europe, China, USA, South America and Japan. Mercury/Mariner with manufacturing facilities in the USA and Europe, is the largest manufacturer of outboard motors.

Both power tool and outboard motor volume sales increased by double digits this year. We believe that Makita increased its share of a growing South African market through initiatives to introduce new value added concepts, by expanding the product range with the introduction of the Maktec semi-industrial power tool and by switching its main supply base from Japan to China giving increased price competitiveness. The introduction of the new Verado four-stroke engine range gave impetus to sales of outboard motors. Industrial power tool demand is expected to increase in 2006 and demand for outboard motors is expected to continue to grow as low interest rates keep the product affordable to boat buyers.

Price reductions held Rutherford's increase in Rand sales to 20%, whilst operating profit increased sharply. The return on net operating assets improved further off a high return achieved in 2004. If consumer spending on housing and leisure starts to cool, this business is likely to face pricing and operating margin pressure as competitors initially seek to preserve volume sales. However, the year ahead looks positive at this stage and the business is budgeting to increase sales and profits again in 2006.

DEUTZ DIESELPOWER

Rutherford

Left to right
Bob Cameron-Smith
CEO Rutherford

Leon Coetzer
CEO Deutz Dieselpower

Principal brands

Air and liquid-cooled diesel engines. 2kW – 4 000kW.
Sole distributor since 1969

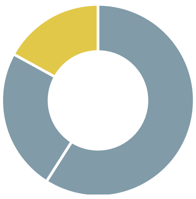
Japanese industrial power tools.
Distributor since 1968
Sole distributor since 1985

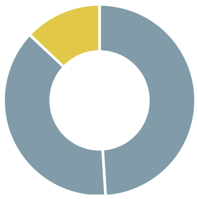
Outboard and inboard motors from USA.
Sole distributor since 1986

Outboard motors from USA.
Sole distributor since 1978

Chief executive's review of operations

Security equipment





Contribution to group sales	*17%*
Contribution to operating profit	*13%*

	2005	2004
Sales (Rm)	**263**	230
Operating profit (Rm)	**24**	18
Average NOA (Rm)	**72**	78
Number of employees	**151**	152

Principal businesses

Elvey Security Technologies
(South Africa and United Kingdom)

Elvey Security Technologies ("Elvey") – Elvey's principal business is the distribution of intruder detection, access control and related CCTV equipment. Products include alarm control panels, keypads, indoor and outdoor motion sensors, access control, cameras, recording equipment, optical fibre and related data transmission equipment. It is the largest distributor of intruder detection products in southern Africa. In 2002 Elvey opened a similar business in the UK. Value is added through system design, application and operation advice and installation training. The product offering is known for its quality and availability. Customers are electronic security installers and system integrators serving the domestic, commercial and industrial security market. Elvey's largest suppliers, DSC (Tyco) of Canada, Caddx (GE Security) of the USA and Optex of Japan, who are represented on an exclusive basis, are three of the major world manufacturers of intruder detection equipment.

The South African business recorded a real increase in volume sales in 2005 whilst Rand sales increased 14% to R187 million. Expenses, impacted by local inflation, rose by 6% allowing the operating margin to expand to 12.1% from 9.8% last year and operating profit rose 41% to R23 million. Volume and Rand sales are expected to grow again in 2006 supported by the growth in housing and commercial premises and the persistently high crime rate.

In its third full year of operation, the UK security business produced disappointing results. Rand sales were up 15% to R76 million but operating profit was only R1 million. We are optimistic that the business can improve on this performance and a better result is budgeted for 2006.

ELVEY
Security Technologies

Jack Edery
CEO Elvey Security Technologies








Principal brands

DSC

Canadian manufacturer of intrusion alarm systems and detection devices. Sole distributor since 1990

USA manufacturer of intrusion control panels and equipment. Sole distributor since 1987

OPTEX

Japanese intrusion detection devices. Sole distributor since 1987

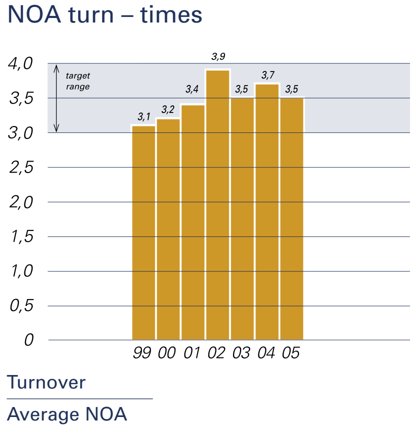
Manufacturer of optical fibre transmission equipment. Sole distributor since 2002

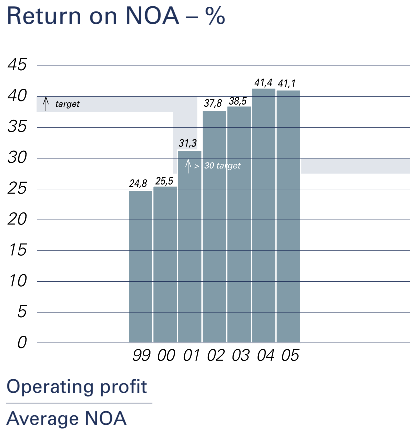
Korean manufacturer of video security systems. Distributor since 2004

USA and European manufacturer of intrusion and CCTV equipment. Distributor since 2005

Chief executive's review of operations

Financial review





Principal financial objective

Hudaco's principal long-term financial objective is to provide shareholders with a competitive return on their investment. Achieving this requires earnings per share growth and the payment of market related dividends.

Hudaco aims to achieve earnings growth at a rate at least in line with the earnings of the All Share Industrial Index (J257). To do this we encourage our businesses to grow whilst producing a return (over time) exceeding the cost of capital and to use surplus cash flow to acquire new businesses when opportunities arise.

Operating targets and the cost of capital

The main operating performance measure used by the group is operating profit (PBIT), expressed as a percentage of average Net Operating Assets (NOA) employed during the year. The make up of NOA is set out on page 3 of this annual report. Each business is measured against its own benchmark, its objective being to maximise its returns by producing the ideal balance between operating profit margin (%) and net operating asset turn (times) with the product of the two being its Return on Net Operating Assets (RONA).

Industrial distribution businesses typically generate an operating profit margin of between 8% and 15%. The lower the operating profit margin, the higher the net operating asset turn has to be to achieve a RONA exceeding the cost of capital. A NOA turn of between 3 and 4 times is usual for our kind of business and requires management to achieve the right balance between the elements of working capital – inventory, accounts receivable and supplier credit.

Our target is to achieve a group RONA in excess of 30%. We will however, accept a lower hurdle rate for new investments, one closer to our pre-tax cost of capital which is currently just under 20%.

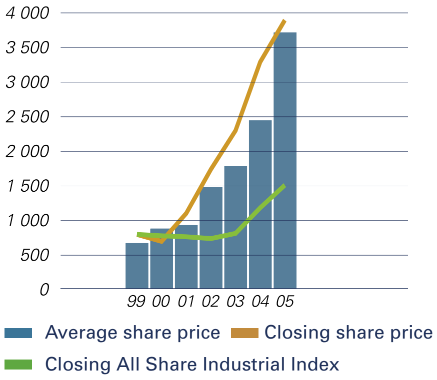
The group's operating profit margin in 2005 was 11,8% (2004: 11.2%) whilst NOA turn was 3,5 times (2004: 3,7 times). The RONA was therefore 41.1% (2004: 41.4%), well above the target for the fifth year in succession. Providing the economy does not decline from current activity levels, we believe the group can continue to achieve a return above the target rate.

Earnings

Headline earnings per share at 415 cents are up 12% on 2004. This follows a 2% increase in 2004. Over the last six years headline earnings per share have grown by nearly 300% from 142 cents to 415 cents, a compound growth rate of 19.5% per annum. Over the same period earnings in the All Share Industrial Index (J257) have grown by a compound growth rate of 14.5% per annum.

Hudaco's price earnings ratio of 10.2 at the end of the 2005 financial year is 77% of the All Share Industrial Index price-earnings ratio of 13.3. Such a large discount presumably means there is room for further improvement in the Hudaco share price if earnings growth continues. Shareholders have been rewarded by a substantial increase in the share price over the last two years.

Hudaco share price – cents



Left to right
Peter Poole
Group Financial Director

Richard Arnestad
Group Secretary

Dividend

Hudaco's policy is to pay an interim and final cash dividend to shareholders covered approximately three times by headline earnings. This year's dividends total 144 cents – up 13% on last year and made up as follows:

	2005	2004	% change
Interim	**42c**	35c	+20
Final	**102c**	93c	+10
Total	**144c**	128c	+13
Cover	**2,9**	3,0*	

**based on continuing operations*

Cash flow

A summarised operating cash flow statement is set out below:

	2005 Rm	2004 Rm
Cash generated from trading	**195**	175
Increase in working capital	**(60)**	39
Operating activities	**135**	214
Interest received	**5**	6
Taxation paid	**(63)**	(63)
Cash flow from operations	**77**	157

Cash flow from operations of R77 million (237 cents per share) was down on last year and reflects the R60 million (20%) increase in working capital. Part of this increase is attributable to the increase in turnover; the balance is a combination of overstocking in November 2005 and understocking in November 2004. The group invested R47 million in new businesses and paid R42 million in dividends to shareholders. The closure of Hudaco Friction generated R25 million and the year closed with net cash on hand of R182 million (2004: R200 million).

Borrowings

Although Hudaco currently has cash on hand, we are committed to investing this and more in new businesses and would ideally like a geared balance sheet. However, we would aim to operate with net borrowings no higher than 50% of total shareholders' funds.

When managing gearing an objective is to ensure that interest is covered at least five times by operating profit. In 2005 the group had net interest income.

Taxation

The group's effective rate of taxation before capital items this year is 32% (2004: 33%) and is expected to be between 31% and 32%, while the company tax and STC rates remain at 29% and 12.5% respectively.

Financial risk management

Note 18 to the Financial Statements sets out full details of how the group manages financial risk.

Retirement funds

The group only operates defined contribution pension and provident fund schemes. Risk-related benefits for death in service are insured. Therefore, the group's funding rate is known with certainty and there is no under-funded pension scheme risk. Scheme assets and liabilities are held in separate, independently administered funds.

Hudaco has undertaken to provide limited assistance to fund post retirement medical costs for some current and future pensioners. This liability is fully provided for in respect of current pensioners, whilst it is not material in respect of future pensioners.

The group's primary fund has completed its surplus apportionment exercise based on a valuation at 30 June 2002. The actuarial surplus of R3 million was applied to former members who exited the fund prior to 1 December 2001 with less than five years service. They were refunded 87% of the employer contributions forfeited on exit. The balance of the funds will use their June 2004 valuations for their surplus apportionment exercises. They have actuarial surpluses but have yet to finalise their plans for apportionment. The principal officer of these funds has advised that he is not aware of any material improper use of surpluses which may have to be refunded by the employer, but this opinion is still subject to the completion of a thorough and independent review during the surplus apportionment exercises.

As reported last year, in 1991 one of the group funds converted from a defined benefit fund to a defined contribution fund and adopted a new set of rules. The then administrators and underwriters advised that the new rules authorised the employer to continue with the contribution holiday which approximated R2,5 million per annum between 1992 and 2001. In 2003 the FSB advised that, in its opinion, these rules did not allow for the continuation. The Fund Trustees, the employer and the administrators at that time have recently put information before the FSB supporting their course of action and asked them to review their ruling. The outcome is uncertain and this matter has been treated as a contingent liability. The employer has a number of remedies available to recover any refund that may have to be made to the fund should the review be unsuccessful.

Appreciation

On behalf of my colleagues in the group's senior management team, I thank Hudaco's chairman, Peter Campbell, and our non-executive directors for the guidance they give to operational management on strategic and governance issues. I personally also extend thanks to all managers and staff in the group, and in particular the members of the executive committee, for their advice and achievements this year.

SJ Connelly
Chief executive

26 January 2006

Corporate governance

The Hudaco board is committed to a high standard of corporate governance and recognizes the role that the independent non-executive directors play in achieving this. Non-executive directors stay abreast of the company's business through comprehensive board presentations, site visits, business functions and interactions with senior management.

The Board

The Board functions in accordance with a formal charter adopted this year. In addition to its powers and duties under the company's Articles of Association, the charter tasks the board with setting group strategy, agreeing important objectives, approving budgets, monitoring group performance and risks and appointing the chief executive. There is a formal schedule of material matters especially reserved for the board's approval.

The board carries out a self-evaluation of its and its sub-committee's effectiveness every two years.

The selection and appointment of directors and the company secretary is a matter for the board as a whole. All directors have access to the services and advice of the company secretary. Directors are entitled to seek independent professional advice at the group's expense.

Four independent non-executive directors have been appointed to the board for fixed terms not exceeding three years. The chairman is an independent non-executive director. There are three executive directors all of whom have service contracts of indefinite term, but with three months notice of termination. The board of directors meets formally four times per year. During the 2005 financial year all directors attended all meetings.

Details of the members of the board can be found on page 6.

Corporate governance

Board committees

Executive committee

The executive committee comprises the three executive directors and seven senior executives (see page 6). The chairman of the company attends meetings, which are chaired by the chief executive. The executive committee's principal terms of reference are to advise the chief executive on the formulation of operating policy, the implementation of group strategy and to manage key group risks. The committee incorporates a Skills and Equity sub-committee and a Safety, Health and Environment sub-committee, each of which functions under written terms of reference. The chairman of the executive committee is required to report to the board once per year that it has carried out its mandate.

The executive committee meets formally four times per year. During the 2005 financial year all members attended all meetings except M Jolly and R Cameron-Smith, who each missed one meeting.

M Jolly retired in February 2005 and D Salmon resigned from this committee in September 2005. G Dunford and J Edery were appointed to the executive committee in June 2005.

Audit and risk management committee

The members of this committee are: JB Gibbon (Chairman), PL Campbell (both independent non-executive directors), SJ Connelly (the Group CEO) and PM Poole (the Group FD). The chairman of the committee has a casting vote. The external auditors and the head of the group risk and internal audit department attend committee meetings.

The committee functions under written terms of reference. Its duties relate to the management of risk across the group, the safeguarding of assets, the operation of adequate systems and control processes and compliance with legal and accounting standard requirements in the group's financial reporting and accounting statements. It also reviews the risk register, the annual internal audit plan, the external audit scope, and important accounting, taxation and financial reporting issues. The findings and recommendations of the external auditors and the group risk and internal audit department are used to determine the effectiveness of management systems, information and internal controls. Consultation between external auditors and the internal auditors is encouraged to achieve an efficient audit process. The committee monitors proposed changes in accounting policy, considers the accounting and taxation implications of major transactions and sets the principles for using the external auditors for non-audit services. In particular, it reviews the interim and annual financial statements before submission to the board.

The committee meets three times per year and all members attended all meetings this year. The chairman of the audit and risk management committee is required to report to the board after each meeting.

Remuneration committee

The committee consists of PL Campbell (Chairman), PG Joubert, YKN Molefi (all independent non-executive directors) and SJ Connelly (the CEO). The committee functions under written terms of reference, met twice during the year and all members attended the meetings.

The committee reviews and approves senior executive remuneration and issues guidelines and limits for general salary adjustments, approves senior appointments and reviews succession plans and service agreements for members of the executive committee. The chief executive is not present when his remuneration is discussed. It also reviews the performance of senior management and recommends fees for the non-executive directors.

Senior management remuneration has three elements: fixed guaranteed remuneration, short-term performance related remuneration (usually one year) and long-term performance remuneration (three to five years) linked to share price appreciation. The group's philosophy is to pay market related remuneration and the committee receives advice from independent consultants to ensure that this is the case.

Short-term performance related remuneration for the CEO and Financial Director is based on the achievement of annual growth in group headline earnings per share. For senior operating managers it is based on a combination of the achievement of appropriate returns on operating assets and growth in operating profit in their divisions annually. In special cases, the achievement of non-financial targets may also be required. Short-term performance related remuneration is capped at between 50% and 75% of fixed remuneration, depending on seniority.

Long term performance based remuneration is linked to the Hudaco share price. Only a small number of shares are available in terms of the current share incentive scheme and in 2006 shareholders will be asked to approve a new share appreciation bonus scheme. Full details of the proposed scheme will be set out in a circular when this scheme is put to shareholders for approval.

"We aim to achieve our corporate objectives in a manner which is governed by high standards of ethical conduct, sensitive to the needs of the communities in which our businesses operate and conscious of safety and environmental responsibilities."

The committee proposes non-executive directors' fees to the board before submission for approval by shareholders at the annual general meeting.

Individual directors' remuneration is set out under note 22.4 on page 48.

Financial control and risk management

Hudaco has an established system of controls and procedures to ensure the accuracy and integrity of the accounting records and to effectively monitor the group's businesses and their performance. The system encompasses a wide range of checks and balances, as well as interactive controls. These include:

- An approval framework with defined authority limits;
- A detailed budgeting system;
- The preparation of forecasts, which are regularly reviewed and updated;
- Monthly reporting of income statement and balance sheet together with written reports highlighting areas of particular risk or opportunity;
- A centralised treasury, which incorporates foreign exchange and cash management functions;
- Regular reporting on treasury, legal, pension, medical aid and insurance matters; and
- Risk registers at operating division and group level, which are monitored on a regular basis.

These controls and procedures provide reasonable assurances that assets are safeguarded from material loss or unauthorised use and that the financial records may be relied on for preparing the financial statements and maintaining accountability for assets and liabilities.

The group risk and internal audit department, which functions under written terms of reference, comprises a senior manager and two assistants. Its role and function are established as envisaged in the Standards for the Professional Practice of Internal Auditing. Its work is designed to ensure that all aspects of each business, including internal control procedures, are subject to professional risk assessment on a continuous basis.

The brief of the department is to conduct a formal review of the effectiveness of all the group's systems of internal control over a three-year cycle with key systems in all businesses being reviewed annually.

The department has reported that the internal control structures in the businesses are sound and comply with laid down procedures.

The board is of the opinion that the systems of internal control are adequate and effective and is not aware of any material breakdown in the functioning of the internal control systems during the year.

The directors acknowledge their responsibility for the adequacy of accounting records, the effectiveness of risk management and internal control environment, the appropriateness of accounting policies supported by reasonable and prudent judgements, and the consistency of estimates.

The directors further acknowledge their responsibility for the preparation of the annual financial statements, adherence to applicable accounting standards, and presentation of the state of affairs and the results of the company and of the group.

The external auditors are responsible for reporting on whether the financial statements are fairly presented in accordance with South African Statements of Generally Accepted Accounting Practice. An external audit provides reasonable assurance that the financial statements are free of material misstatement.

Social responsibility and sustainability

The Hudaco board acknowledges its responsibility to develop and manage sustainable businesses for the benefit of all stakeholders, which includes the communities in which our businesses operate.

Black economic empowerment

The group is very aware of the risk of having inadequate Black Economic Empowerment (BEE) credentials. During 2004 the group devised its own method of scoring the outline BEE Scorecard published by the Department of Trade and Industry in 2003. Hudaco's starting score has already been improved through various BEE initiatives. Our immediate objective is to become a level six contributor which will result in a 60% BEE recognition level and, in the medium term, a level five contributor. In 2006 we will align our internally developed scoring methodology with the DTI's once their Codes of Good Practice have been gazetted.

Skills development

There is a keen awareness of the need to appoint previously disadvantaged individuals to management positions in the group. In order to achieve this, initial consideration for any vacancy is given to previously disadvantaged people. In house and external training is given in a wide range of practical and theoretical subjects to better equip all employees in all operating divisions to apply for such positions.

Corporate governance

Hudaco provides assistance to the University of Johannesburg to maintain a high standard of lecturing in its mechanical engineering department. In terms of a subvention agreement, the salary of a senior lecturer is supplemented by Hudaco. In addition, students are given practical training in the group and some are offered full time employment.

Hudaco supports the Thuthuka Bursary Fund which develops and trains black chartered accountants. In order to assist the Fund with its financial planning, Hudaco has given an undertaking to continue its support for the foreseeable future.

Corporate social investment

Hudaco has resolved to set aside 1% of profit after tax for corporate social responsibility in 2006 and subsequent years. Charitable institutions are supported by both the Hudaco Foundation and individual operating divisions. Apart from these donations, Hudaco is involved with a number of specific projects aimed at improving the lives of previously disadvantaged communities.

Support for SMME's

A number of initiatives are in operation in the group, all aimed at giving previously disadvantaged individuals an opportunity to improve their lives. The group's BEE procurement policies are increasingly used to support these initiatives.

Ethics

Hudaco has a Code of Business Conduct approved by the board and distributed to all staff. It is a living document and suggestions from employees are welcomed. The intention is to evolve a standard of conduct with which all staff can identify and live by.

HIV/Aids

The executive committee has approved a "Life-threatening Diseases Policy" which has been adopted by all operating divisions. From a benefit point of view the policy regards HIV/Aids in the same light as any other life-threatening disease and ensures non-discrimination against HIV positive employees. Businesses monitor the incidence of HIV to the extent that they are able, given rules of confidentiality, to determine the appropriate individual approach to the disease. The board encourages employee training and education programmes on HIV/Aids.

Safety, health and the environment

The group is committed to best practice and most businesses are ISO 14001 and OHSAS 18001 compliant. All businesses are required to report regularly to the executive committee on their compliance with applicable laws and regulations.

Employment equity

The group complies with legislative and regulatory requirements to favour previously disadvantaged individuals (as defined) in its employment practices. Appropriate structures are in place to foster good employer-employee relationships through effective sharing of relevant information, consultation and resolution of conflict. Head Office plays a leading role in the development of management and monitors compliance with legislation. Employment Equity plans and strategies are in place and updated in compliance with the Act. With the immediate challenge to become a level six contributor on the BEE scorecard, we acknowledge that greater attention needs to be given to the promotion of black staff to management levels. The group's staff complement in the management and skilled occupational levels are as follows:

Occupational level	Black	Coloured	Asian	White	Total	Male	Female
2005							
Management	1	1	3	136	141	124	17
Skilled	109	55	70	488	722	546	176
2004							
Management	1	1	3	133	138	120	18
Skilled	89	52	64	467	672	502	170

Communicating with shareholders

The chief executive and the financial director regularly communicate with shareholders, the investment community and media analysts. Visual aids used in presentations are made available on the group web site. Shareholders are encouraged to attend annual general meetings. Financial results are published on SENS, on the group web site and in the press and shareholders receive a hard copy timeously.

Dealing in securities

The company secretary maintains a record of all dealings in Hudaco shares by directors and selected employees and ensures that proper authority for dealing is in place prior to transactions being initiated. Directors, officers and selected employees are made aware of restricted or closed periods for dealing in Hudaco shares and the provisions of insider trading legislation.

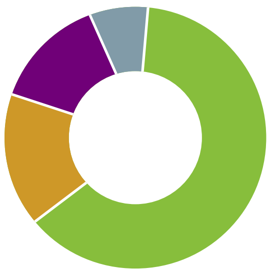
Conclusion

The board of Hudaco is of the view that the company complies with the Code of Corporate Practices and Conduct of the King II Report.

Value added statement

for the year ended 30 November 2005

	2005 R000	2004 R000
Turnover	**1 549 207**	1 448 378
Less: Cost of materials, facilities and services from outside the group	**1 036 157**	973 755
Value added	**513 050**	474 623
Net interest income	**3 611**	6 159
Exceptional items	**5 317**	(18 253)
Total wealth created	**521 978**	462 529
Distributed to:		
Employees – salaries, wages and other benefits	**316 265**	297 529
Government – company taxation	**60 481**	50 389
Shareholders – dividends	**42 084**	39 278
Maintain and expand the group		
– profits retained	**89 570**	60 297
– depreciation	**13 578**	15 236
Total wealth distributed	**521 978**	462 729



Distribution of wealth created %

	2005	2004
Employees	**61**	64
Reinvested	**20**	16
Taxation	**11**	11
Shareholders	**8**	9

Statement of gross contributions to government in South Africa

for the year ended 30 November 2005

	2005 R000	2004 R000
Company income tax and STC	**59 667**	49 775
Customs and excise duty	**12 441**	11 434
RSC and net SD levies and assessment rates	**4 861**	4 525
Value added tax not deemed an input credit	**591**	477
Direct contribution to government	**77 560**	66 211
Add the following collected on behalf of government:		
Value added tax (net)	**47 825**	55 460
Employees' tax	**50 266**	48 095
Gross contributions by the group to government	**175 651**	169 766

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Financial statements

Shareholder information

'05

Hudaco

"We aim to produce superior returns for our shareholders by building on the base of our existing businesses and by continuously looking for growth opportunities."

Statement of directors' responsibility

The directors of Hudaco are responsible for the preparation of the financial statements and other information presented in the annual report in a manner that fairly presents the state of affairs and results of the operations of the company and the group. The annual financial statements contained on pages 30 to 49 have been prepared in accordance with South African Statements of Generally Accepted Accounting Practice. The external auditors are responsible for carrying out an independent examination of the financial statements in accordance with South African Auditing Standards and reporting their findings thereon. The auditors' report is set out below.

The directors have no reason to believe that the group will not continue as a going concern in the year ahead and the external auditors concur with this view.

The directors assume responsibility for the annual financial statements and the group annual financial statements, set out on pages 30 to 49, which were approved by the board on 26 January 2006 and are signed on the directors' behalf.

PL Campbell
Chairman

SJ Connelly
Chief executive

26 January 2006

Report of the independent auditors

To the members of Hudaco Industries Limited

We have audited the annual financial statements and group annual financial statements of Hudaco Industries Limited set out on pages 30 to 49 for the year ended 30 November 2005. These financial statements are the responsibility of the company's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

Scope

We conducted our audit in accordance with statements of South African Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- assessing the accounting principles used and significant estimates made by management; and
- evaluating the overall financial statement presentation.

We believe that our audit provides a reasonable basis for our opinion.

Audit opinion

In our opinion, the financial statements fairly present, in all material respects, the financial position of the company and the group at 30 November 2005 and the results of their operations and cash flows for the year then ended, in accordance with South African Statements of Generally Accepted Accounting Practice, and in the manner required by the Companies Act in South Africa.

Grant Thornton
Registered Accountants and Auditors
Chartered Accountants (SA)

Johannesburg
26 January 2006

Report of the directors

This report deals with matters not specifically dealt with elsewhere in the annual report.

Financial results

The results of the company and the group are set out in these financial statements. The nature of business and operation is set out in the chief executive's review.

Dividends

The following dividends per share have been declared and proposed for the 2005 financial year:

Final 2004	
Dividend No 35	93c
Record date	18 March 2005
Paid	22 March 2005

Interim 2005	
Dividend No 36	42c
Record date	12 August 2005
Paid	15 August 2005

Final 2005 – proposed	
Dividend No 37	102c
Record date	17 March 2006
Payable	20 March 2006

Directors

There are four independent non-executive directors: PL Campbell, JB Gibbon, PG Joubert and YKN Molefi.

There are three executive directors: SJ Connelly, GE Gardiner and PM Poole (see page 6). MS Jolly retired on 28 February 2005.

In accordance with the company's articles of association PL Campbell, JB Gibbon and PG Joubert retire at the forthcoming annual general meeting. The retiring directors are eligible and PL Campbell and JB Gibbon offer themselves for re-election.

Acquisitions and disposals

The following acquisitions were made during the year:

Powermite – Distributors of electrical cabling, plugs, sockets and other related products. The purchase consideration was approximately R63 million comprising net tangible operating assets of R34 million, cash of R10 million and goodwill of R19 million. R44 million of the purchase consideration was settled in cash in June 2005. The balance will be paid in three tranches of approximately R7 million each payable in December 2005, 2006 and 2007 respectively. These tranches are subject to adjustment based on agreed levels of profitability to be achieved in those years and are subject to a maximum of R31 million in aggregate.

Ekurhuleni Bearings and Seals – Distributors of FAG bearings. The purchase consideration, which includes the acquisition of inventory previously on consignment to the business, was R24 million. It comprised net tangible operating assets of R19 million and goodwill of R5 million and was settled in cash during 2005.

Minority interests in Bosworth and Mather & Platt – The minority interests in these two businesses were acquired during the year for a consideration of R6 million in cash.

Authorised and issued share capital

The authorised share capital remained unchanged during the year. The issued share capital was increased by R31 818 to R3 226 398 through the issue of 318 177 shares of 10 cents each to employees in terms of the share incentive scheme for a total consideration of R3 711 945 (average of R11,67 per share). Of these, 65 000 shares were delivered to directors for a total consideration of R776 749.

Special resolutions adopted by subsidiary companies

No special resolution of significance to the appreciation of the state of affairs of the group was passed by any subsidiary during the past year. Special resolutions to effect the reorganisation of the DD Power group resulted in the deregistration of six companies.

Interest of directors

The total direct and indirect beneficial and non-beneficial interest of directors in the shares of the company are:

	Beneficial		**Indirect and**
2005	**Direct**	**Indirect**	**non-beneficial**
PL Campbell*		**5 000**	
SJ Connelly	**162 300**		**1 680**
GE Gardiner		**20 000**	
PM Poole	**80 942**		
	243 242	**25 000**	**1 680**

*Non-executive

The executive directors also hold rights in terms of the share incentive scheme to take delivery of 666 667 shares at an average price of R21,53 per share (see page 31).

The shareholdings above have not changed between 30 November 2005 and the date of the notice of the annual general meeting which forms part of this annual report.

No director holds in excess of 1% of the company's issued share capital.

	Beneficial		**Indirect and**
2004	**Direct**	**Indirect**	**non-beneficial**
PL Campbell*		5 000	
SJ Connelly	162 300		1 680
GE Gardiner		16 500	
MS Jolly†	66 667	12 519	
PM Poole	80 942		
	309 909	34 019	1 680

*Non-executive †Retired 28 February 2005

At 30 November 2004 executive directors also held rights in terms of the share incentive scheme to take delivery of 731 667 shares at an average price of R20,68 (see page 31).

Directors' interest in share incentive scheme

The directors have entered into the following deferred delivery agreements:

2005	Outstanding shares at November 2004	Strike price	Granted during the year	Delivered during the year	Delivery date	Market price on date of delivery	Outstanding shares at November 2005	Date granted	Date expires
SJ Connelly	285 000			(38 333)			246 667		
	15 000	10,75		(15 000)	May '05	37,25			
	70 000	12,55		(23 333)	May '05	37,25	46 667	22 Apr '02	21 Apr '12
	200 000	24,60					200 000	17 Mar '04	16 Mar '14
GE Gardiner	216 667			(26 667)			190 000		
	6 667	10,75		(6 667)	May '05	33,77			
	60 000	12,55		(20 000)	May '05	33,77	40 000	22 Apr '02	21 Apr '12
	150 000	24,60					150 000	17 Mar '04	16 Mar '14
PM Poole	230 000						230 000		
	20 000	10,75					20 000	9 Mar '00	8 Mar '10
	60 000	12,55					60 000	22 Apr '02	21 Apr '12
	150 000	24,60					150 000	17 Mar '04	16 Mar '14
Total	731 667			(65 000)			666 667		

Delivery must be taken within ten years of the date granted and one third may be taken in each year after three, four and five years.
No additional shares were granted during the year.

2004	2003						2004		
SJ Connelly	115 000		200 000	(30 000)			285 000		
	45 000	10,75		(30 000)	Feb '04	25,00	15 000	9 Mar '00	8 Mar '10
	70 000	12,55					70 000	22 Apr '02	21 Apr '12
		24,60	200 000				200 000	17 Mar '04	16 Mar '14
GE Gardiner	80 000		150 000	(13 333)			216 667		
	20 000	10,75		(13 333)	Feb '04	24,80	6 667	9 Mar '00	8 Mar '10
	60 000	12,55					60 000	22 Apr '02	21 Apr '12
		24,60	150 000				150 000	17 Mar '04	16 Mar '14
MS Jolly	21 000			(21 000)					
	21 000	4,15		(21 000)	Feb '04	24,85			
PM Poole	158 000		150 000	(78 000)			230 000		
	68 000	4,15		(68 000)	Feb '04	24,00			
	30 000	10,75		(10 000)	Feb '04	24,00	20 000	9 Mar '00	8 Mar '10
	60 000	12,55					60 000	22 Apr '02	21 Apr '12
		24,60	150 000				150 000	17 Mar '04	16 Mar '14
Total	374 000		500 000	(142 333)			731 667		

Accounting policies

Accounting policies

The financial statements are prepared on the historical cost basis and incorporate the following principal accounting policies, which conform with South African Statements of Generally Accepted Accounting Practice. These policies are consistent with those applied in the previous year, except for the changes detailed in note 16.

Basis of consolidation

The group financial statements incorporate all the assets, liabilities and results of the company and all its subsidiaries. In all cases results are reported from the effective date of acquisition or to the effective date of disposal. Significant inter-company transactions and balances have been eliminated.

Goodwill

Goodwill, being the excess of the purchase consideration (which includes any related restraint of trade payments) over the attributable fair value of net assets at the effective date of acquisition of subsidiaries, arising:

- before 1 January 2001, was charged directly to retained income,
- after 1 January 2001 and before 1 March 2004, was capitalised and amortised on a straight-line basis over the lesser of its effective economic life and twenty years, and
- after 1 March 2004 is capitalised.

Property, plant and equipment and depreciation

Land is stated at cost to the group.

Buildings, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, except for leased motor vehicles which are depreciated on a straight-line basis to their contracted residual value.

Impairment

On an annual basis the group reviews all assets, both tangible and intangible, carried on the balance sheet for impairment. Where the recoverable amount of an asset or cash generating unit is estimated to be lower than its carrying amount, its carrying amount is reduced to its recoverable amount. Impairment losses are charged against income in the period in which they are identified.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash generating unit is increased to the revised estimate of its recoverable amount. Such increases in carrying amount are limited to original cost. A reversal of an impairment loss is recognised in income in the period in which such a reversal is identified.

Capitalisation of leased assets

Assets subject to finance lease agreements are capitalised at their cash cost equivalent and the corresponding liabilities to the lessors are raised.

Lease finance charges are written off over the period of the lease using the effective interest rate method.

Inventories

Inventories are valued at the lower of cost and net realisable value. The basis of determining cost is first-in first-out or weighted average, and includes direct costs and where applicable, a proportion of manufacturing overheads.

Obsolete, redundant and slow-moving inventories are identified and written down to their estimated net realisable value.

Deferred taxation

Deferred taxation is accounted for in each taxable entity within the group on a comprehensive basis, which means that all temporary differences are fully provided for at current rates of taxation. Deferred taxation assets are only recognised where the realisation of such an asset is reasonably assured.

Foreign currencies

Foreign currency transactions are translated at the approximate rates ruling at the dates of the transactions. Assets and liabilities in foreign currencies are translated at the spot rates of exchange ruling at the financial year-end.

In the case of foreign operations, monetary items are translated at the closing rate, non-monetary items are translated at the rates ruling on the transaction date and owners' interest is translated at historical rates. In the case of foreign entities the assets and liabilities are translated at the closing rate. Income statement items are translated at an appropriate weighted average exchange rate for the year.

Exchange differences arising, if any, on the consolidation of foreign entities are classified as equity and transferred to the group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Exchange differences, if any, on the consolidation of integrated foreign operations are included in the operating profit for the year.

Financial instruments

Financial instruments are initially measured at cost when the related contractual rights or obligations arise. Subsequent to initial recognition these instruments are measured as follows:

- Trade and other receivables – are stated at cost less impairment for doubtful debts
- Cash and cash equivalents – are measured at fair value, based on the relevant exchange rates at the balance sheet date
- Financial liabilities – non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments
- Derivative instruments – i.e. forward exchange contracts, are measured at fair value

Gains and losses on subsequent measurements are treated as follows:

Hedge accounting transactions are classified into two categories: (a) fair value hedges, which hedge the exposure to changes in the fair value of a recognised asset or liability i.e. forward exchange contracts in respect of foreign trade liabilities, and (b) cash flow hedges, which hedge exposure to variability in future cash flows attributable to forecast transactions, i.e. forward exchange contracts in respect of orders placed on foreign suppliers but not yet shipped.

- Any gain or loss on fair value hedges is recognised in the income statement.
- Gains or losses on effective cash flow hedges are recognised directly in shareholders' equity. These gains or losses are transferred to income in the same period in which the hedged future transaction affects income.
- The ineffective portion of any cash flow hedge is recognised in the income statement.
- Gains and losses from a change in the fair value of financial instruments that are not part of a hedging relationship are included in net profit or loss for the period in which they arise.

Turnover and revenue

Turnover represents the invoiced value, excluding VAT, of goods sold outside the group. Turnover and the revenue or income from it is recognised when the risk passes to the customer.

Retirement benefits

Defined contribution pension or provident schemes are operated by all group companies. Contributions made to these schemes are charged to the income statement in the year in which they are payable.

By virtue of the types of schemes operated in the group, no past service costs or experience adjustments will arise in the retirement funding arrangements.

Group income statement

for the year ended 30 November 2005

	Notes	2005 R000	2004 R000
Turnover		**1 549 207**	1 448 378
Continuing operations		**1 431 595**	1 357 252
Operations acquired in 2005		**117 612**	
Operations discontinued in 2004			91 126
Cost of sales		**930 859**	896 470
Gross profit		**618 348**	551 908
Operating expenses		**435 141**	389 849
Operating profit	1	**183 207**	162 059
Continuing operations		**161 871**	166 309
Operations acquired in 2005		**21 336**	
Operations discontinued in 2004			(4 250)
Closure of discontinued operation		**6 180**	(18 641)
Capital items	2	**(3 363)**	(5 458)
Profit before interest		**186 024**	137 960
Net finance revenue	3	**3 611**	6 159
Profit before taxation		**189 635**	144 119
Taxation	4	**60 481**	50 389
Profit after taxation		**129 154**	93 730
Attributable to minorities		**4 968**	5 052
Profit attributable to shareholders		**124 186**	88 678

	Notes	2005	2004
Headline earnings per share (cents)	5	**415,0**	370,6
Continuing operations		**374,8**	381,4
Operations acquired in 2005		**40,2**	
Operations discontinued in 2004			(10,8)
Diluted headline earnings per share (cents)	5	**403,4**	365,9
Basic earnings per share (cents)	5	**419,7**	302,8
Diluted basic earnings per share (cents)	5	**408,0**	298,6

		2005	2004
Reconciliation to headline earnings			
Profit attributable to shareholders		**124 186**	88 678
Adjusted for:			
Closure of discontinued operation after taxation		**(4 742)**	14 420
Capital items		**3 363**	5 458
Acquisitions and disposals			
– Profit after taxation of operations acquired in 2005		**(11 891)**	
– Loss after taxation of operations sold or discontinued in 2004			3 119
Headline earnings from continuing operations		**110 916**	111 675
Acquisitions and disposals		**11 891**	(3 119)
Headline earnings		**122 807**	108 556

Group balance sheet
at 30 November 2005

	Notes	2005 R000	2004 R000
Assets			
Non-current assets		**110 815**	101 949
Property, plant and equipment	6	**38 227**	42 893
Goodwill	7	**64 216**	42 580
Deferred taxation	8	**8 372**	16 476
Current assets		**886 653**	779 405
Inventories	9	**375 046**	284 574
Accounts receivable		**279 244**	245 012
Bank deposits and balances	18.6	**232 363**	249 819
Total assets		**997 468**	881 354
Equity and liabilities			
Equity		**619 632**	532 378
Shareholders' equity		**595 750**	506 464
Minority interest	11	**23 882**	25 914
Non-current liabilities		**61 043**	62 374
Interest-bearing debt	12	**50 000**	50 000
Amounts due to vendors of businesses acquired	13	**11 043**	12 374
Current liabilities		**316 793**	286 602
Accounts payable		**290 684**	261 306
Amounts due to vendors of businesses acquired	13	**12 714**	
Taxation		**13 395**	25 296
Total equity and liabilities		**997 468**	881 354

Group cash flow statement

for the year ended 30 November 2005

	Notes	2005 R000	2004 R000
Cash retained from operating activities			
Operating profit		**183 207**	162 059
Depreciation and recoupments	1	**12 239**	13 723
Cash generated from trading		**195 446**	175 782
(Increase)/Decrease in working capital	15.1	**(60 409)**	37 970
Cash generated from normal operating activities		**135 037**	213 752
Fair value adjustment of cash flow hedges		**230**	(148)
Net finance revenue		**4 907**	5 850
Taxation paid		**(62 870)**	(62 883)
Cash flow from operations		**77 304**	156 571
Dividends paid	15.2	**(42 084)**	(39 278)
Cash retained from operating activities		**35 220**	117 293
Cash utilised in investment activities			
Investment in new businesses	15.3	**(59 243)**	(3 756)
Minority interest acquired	15.3	**(4 677)**	
Payments to vendors of businesses acquired		**(7 342)**	(4 910)
Cash flow from discontinued operations	15.3	**25 917**	(2 006)
Cash applied to other capital items		**(1 626)**	
Property, plant and equipment – additions		**(11 378)**	(18 257)
– disposals		**2 342**	4 360
Net cash invested		**(56 007)**	(24 569)
Net cash (applied) retained after investment		**(20 787)**	92 724
Cash flows from financing activities			
Decrease in short-term interest-bearing debt			(198)
Increase in shareholder funding	15.4	**3 331**	3 125
Cash flow from financing activities		**3 331**	2 927
(Decrease)/Increase in cash and cash equivalents		**(17 456)**	95 651
Cash and cash equivalents at beginning of the year		**249 819**	154 168
Cash and cash equivalents at end of the year		**232 363**	249 819
Cash flow per share (cents)	15.5	**237**	509

Group statement of changes in equity

for the year ended 30 November 2005

R000	Share capital	Share premium	Special reserve account*	Retained income	Deferred on hedging instruments	Foreign exchange trans-lation reserve	Total equity
Balance at 30 November 2003	3 151	6 045	332	471 138	(1 074)	(3 029)	476 563
Prior year adjustment (see note 16)				(1 254)		(3 193)	(4 447)
Balance at 30 November 2003, as restated	3 151	6 045	332	469 884	(1 074)	(6 222)	472 116
Attributable profit for the year				88 678			88 678
Translation of foreign entities						(1 992)	(1 992)
Loss in fair value of cash flow hedges					(148)		(148)
Issue of 434 829 shares	44	3 138					3 182
Dividends paid (note 14)				(36 666)			(36 666)
Balance at 30 November 2004, as restated	3 195	9 183	332	521 896	(1 222)	(8 214)	525 170
Less shares held by subsidiary company	(251)		(41)	(18 414)			(18 706)
Net balance at 30 November 2004, as restated	2 944	9 183	291	503 482	(1 222)	(8 214)	506 464
Balance at 30 November 2004, as restated	3 195	9 183	332	521 896	(1 222)	(8 214)	525 170
Attributable profit for the year				124 186			124 186
Translation of foreign entities						1 051	1 051
Gain in fair value of cash flow hedges					230		230
Issue of 318 177 shares	32	3 681					3 713
Dividends paid (note 14)				(39 894)			(39 894)
Balance at 30 November 2005	3 227	12 864	332	606 188	(992)	(7 163)	614 456
Less shares held by subsidiary company	(251)		(41)	(18 414)			(18 706)
Net balance at 30 November 2005	2 976	12 864	291	587 774	(992)	(7 163)	595 750

**Represents an amount formerly held in the share premium account transferred in 2001*

Notes to the group financial statements
for the year ended 30 November 2005

	2005 R000	2004 R000
1 Operating profit		
Operating profit is stated after taking into account the following items:		
Auditors' remuneration		
Audit fees – current year	**3 011**	2 687
Fees for other services	**117**	265
Cost of fair value hedges	**5 778**	8 088
Depreciation and recoupments	**12 239**	13 723
Depreciation (note 6)	**13 578**	15 236
Recoupment of depreciation on disposal of plant and equipment	**(1 339)**	(1 513)
(Gain)/Loss on translation of integrated foreign operations	**(239)**	1 028
Rentals paid on operating leases (See note 16)	**20 350**	14 671
Fixed property	**20 092**	14 249
Other	**258**	422
Staff costs	**316 265**	297 529
2 Capital items		
Amortisation of goodwill		5 846
Impairment of goodwill and freehold land and buildings	**2 500**	
Fees paid on unsuccessful acquisition	**1 626**	
Surplus on disposal of business and freehold land and buildings	**(763)**	(388)
	3 363	5 458
3 Net finance revenue		
Interest paid including interest imputed on amounts due to vendors of businesses acquired	**(8 020)**	(8 646)
Interest received	**11 631**	14 805
	3 611	6 159
4 Taxation		
4.1 Taxation comprises:		
South African normal taxation		
Current year	**51 559**	49 964
Prior years	**(969)**	(1 271)
Deferred normal taxation		
Current year	**3 233**	(4 207)
Prior years	**181**	252
Secondary tax on companies	**951**	1 624
Tax rate adjustment on opening balance of deferred taxation	**345**	
Deferred secondary tax on companies	**4 341**	3 370
Foreign normal taxation – current year	**814**	634
Capital gains tax	**26**	23
Total taxation	**60 481**	50 389
4.2 Reconciliation of rate of taxation	**%**	%
Normal rate	**29,0**	30,0
Exempt income/foreign rate differential	**(0,1)**	(0,4)
Disallowable expenditure	**0,5**	
Losses utilised in subsidiaries	**(0,3)**	
Secondary tax on companies	**2,8**	3,5
Effective rate for current year before capital items	**31,9**	33,1
Capital items	**0,3**	2,1
Effect of the rate change on deferred taxation	**0,1**	
Adjustment to prior year	**(0,4)**	(0,2)
Effective rate of taxation	**31,9**	35,0

5 Earnings per share

The calculation of headline and basic earnings per share is based on headline earnings and earnings attributable to shareholders as set out in the income statement, divided by the weighted average of 29 592 041 shares (2004: 29 288 976) in issue during the year taking account of shares purchased by a subsidiary.

The calculation of diluted earnings per share is based on 30 439 978 shares (2004: 29 702 299) being the weighted shares in issue of 29 592 041 plus 847 937 deemed free issue shares. This assumes that all the shares granted in the share incentive scheme (note 10.5) at prices less than R37,21 (being the average market price for the current year) are taken up. The number of deemed free issue shares is the difference between the number of shares assumed to have been taken up and the number of shares which could have been acquired with such proceeds at the average market price per share.

6 Property, plant and equipment

	Freehold land and buildings	**Plant**	**Computers**	**Motor vehicles**	**Other assets**	**2005 Total R000**	2004 Total R000
Cost							
Opening balance	16 969	60 306	32 520	27 908	17 370	**155 073**	152 093
Additions		1 370	4 102	4 352	1 554	**11 378**	18 257
Acquisitions of businesses	997	3 558	180	1 686	389	**6 810**	90
Disposals of businesses	(6 509)	(35 277)	(1 642)	(1 217)	(2 344)	**(46 989)**	
Currency adjustments			8	6	10	**24**	(25)
Disposals	(148)	(96)	(508)	(3 180)	(995)	**(4 927)**	(15 342)
Closing balance	11 309	29 861	34 660	29 555	15 984	**121 369**	155 073
Accumulated depreciation							
Opening balance	3 863	51 994	23 316	17 546	13 461	**110 180**	107 849
Depreciation for the year	163	1 626	5 291	5 007	1 491	**13 578**	15 236
Disposals of businesses	(1 415)	(31 327)	(1 541)	(952)	(2 150)	**(37 385)**	
Currency adjustments			2	6	1	**9**	(22)
Disposals		(92)	(508)	(2 833)	(807)	**(4 240)**	(12 883)
Closing balance	2 611	22 201	26 560	18 774	11 996	**82 142**	110 180
Impairment							
Opening balance	2 000					**2 000**	2 000
Arising during the year	1 000					**1 000**	
Recouped on disposal	(2 000)					**(2 000)**	
Closing balance	1 000					**1 000**	2 000
Net book value	7 698	7 660	8 100	10 781	3 988	**38 227**	42 893
Estimated useful lives (years)	20	4 – 8	3	4	3		

A register of freehold land and buildings is kept at the registered office of the company. A copy is available on written request.

	2005 R000	2004 R000
7 Goodwill		
Goodwill arising before 1 January 2001 at cost	**130 537**	130 537
Amount written off	**(130 537)**	(130 537)
Goodwill arising after 1 January 2001 at cost	**82 798**	59 662
Balance at beginning of year, as restated (See note 16)	**59 662**	63 632
Net adjustment to purchase consideration	**(1 122)**	(6 207)
Currency adjustments	**132**	
Acquisitions during year	**24 126**	2 237
Amortisation accumulated to 1 March 2004	**(17 082)**	(17 082)
Impairment	**(1 500)**	
	64 216	42 580

Goodwill arising on acquisitions in 2003 and 2005 includes an element of purchase consideration that is based on the attainment of targeted levels of profitability for periods ending December 2007. An adjustment to the goodwill has already been made as certain interim targets were not met and some have been exceeded. Further adjustments may be made when the final purchase considerations are computed.

	2005 R000	2004 R000
8 Deferred taxation		
8.1 Deferred taxation comprise temporary differences arising from:		
Accelerated capital allowance	**(163)**	(500)
Secondary tax on companies	**1 140**	5 481
Calculated loss in subsidiaries		2 404
Other, principally doubtful debt allowances and leave pay accruals	**7 395**	9 091
Net deferred taxation asset	**8 372**	16 476
8.2 Movement for the year		
Balance at beginning of year	**16 476**	15 891
Effect of rate change on opening balance	**(345)**	
Arising during the year	**(7 755)**	585
Disposal of business	**(4)**	
Balance at end of year	**8 372**	16 476
9 Inventories		
Raw materials and components	**6 453**	9 020
Work in progress	**14 247**	14 284
Finished goods	**9 464**	10 535
Merchandise	**344 882**	250 735
	375 046	284 574
10 Shareholders' equity		
10.1 Authorised share capital		
40 000 000 (2004: 40 000 000) ordinary shares of 10 cents each	**4 000**	4 000
10.2 Issued share capital		
32 263 979 (2004: 31 945 802) ordinary shares	**3 227**	3 195
Less: 2 507 828 (2004: 2 507 828) ordinary shares held by subsidiary company – 8%	**(251)**	(251)
Net 29 756 151 (2004: 29 437 974) ordinary shares	**2 976**	2 944

10.3 Unissued shares

2 122 000 (2004: 2 440 000) unissued shares have been made available to the employee share incentive scheme (see note 10.5).
3 194 500 of the unissued shares are under the control of the directors until the next annual general meeting.

	2005 R000	2004 R000
10.4 Retained income		
Income retained in:		
Company	**134 916**	125 356
Subsidiary companies	**452 858**	378 126
	587 774	503 482

10.5 Employee share incentive scheme	**Number of shares (000)**	
	2005	2004
Shares issued in terms of the scheme	**3 878**	3 560
Options granted and deferred delivery shares not yet taken up	**1 896**	2 272
Balance available*	**226**	168
Total specifically authorised to be issued in terms of the scheme	**6 000**	6 000

**The balance available is under the control of the directors who may grant options in terms of the scheme at the listed price on the day preceding that on which the option is granted.*

10 Shareholders' equity continued

10.5 Employee share incentive scheme continued

Details of options granted and deferred delivery shares not yet taken up are as follows:

	Weighted average subscription price in cents		Number of shares (000)	
	2005	2004	**2005**	2004
Rights to shares not taken up at beginning of year	**1 925c**	1 076c	**2 272**	1 511
Options granted		2 460		1 310
Shares delivered	**1 167**	732	**(318)**	(435)
Forfeited on resignation			**(58)**	(114)
Rights to shares not taken up at end of year which are exercisable between December 2005 and March 2014	**2 057c**	1 925c	**1 896**	2 272

*See page 31 for details of directors' interest in the share incentive scheme

	2005 R000	2004 R000
11 Minority interest		
Share capital and reserves	**23 882**	25 532
Unsecured loans, interest free		382
	23 882	25 914
12 Interest-bearing debt		
Unsecured 4-year loan. Interest which is charged at variable rates (currently 9.2%) is payable up to six-monthly in arrears. Capital is repayable in December 2006	**50 000**	50 000

13 Amounts due to vendors of businesses acquired

Represents the estimated amounts due to four groups of vendors of businesses acquired in 2003 and 2005 and includes interest imputed at 7% per annum. The amounts finally payable are subject to adjustment based on earnings of the businesses for periods up to December 2007. Any adjustment to the estimated amount will be debited or credited to goodwill.

14 Dividends

14.1 Ordinary dividends

	2005 R000	2004 R000
Dividend number 35 of 93 cents per share declared on 27 January 2005	**29 751**	28 638
The record date was 18 March 2005 and the dividend was paid on 22 March 2005		
Dividend number 36 of 42 cents per share declared on 29 June 2005	**13 529**	11 163
The record date was 12 August 2005 and the dividend was paid on 15 August 2005		
Dividend paid to subsidiary company	**(3 386)**	(3 135)
	39 894	36 666

14.2 On 26 January 2006 the directors declared dividend number 37 of 102 cents per share. The record date will be 17 March 2006 and the dividend will be paid on 20 March 2006.

			2005 R000	2004 R000
15 Notes to cash flow statement				
15.1 (Increase)/Decrease in working capital				
(Increase)/Decrease in inventories			**(57 421)**	32 020
Increase in accounts receivable			**(31 367)**	(3 128)
Increase in accounts payable			**27 475**	9 335
Translation loss/(gain) on working capital in foreign entities			**904**	(257)
			(60 409)	37 970
15.2 Dividends				
To Hudaco shareholders			**(39 894)**	(36 666)
To minorities			**(2 190)**	(2 612)
			(42 084)	(39 278)
15.3 Investment activities	**Discontinued**	**MSI acquired**	**Acquisition**	Acquisition
Property, plant and equipment	**7 604**	**(1 139)**	**(5 671)**	(90)
Inventories	**7 405**		**(40 456)**	(2 080)
Accounts receivable	**22 512**		**(25 377)**	(3 375)
Accounts payable	**(16 552)**		**18 455**	2 478
Taxation	**(1 408)**			
Net operating assets	**19 561**	**(1 139)**	**(53 049)**	(3 067)
Net (cash) borrowings acquired			**(9 846)**	1 804
Minority interest (MSI)		**(4 157)**		
Goodwill (paid)/surplus	**6 359**		**(24 126)**	(2 237)
Total consideration	**25 917**	**(5 296)**	**(87 021)**	(3 500)
Amounts due to vendors in 2005 – 2007		**619**	**17 932**	1 548
Net cash/(borrowings)			**9 846**	(1 804)
Net cash flow	**25 917**	**(4 677)**	**(59 243)**	(3 756)
15.4 Increase in shareholder funding				
Issue of Hudaco shares			**3 713**	3 182
Minority loans decreased			**(382)**	(57)
			3 331	3 125
15.5 Cash flow per share				
Cash flow from operations			**77 304**	156 571
Minority participation			**(7 280)**	(8 195)
Cash flow from operations attributable to ordinary shareholders			**70 024**	148 376
Cash flow per share (cents)			**237**	509

16 Prior year adjustment:

16.1 Operating leases – AC105 has recently been interpreted to require that rentals paid on operating leases of fixed property be expensed on a straight line basis over the term of the lease agreement. Previously the group expensed rentals on a basis that represented the cash flow of such payments. The prior year figures have been restated on the new basis where applicable. The effect of the adjustment was to increase accounts payable at 30 November 2003 by R1,8 million, raise a deferred tax asset of R0,5 million on the temporary differences arising as a result of this adjustment and to decrease the retained income at that date by R1,3 million. This adjustment had no effect on the reported income for 2004 or 2005.

16.2 Translation of goodwill in foreign entities – The group has changed its accounting policy on the translation of goodwill arising on the initial acquisition of foreign entities. Such goodwill is now translated at the closing rate whereas it was previously translated at the rate ruling at the time of the acquisition. The prior year figures have been restated on the new basis where applicable. The effect of the change was to decrease the carrying value of the associated goodwill at 30 November 2003 by R3,2 million and to charge the foreign currency translation reserve with this amount. This change had no effect on the reported income for 2004 and 2005.

	2005 R000	2004 R000
17 Commitments		
Capital expenditure budgeted for the following year		
Already contracted for	**275**	2 274
Not yet contracted for	**12 534**	11 839
Total capital expenditure which will be financed by net cash flow from operations and the utilisation of cash	**12 809**	14 113
At the balance sheet date the group had outstanding commitments under operating leases in respect of fixed properties which fall due as follows:		
Within one year	**15 043**	14 212
In second to fifth years	**24 688**	16 837
After five years	**280**	1 070
	40 011	32 119

18 Financial risk management

The group's non-derivative financial instruments consist primarily of accounts receivable and payable, deposits with, and borrowings from, banks. The book value of these financial instruments approximate their fair value. Derivative financial instruments are used by the group for hedging purposes to mitigate foreign currency risk and consist of forward exchange contracts. The group does not speculate or trade in derivative financial instruments.

18.1 Treasury risk management
Hudaco's central treasury is responsible for the procurement of all bank funding, the investment of cash and the management of foreign currency exposure. All these activities are performed within clear guidelines set by the board and exposure and limits are reviewed at quarterly board meetings.

18.2 Foreign currency management
The group imports 66% of its cost of sales and consequently has a significant exposure to currency risk. Group policy is to take forward cover on all foreign currency liabilities (which effectively changes them from foreign to local currency liabilities) and on a portion (determined from time to time and generally between 10% and 30%) of orders placed not yet shipped. Order lead times vary between a few days and nine months. The objective is to have forward cover in place well before goods are shipped.

Cash flow hedges – At 30 November 2005 the group had entered into the following forward exchange contracts relating to forecast transactions, i.e. orders placed on suppliers not yet shipped.

These contracts will be utilised for settlement of shipments received during the next two months:

	Year-end spot rate	Foreign amount 000	Contract rate *	Rand equivalent R000
Japanese yen	18,40	147 521	17,57	8 396
US dollar	6,50	2 529	6,70	16 944
Pounds sterling	11,19	288	11,30	3 254
Euro	7,65	882	7,73	6 818
Other				6
Total cost of contracts				35 418
Fair value – Rand equivalent of the above contracts at year-end spot rates				34 426
Loss recognised directly in shareholders equity – see page 37.				992

**The contract rate discounted to 30 November 2005 based on the forward points ruling at year-end – which approximates 4% pa*

18.3 Interest rate management
The group uses bank finance to purchase trading stock and has been reluctant to fix interest rates for extended periods on borrowings which finance working capital. Total borrowings amount to R50 million (note 12) and are subject to variable interest rates.

18.4 Credit risk management
Credit risk is present in trade accounts receivable and short-term cash investments.

At group level trade accounts receivable consist of a large, widely spread customer base with no significant concentration of risk to any one customer or industry. Each business in the group is responsible for the management of credit risk in accounts receivable and

	2005 R000	2004 R000

18 Financial risk management (18.4 continued)

does so through ongoing credit evaluations and credit control policies. Management does not consider there to be any material credit risk exposure that is not already covered by an impairment for doubtful debts.

It is group policy to deposit short-term cash investments with major banks, within limits approved by the board, where security rather than yield is the overriding consideration.

18.5 Liquidity risk management
The group manages liquidity risk by monitoring forecast cash flows and ensuring that adequate unutilised borrowing facilities are maintained. There is no restriction on borrowing powers in terms of the articles of association and at 30 November 2005 the group's banking facilities substantially exceeded its forecast requirements for the forthcoming year.

18.6 Fair value of financial instruments
The loss arising on the fair value adjustment on all forward exchange contracts at 30 November 2005 is set out below:

	2005 R000	2004 R000
• cash flow hedges (note 18.2)	**992**	1 222
• fair value hedges (R133 million at year end spot rates)	**4 313**	5 825
	5 305	7 047

As this amount is due to the group's bankers it has been set-off against bank deposits and balances in the balance sheet.
The book value of all non-derivative financial instruments approximate their fair value at 30 November 2005.

19 Retirement benefits

It is the policy of the group to provide for employees' retirement benefits by contributing to separate defined contribution pension or provident plans which are independent entities subject to the Pension Funds Act, 1956. Contributions to retirement funding during the year amounted to R13 640 000 (2004: R12 119 000). All permanent employees are required to become members of one of these plans unless they are obliged by legislation to be members of various industry funds.

As they are defined contribution schemes they were exempt from regular actuarial valuations as no actuarial shortfall was anticipated. This exemption has fallen away and all the funds now require an actuarial valuation as part of their surplus apportionment exercise in terms of the Pension Fund Act. Valuations are required every three years thereafter.

The group's primary fund's surplus apportionment plan has been approved by the Financial Services Board. The balance of the funds have actuarial surpluses at their June 2004 valuation date but have yet to complete their surplus apportionment exercise. The principal officer of these funds has advised that he is not aware of any material improper use of surpluses that may have to be refunded by the employer, but this is still subject to the completion of a thorough and independent review during the surplus apportionment exercise.

The group has undertaken to make limited assistance to fund post retirement medical costs for some current and future pensioners. T

20 Contingent liability

In 1991 one of the group's retirement funds converted from a defined benefit to a defined contribution fund and adopted a new set of rules. The then administrators and underwriters advised that the new rules authorised the employer to continue with the contribution holiday, which approximated R2,5m per annum between 1992 and 2001. The Financial Services Board (FSB) advised that in its opinion the new rules did not allow the employer contribution holiday. The fund trustees, the employer and the administrators at that time have taken the FSB decision on review. As the outcome of this review is uncertain, this matter has been treated as a contingent liability. The employer has a number of remedies available to recover any refund that may have to be made to the fund should the review be unsuccessful.

21 Related party transactions

Group companies have entered into transactions in the ordinary course of business with certain financial institutions which are also shareholders, or their affiliates.

In the main, these transactions relate to property leases and financial services. All such transactions have been conducted on a market-related and arm's-length basis.

Segment analysis

	Group		Head office and intergroup eliminations		Bearings and Power Transmission products		Powered products		Security equipment		Discontinued operations	
R million	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
Income statement												
Turnover	**1 549**	1 448	**(1)**	(2)	**911**	779	**376**	350	**263**	230		91
EBITDA	**195**	175	**(5)**	(6)	**102**	102	**73**	61	**25**	19		(1)
Depreciation less recoupments	**12**	13			**10**	8	**1**	1	**1**	1		3
Operating profit	**183**	162	**(5)**	(6)	**92**	94	**72**	60	**24**	18		(4)
Cost of closure of discontinued operation	**6**	(19)									**6**	(19)
Capital items	**(3)**	(5)	**(1)**		**(2)**	(3)				(2)		
Profit before interest	**186**	138	**(6)**	(6)	**90**	91	**72**	60	**24**	16	**6**	(23)
Balance sheet												
Property, plant and equipment	**39**	43		1	**31**	26	**5**	5	**3**	3		8
Goodwill	**64**	46			**43**	22			**21**	24		
Deferred taxation – net	**8**	16	**2**	7	**3**	3	**2**	2			**1**	4
Inventories	**375**	285			**251**	177	**84**	66	**40**	34		8
Accounts receivable	**279**	245	**1**		**164**	132	**64**	51	**50**	39		23
Accounts payable	**(290)**	(261)	**(11)**	(14)	**(137)**	(122)	**(102)**	(73)	**(35)**	(29)	**(5)**	(23)
Taxation	**(13)**	(25)	**(1)**		**(10)**	(18)	**(1)**	(8)	**(1)**			1
Net operating assets	**462**	349	**(9)**	(6)	**345**	220	**52**	43	**78**	71	**(4)**	21
Additional information												
Average net operating assets	**445**	391	**(18)**	(26)	**335**	232	**56**	63	**72**	78		44
Capital expenditure	**11**	18			**9**	12	**1**	1	**1**	2		3
Operating profit margin (%)	**11,8**	11,2			**10,1**	12,0	**19,1**	17,1	**9,1**	7,8		
Return on average net operating assets (%)	**41,1**	41,4			**27,5**	40,6	**128,6**	95,2	**33,3**	23,1		
Number of employees	**2 000**	2 054	**23**	25	**1 541**	1 363	**285**	276	**151**	152		238

No secondary segment analysis has been prepared as revenue and assets outside South Africa are less than 10% of the group total.

Company financial statements
for the year ended 30 November 2005

	Notes	2005 R000	2004 R000

Hudaco Industries Limited

Balance sheet
at 30 November 2005

	Notes	2005 R000	2004 R000
Assets			
Non-current assets			
Interest in subsidiary companies	22.1	**151 853**	137 992
Current assets		**263**	331
Accounts receivable		**256**	324
Bank balances		**7**	7
Total assets		**152 116**	138 323
Equity and liabilities			
Shareholders' equity		**151 339**	138 066
Current liabilities			
Accounts payable and taxation		**777**	257
Total equity and liabilities		**152 116**	138 323

Income statement
for the year ended 30 November 2005

	Notes	2005 R000	2004 R000
Dividends received from subsidiaries		**54 600**	27 500
Interest received – principally from subsidiaries		**385**	157
Operating costs	22.2	**(947)**	(815)
Profit before taxation		**54 038**	26 842
Taxation – South African normal tax, principally prior years		**1 198**	72
Profit after taxation		**52 840**	26 770

Statement of changes in equity
for the year ended 30 November 2005

R000	Share capital	Share premium	Special reserve account *	Retained income	Total equity
Balance at 30 November 2003	3 151	6 045	332	138 387	147 915
Attributable profit for the year				26 770	26 770
Issue of 434 829 shares	44	3 138			3 182
Dividends to shareholders				(36 666)	(36 666)
Dividends to subsidiary company				(3 135)	(3 135)
Balance at 30 November 2004	3 195	9 183	332	125 356	138 066
Attributable profit for the year				52 840	52 840
Issue of 318 177 shares	32	3 681			3 713
Dividends to shareholders				(39 894)	(39 894)
Dividends to subsidiary company				(3 386)	(3 386)
Balance at 30 November 2005	3 227	12 864	332	134 916	151 339

**Represents an amount formerly held in share premium account transferred in 2001.*

	2005 R000	2004 R000

Cash flow statement

for the year ended 30 November 2005

	2005 R000	2004 R000
Cash generated from operating activities		
Dividends received	**54 600**	27 500
Operating costs paid	**(947)**	(815)
Decrease/(Increase) in working capital	**58**	(227)
Cash generated from operating activities	**53 711**	26 458
Finance revenue	**385**	157
Taxation paid	**(668)**	(69)
Cash flow from operations	**53 428**	26 546
Dividends	**(43 280)**	(39 801)
Net cash retained/(applied)	**10 148**	(13 255)
Cash (applied to)/generated from investment activities		
(Increase)/Decrease in loans to subsidiary companies	**(13 861)**	10 073
Net cash applied	**(3 713)**	(3 182)
Cash flow from financing activities		
Increase in shareholder funding	**3 713**	3 182
Net financing raised	**3 713**	3 182

22 Notes to the company financial statements

	2005 R000	2004 R000
22.1 Interest in subsidiary companies		
Shares at cost less amounts written off	**93 647**	93 647
Net loans to subsidiaries	**58 206**	44 345
Loans to subsidiaries	**58 208**	44 347
Loans from subsidiaries	**(2)**	(2)
	151 853	137 992

These loans are unsecured with no fixed terms of repayment. R50 million is interest free and interest is charged on the balance at variable rates.

	2005 R000	2004 R000
22.2 Operating costs		
Operating costs are stated after taking into account		
Auditors' remuneration for the current year	**65**	65
22.3 Contingent liability		
Guarantee in respect of specific long-term banking facilities of a subsidiary	**52 000**	52 000

The company has guaranteed the banking facilities of all wholly owned South African based subsidiaries. The maximum exposure in this regard is approximately R400 million and the exposure is nil at the year end.

22.4 Directors' emoluments

2005	For services as director R000	Paid by subsidiaries for managerial services: Fixed remu-neration R000	Retirement fund con-tributions R000	Other benefits R000	Performance related remuneration R000	**Total remu-neration R000**	Share incentive scheme gains See note* R000
Non-executive directors	369					**369**	
PL Campbell	150					**150**	
JB Gibbon	85					**85**	
PG Joubert	67					**67**	
YKN Molefi	67					**67**	
Executive directors		3 816	461	436	1 819	**6 532**	
SJ Connelly		1 811	214	174	943	**3 142**	876
GE Gardiner		995	123	90	363	**1 571**	601
MS Jolly†		28	4	25		**57**	
PM Poole		982	120	147	513	**1 762**	681
Total 2005	369	3 816	461	436	1 819	**6 901**	2 158
2004							
Non-executive directors	362					362	
PL Campbell	150					150	
JB Gibbon	85					85	
PG Joubert	67					67	
YKN Molefi	60					60	
Executive directors		3 622	438	483	1 316	5 859	
SJ Connelly		1 680	199	184	525	2 588	199
GE Gardiner		900	111	88	479	1 578	88
MS Jolly†		137	18	62	27	244	
PM Poole		905	110	149	285	1 449	132
Total 2004	362	3 622	438	483	1 316	6 221	419

Note

**This reflects unrealised gains available to directors that arose during the year in terms of the share incentive scheme, being the difference between the strike price and the market price on the date the directors were first entitled to take delivery of shares acquired in terms of the scheme. Full details of the directors' entitlements in the share incentive scheme are set out in the directors' report. (See page 31.)*

†Not employed full time and retired 28 February 2005

Principal subsidiaries

at 30 November 2005

	Issued share capital 2005 R unless indicated	Group's effective interest 2005 %	2004 %	Interest of holding company: Book value of shares 2005 R000	2004 R000	Loans owing by/(to) 2005 R000	2004 R000
1 Subsidiaries							
Hudaco Trading Ltd	**26 160**	**100**	100	**48 158**	48 158	**58 208**	44 347
Abes Technoseal*		**100**	100				
Ampco*		**100**					
Angus Hawken*		**100**	100				
Bearings International*		**100**	100				
Belting Supply Services*		**100**	100				
Bosworth*		**100**	90				
Ernest Lowe*		**100**	100				
Powermite *		**100**					
Rutherford*		**100**	100				
Roller Chain Opti*		**100**	100				
Vivian Regina*			100				
Subsidiaries of Hudaco Trading Ltd							
Hudaco Transmission (Pty) Ltd	**789 032**	**100**	100				
BEP Bestobell *		**100**	100				
Bauer Geared Motors *		**100**	100				
Mather & Platt*		**100**	80				
Varispeed *		**100**	100				
DD Power Holdings (Pty) Ltd	**300 000**	**70**	70				
DD Power (Pty) Ltd	**7 450 000**	**70**	70				
Elvey Group Ltd	**921 586**	**100**	100				
Elvey Security Technologies (Pty) Ltd	**100**	**100**	100				
Quadrant Investments Ltd (Guernsey)	**$7 424**	**100**	100	**1 372**	1 372		
Subsidiaries of Quadrant Investments Ltd							
Elvey Group UK Ltd	**£3 000**	**100**	100				
Smithford Company Ltd (Guernsey)	**£1 312**	**100**	100				
Valhold Ltd	**959 841**	**100**	100	**37 692**	37 692		
Subsidiaries of Valhold Ltd							
Hudaco Automotive Products (Pty) Ltd	**57 008**	**100**	100				
Hudaco Friction * (discontinued in 2004)		**100**	100				
PHC Clutch*		**100**	100				
Valard Bearings *		**100**	100				
Valard Ltd	**874 149**	**100**	100	**6 423**	6 423		
Other				**2**	2	**(2)**	(2)
Interest in subsidiaries				**93 647**	93 647	**58 206**	44 345

2 A full list of subsidiaries is available to shareholders, on request, at the registered office of the company.

3 The attributable interest of the holding company in the aggregate profits and losses after taxation of the subsidiaries is: Profits R125,9 million (2004: R102,0 million); Losses Rnil (2004: R12,6 million).

**Denotes an operating division*

Shareholder information

at 30 November 2005

Shareholder analysis	**Number of shares (000)**	**% issued shares**	**Number of share-holders**
Portfolio size			
1 – 1 000	430	1,4	1 072
1 001 – 5 000	989	3,3	384
5 001 – 10 000	686	2,3	89
10 001 – 100 000	5 359	18,0	140
Over 100 000	22 292	75,0	52
Total**	29 756	100,0	1 737
Category			
Individuals	3 416	11,5	1 427
Financial institutions and pension funds	24 855	83,5	177
Banks and nominee companies	790	2,7	13
Other corporate bodies	695	2,3	120
Total**	29 756	100,0	1 737
Shareholder spread**			
Public	24 932	83,8	1 718
Non-public	4 824	16,2	19
Directors of the company and its subsidiaries	360	1,2	10
Associates of the above	85	0,3	8
Shareholders with an interest of 10% or more in the company	4 379	14,7	1
Total**	29 756	100,0	1 737
Major shareholders			
Old Mutual†	7 553	25,4	
Investec†	4 149	13,9	
Rand Merchant Bank†	3 925	13,2	
Standard Bank/Liberty Life†	2 208	7,4	
Nedbank group†	1 734	5,9	
Total	19 569	65,8**	

** A list of the shareholdings of senior management is available, on request, from the secretary*

***Excludes 2 507 828 shares repurchased by a subsidiary company*

† Includes assets managed on behalf of specific clients

Declaration by secretary

I hereby certify that the Company has lodged, with the Registrar of Companies, all such returns as are required of a public company, in terms of the Companies Act, No 61 of 1973, as amended, and that all such returns are true, correct and up to date.

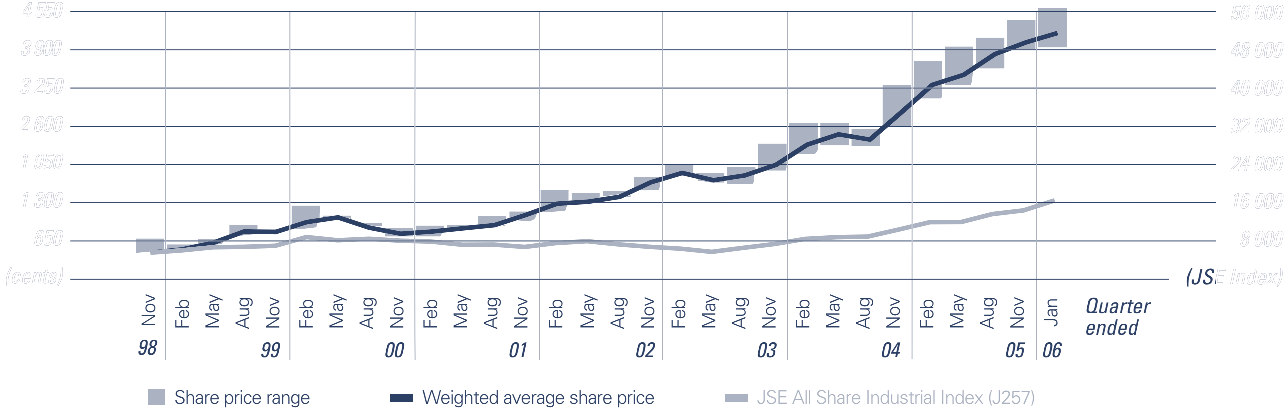
RGL Arnestad
Company secretary

26 January 2006

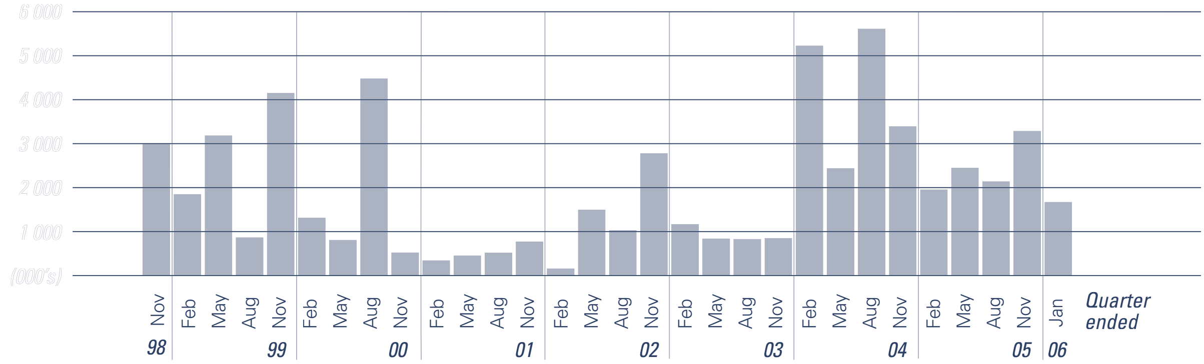
Share information

for the year ended 30 November 2005

Share price history



Volume traded on JSE



JSE statistics

at 30 November 2005

The following table sets out statistics of the JSE	**2005**	2004	2003	2002	2001	2000	1999
Market price (cents)	**3 985**	3 290	2 300	1 740	1 105	700	800
NAV per share (cents)*	**2 002**	1 720	1 563	1 390	1 187	1 012	883
Number of shares in issue (000)*	**29 756**	29 438	29 003	28 490	28 019	27 865	30 157
Market capitalisation (Rm)*	**1 186**	968	667	496	310	195	241
Price/earnings ratio (times)	**10,2**	8,6	6,4	6,6	6,3	4,7	6,0
All Share Industrial Index PE ratio	**13,3**	13,4	12,6	11,4	13,4	14,9	15,9
Dividend yield (%)	**3,4**	3,8	4,7	4,7	5,2	6,3	7,9
All Share Industrial Index dividend yield (%)	**2,2**	2,1	2,5	2,5	1,9	1,7	1,7

Annual trade in Hudaco shares

Number of transactions recorded	**2 919**	3 076	992	425	307	226	634
Volume of shares traded (000)	**9 923**	16 744	3 793	5 572	2 215	7 268	10 143
% of issued shares traded*	**33**	57	13	18	7	24	34
Value of shares traded (R000)	**369 207**	412 704	68 566	83 765	21 034	65 497	70 007

**Excludes 2 507 828 shares repurchased by a subsidiary company*

Notice of annual general meeting

Hudaco Industries Limited
Incorporated in the Republic of South Africa
(Registration number 1985/004617/06)
Share code HDC ISIN code ZAE000003273
("Hudaco" or "the Company")

Notice is hereby given that the twenty-second annual general meeting of shareholders of Hudaco Industries Limited will be held at Hudaco Park, 190 Barbara Road, Elandsfontein, Gauteng at 11:00 on Thursday 23 March 2006, for the following purposes:

1 To receive and adopt the annual financial statements for the year ended 30 November 2005.
2 To elect directors in place of the following who retire by rotation in terms of the company's articles of association. The retiring directors are eligible and offer themselves for re-election.
   2.1 PL Campbell
   2.2 JB Gibbon
   A brief CV giving details of directors standing for re-election can be found on page 6.
3 To ratify the appointment of any director to the board between the date of this notice and the annual general meeting as required in terms of the company's articles of association.
4 To place unissued shares, other than those held in reserve for the share incentive scheme, not exceeding 10% in number of the issued share capital of the company at the date of this meeting, under the control of the directors until the next annual general meeting, subject to the provisions of the Companies Act (Act 61 of 1973, as amended), the articles of association of the Company and requirements of the JSE Limited ("JSE").
5 To approve the remuneration of non-executive directors for the year ending 30 November 2006 on the following basis:

Type of Fee	Fee for the year ended 30 November 2005	Proposed fee for the year ending 30 November 2006
Group Board		
Chairman of the Board*	150 000	170 000
Board member	55 000	65 000
Audit and Risk Management Committee		
Chairman of the committee	30 000	40 000
Committee member	12 000	15 000
Remuneration Committee		
Committee member	12 000	15 000

***Includes membership of the audit and risk management and remuneration committees.**

Special business

Special resolution

6 To consider and, if deemed fit, to pass with or without modification, the following special resolution:
"RESOLVED THAT, subject to the Listings Requirements of the JSE, the directors of the Company be and are hereby authorised in their discretion to procure that the Company or subsidiaries of the Company acquire by purchase on the JSE ordinary shares issued by the Company provided that:

- the number of ordinary shares acquired in any one financial year shall not exceed 20% of the ordinary shares in issue at the date on which this resolution is passed;
- this authority shall lapse on the earlier of the date of the next annual general meeting of the company or the date 15 months after the date on which this resolution is passed;
- the price paid per ordinary share may not be greater than 10% above the weighted average of the market value of the ordinary shares for the five business days immediately preceding the date on which a purchase is made;
- the number of shares purchased by subsidiaries of the Company shall not exceed 10% in the aggregate of the number of issued shares in the company at the relevant times;
- the repurchase of securities will be effected through the main order book operated by the JSE trading system and done without any prior understanding or arrangement between the Company and the counter party;
- after such repurchase the Company will still comply with paragraphs 3.37 to 3.41 of the JSE Listings Requirements concerning shareholder spread requirements;
- the Company or its subsidiaries will not repurchase securities during a prohibited period as defined in paragraph 3.67 of the JSE Listings Requirements;
- when the Company has cumulatively repurchased 3% of the initial number of the relevant class of securities, and for each 3% in aggregate of the initial number of that class acquired thereafter, an announcement will be made;
- the Company only appoints one agent to effect any repurchase(s) on its behalf;
- the Company and its subsidiaries will be able to pay their debts in the ordinary course of business for a period of 12 months after the date of this notice;
- recognised and measured in accordance with the accounting policies used in the latest audited annual group financial statements, the assets of the Company and its subsidiaries will exceed the liabilities of the company and its subsidiaries for a period of 12 months after the date of this notice;
- the ordinary capital and reserves of the Company and its subsidiaries will be adequate for the purposes of the business

of the company and its subsidiaries for a period of 12 months after the date of this notice; and

- the working capital of the Company and its subsidiaries will be adequate for the purposes of the business of the company and its subsidiaries for a period of 12 months after the date of this notice".

Reason and effect

The reason for this special resolution is to authorise the directors, if they deem it appropriate in the interests of the Company, to procure that the Company or subsidiaries of the Company acquire or purchase ordinary shares issued by the Company subject to the restrictions contained in the above resolution.

The effect of this special resolution will be to authorise the directors of the Company to procure that the Company or subsidiaries of the Company acquire or purchase shares issued by the Company on the JSE.

At the present time the directors have no specific intention with regard to the utilisation of this authority which will only be used if the circumstances are appropriate. If the authority is exercised, the Company will ensure that the Company's sponsor has complied in writing with its responsibilities contained in Section 2.12 and Schedule 25 of the Listings Requirements of the JSE.

Additional disclosure in terms of Section 11.26 of the JSE Listings Requirements

The JSE Listings Requirements require the following disclosures which are contained elsewhere in the annual report of which this notice forms part:

- directors and management – page 6
- major shareholders of Hudaco – page 50
- directors' interests in securities – page 30
- share capital of the company – page 40.

Material changes

There have been no material changes in the financial or trading position of Hudaco and its subsidiaries between Hudaco's financial year-end and the date of this notice.

Litigation statement

The directors, whose names are given on page 6 of the annual report of which this notice forms part, are not aware of any legal or arbitration proceedings, including proceedings that are pending or threatened of which the company is aware except for the contingent liability noted in note 20 that may have or have in the previous 12 months had a material effect on the group's financial position.

Directors' responsibility statement

The directors, whose names are given on page 6 of the annual report, collectively and individually, accept full responsibility for the accuracy of the information pertaining to the Special Resolution and certify that to the best of their knowledge and belief there are no facts that have been omitted which would make any statement false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that this resolution contains all such information.

Voting and proxies

In order to more effectively record the votes and give effect to the intentions of shareholders, voting on all resolutions will be conducted by way of a poll. Any member entitled to attend and vote at a meeting of the Company may appoint a proxy to attend, speak and vote in his/her stead. A proxy need not be a member of the Company. For the convenience of registered members of the Company, a form of proxy is enclosed herewith.

The attached form of proxy is only to be completed by those shareholders who are:

- holding the Company's ordinary shares in certificated form; or
- are recorded on the electronic sub-register in "own name" dematerialised form.

Members who have dematerialised their shares through a Central Securities Depositary Participant ("CSDP") or broker and wish to attend the annual general meeting, must instruct their CSDP or broker to provide them with a Letter of Representation, or they must provide the CSDP or broker with their voting instruction in terms of the relevant custody agreement/mandate entered into between them and the CSDP or broker.

Completed forms must be returned to the transfer secretaries, Computershare Investor Services 2004 (Pty) Limited, Ground Floor, 70 Marshall Street, Johannesburg 2001 (PO Box 61051, Marshalltown 2107) to be received by not later than 24 hours before the annual general meeting (excluding Saturdays, Sundays and public holidays).

By order of the board.

RGL Arnestad
Company secretary

26 January 2006

Shareholders' diary

Financial year-end	30 November
Publication of financial results for the year	January
Declaration of final dividend	January
Annual report posted to shareholders	February
Annual general meeting	March
Payment of final dividend	March
Publication of interim results	July
Declaration of interim dividend	July
Payment of interim dividend	August

Hudaco Industries Limited

Company secretary

RGL Arnestad

Registered office and business address

Incorporated in the Republic of South Africa
Company registration number 1985/004617/06
Hudaco Park
190 Barbara Road
Elandsfontein 1406
Private Bag 13
Elandsfontein 1406
Tel (011) 345 8200
Fax (011) 392 2740
E-mail info@hudaco.co.za
Website www.hudaco.co.za

Transfer secretaries

Computershare Investor Services 2004 (Pty) Limited
70 Marshall Street
Johannesburg 2001
PO Box 61051
Marshalltown 2107

Group directory

Division	Business name	Nature of business	Address		
Bearings and Power Transmission products			190 Barbara Road Elandsfontein	Tel Fax E-mail	345 8000 974 7200 info@hudaco.co.za
	Bearings International	Distributor of bearings, seals and transmission products	190 Barbara Road Elandsfontein	Tel Fax E-mail	345 8000 974 7200 info@hudaco.co.za
Mechanical Power Transmission	ABES Technoseal	Distributor of oil and hydraulic seals	5 Tunney Road Elandsfontein	Tel Fax E-mail	974 8331 974 1786 dallman@abes.co.za
	Angus Hawken	Manufacturer of oil seals	13 Bodirelo Mogwase	Tel Fax	(01455) 8 2756 (01455) 8 2425
	Belting Supply Services	Distributor of power transmission and conveyor belting products and industrial hose	1 Guthrie Road Wadeville	Tel Fax E-mail	824 4504 824 3324 colin@belting.co.za
	Bestobell/ Mather & Platt	Distributor of fluid measurement control products and pumps	9 Covora Street Jet Park	Tel Fax E-mail	281 9370 397 3100 enquiries@bepbestobell.co.za
	Bosworth	Manufacturer of conveyor drive pulleys, forgings and rollings	Cnr Vereeniging/ Juyn Roads, Alrode	Tel Fax E-mail	864 1643 908 5728 pulleys@bosworth.co.za
	Ernest Lowe	Manufacturer and distributor of hydraulic and pneumatic equipment	6 Skew Road Boksburg North	Tel Fax E-mail	898 6600 918 3974 corporate@elco.co.za
	PHC Clutch	Distributor of clutch kits	Unit 6 Old Mutual Park Cnr Girder/Fred Droste Streets Benrose	Tel Fax E-mail	624 2631 624 2370 rhineval@iafrica.com
	Valard Bearings	Manufacture and repair of white metal bearings	53 Kelly Road Jet Park	Tel Fax E-mail	397 3450 397 4202 valard@iafrica.com
Electrical Power Transmission	Ampco	Manufacturer of industrial plugs and sockets	Ampco House 1262 Anvil Road Robertville Extension 12 Roodepoort	Tel Fax E-mail	474 9578 474 8748 info@ampco.co.za
	Bauer Geared Motors	Distributor of geared motors, frequency inverters and electric motors	72 Acacia corner Barbara Road Primrose	Tel Fax E-mail	828 9715 822 4135 gbauer@global.co.za
	Powermite	Distributor of electric cabling, plugs and other related products	92 Main Reef Road Technicon Roodepoort 1724	Tel Fax E-mail	760 1919 760 3099 powermite.jhb@global.co.za
	Varispeed	Specialist supplier of products that control, monitor and regulate the speed of standard AC motors	Unit 2 31 Indianapolis Street Kyalami Business Park Midrand	Tel Fax E-mail	466 0830 466 1007 drives@varispeed.co.za
Powered products	Deutz Dieselpower	Distributor of Deutz diesel engines and provider of after-market services	5 Tunney Road Elandsfontein	Tel Fax E-mail	923 0600 923 0611 info@deutz.co.za
	Rutherford	Distributor of power tools, outboard motors, survey equipment and rivets	77 Smits Street Industries West	Tel Fax E-mail	878 2600 873 1689 exesec@rutherford.co.za
Security equipment	Elvey Security Technologies	Distributor of intruder detection, closed-circuit television, access control and fibre-optic equipment	65 Julbert Road Benrose	Tel Fax E-mail	401 6700 401 6753 sales@elvey.co.za
	Elvey Security Technologies (UK)	Distributor of intruder detection, closed-circuit television and access control equipment	Unit 1, Wharton Street Nechells, Birmingham B7 5TR U.K.	Tel Fax E-mail	(0121) 326 6616 (0121) 327 1881 sales@elveysecurity.co.uk
Group head office	Hudaco Industries Hudaco Trading		190 Barbara Road Elandsfontein	Tel Fax E-mail Website	345 8200 392 2740 info@hudaco.co.za www.hudaco.co.za

**Area code 011 unless otherwise stated*

Executives

Graham Gardiner	Divisional Chief Executive		
Gilbert da Silva	Chief Executive – Mechanical Power Transmission		
Graham Dunford	Chief Executive – Electrical Power Transmission		
Brian Constancon	Financial Director		
Tony Patten	Chief Executive	Alan Ross	Logistics Director
Danie Louw	Regional Sales Director	Adrian Vorster	Transmission Director
Ian Robertson	Bearings Director	Robert Southey	Financial Manager
David Allman	Chief Executive		
Chris de Kock	Financial Director		
Jayne Kyte	Director		
Hannes du Plessis	General Manager		
Colin Briggs	Chief Executive		
Mark Knight	Financial Director		
Piet Swanepoel	Director		
Andy Vermaak	Chief Executive		
Peter Wagstaff	General Manager		
Gavin Glass	Financial Director		
Mark Tarboton	Chief Executive		
Jo Paul	Financial Manager		
Douglas Salmon	Chief Executive		
Jonina Fourie	Financial Director		
Manny Vieira	Sales Director		
Danie Venter	Chief Executive		
Enoch Nleya	Financial Manager		
Jopie Oosthuizen	General Manager		
Charlie Braun	Managing Director		
Mark Oates	General Manager		
Rika Wessels	Financial Manager		
Siegfried Roediger	Chief Executive		
Mike Allnutt	Sales Director		
Gawie Beukman	Financial Manager		
Ronnie King	Chief Executive		
Erika van de Velde	Financial Manager		
Leon Coetzer	Chief Executive		
Burtie Roberts	Financial Director		
Rowan Michelson	Sales Director		
Bob Cameron-Smith	Chief Executive	Les Trollip	Financial Director
Bhoopendra Dulabh	Director		
Mick Spooner	Director: Marine		
Jack Edery	Chief Executive		
Bev Scott	Financial Director		
Dave Waywell	Commercial Director		
Jonathan Tyler	Chief Executive		
Nigel Lloyd	Financial Director		
Stephen Connelly	Group Chief Executive	Andrew Wallis	Group Treasurer
Peter Poole	Group Financial Director	Gary Walters	Projects
Richard Arnestad	Group Secretary	Peter Wilgenbus	Group Risk and Internal Audit
Cassie Lamprecht	Group Accountant		

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Hudaco

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