

# AUDITED PRELIMINARY REPORT FOR THE YEAR ENDED 30 NOVEMBER 2010

## ENGINEERING CONSUMABLES

### Bearings



Distributor of bearings, seals and transmission products.

### Diesel engines and spares

**DEUTZ DIESELPOWER** Distributor of Deutz diesel engines and Deutz spare parts and the provision of service support.

### Power transmission



Distributor of special solid and hollow round steel.



Distributor of specialised thermoplastic pipes and fittings.



Distributor of geared motors, frequency inverters and electric motors.



Distributor of conveyer belting, industrial hose, fluid sealing and process control products.



Manufacturer of conveyor drive pulleys, forgings and rollings.



Distributor of hydraulic and pneumatic equipment.



Distributor of filters for earthmoving equipment and industrial hose.



Distributor of electrical cabling, plugs, sockets, electric feeder systems and crane materials.



Distributor of controllers, monitors and regulators of the speed of standard AC motors.

## CONSUMER RELATED PRODUCTS

### Power tools



Distributor of power tools and marine engines.

### Security equipment

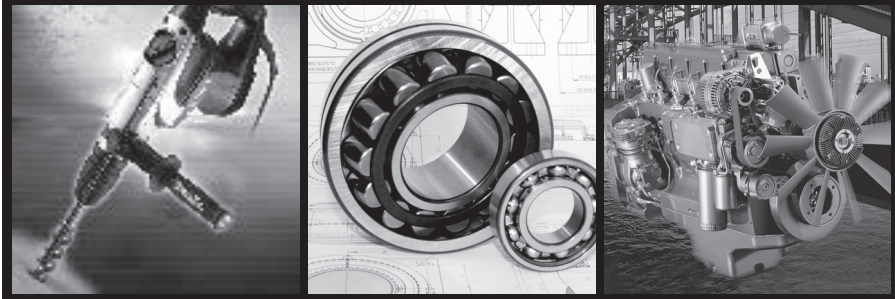


Distributor of intruder detection, access control and related CCTV equipment and fibre-optics.

### Automotive



Distributor of clutch kits, automotive ignition leads and oil and hydraulic seals.



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

### Results

We are pleased to have been able to maintain performance substantially at the 2009 level. Sales of R2,5 billion for the year are marginally up on 2009.

Sales in Hudaco are influenced by two variables: changes in volumes of product sold and changes in prices charged, which are closely linked to the Rand exchange rate because Hudaco is predominately an importer. This year volume sales recovered from the very sharp decline experienced in the 2009 financial year but the recovery was not smooth. There were one or two occasions, notably during the World Cup soccer tournament, when we thought there was a danger of our markets sliding back into recession. The volume sales recovery was largely offset by the decrease in prices resulting from Rand appreciation of about 15% this year. The strong Rand also adversely affected revenues of our customers in the mining industry and we saw little in the way of expansionary activity from that sector.

This year we implemented IFRS 8: Segment Reporting for the first time. In response, Hudaco's businesses have been divided into two primary segments serving distinct markets. Our bearings and power transmission and diesel engine businesses supply engineering consumables mainly to mining and manufacturing customers whilst the security, power tool, marine engine and automotive businesses supply products into markets influenced to a great degree by consumer spending. As a result, Hudaco's new segment information now differentiates between the **Engineering Consumables** and **Consumer Related Products** reportable segments. We expect that these new groupings will prove to be more meaningful for shareholders and analysts. Before taking into account acquisitions, sales in the **Engineering Consumables** segment were R1 685 million, down 1,5% on last year whilst sales in the **Consumer Related Products** segment were R716 million, down 0,6% on last year.

The acquisition of Filter & Hose Solutions (FHS), a distributor of quality branded filter products used in open cast mining and other earthmoving equipment in South and southern Africa, was effective on 1 September 2010. The final purchase consideration, subject to a maximum of R350 million, will be determined based on the average profit after tax for the three years ending 31 August 2013 and will be settled out of Hudaco's available cash resources. The initial outlay was R182 million.

The group gross margin increased slightly to 40,4% whilst expenses, held to a zero increase in 2009, rose 5,6% on a like for like basis. FHS, consolidated for the last three months of our financial year, made a useful contribution to operating profit. Interest income on the group's substantial cash balances (derived from working capital reductions last year) added R12 million more than last year to profit before tax.

Headline earnings per share of 800 cents are essentially the same as last year. The group's dividend policy is to pay about 40% of headline earnings annually. The final dividend of 235 cents per share brings total dividends declared in respect of the 2010 financial year to 350 cents, the same as last year and slightly higher than 40% of earnings.

The financial position is healthy. Working capital (inventories, receivables and payables) at R666 million is R39 million above last year's level, nearly all of which is due to FHS. The group had R262 million (last year: R335 million) net cash on hand at year end, notwithstanding the initial cash outlay of R182 million on FHS.

### Acquisitions

The renewed focus on acquisitions has proved successful. In addition to the FHS acquisition during the year, Midrand Special Steels and Pentagon Distribution have been acquired since year end.

The Global Communications acquisition, which was announced on 19 November 2010, remains subject to suspensive conditions.

### Prospects

Most South African economic indicators have now turned upwards and it appears that a weak recovery from the international economic crisis is underway. World economies, upon which South Africa depends as markets for exports, are split into two camps. The old established economies of Europe, Japan and the USA are recovering thanks only to government intervention. The road to a full economic recovery in these areas is unlikely to be smooth and there will be inevitable economic shocks. How they are dealt with will determine whether those economies continue to recover or slip back into recession. Never, emerging economies are already growing strongly and underpinning the demand for commodities. Hopefully, South African miners will be able to take advantage of the increased demand and higher prices this time round.

Rand strength deprives our exporters of much of the benefit of higher commodity prices. For Hudaco, it has meant that higher volume sales this year were offset by lower prices and therefore did not translate into higher sales and earnings. 2011 may see more of the same – hopefully not to the same extent.

Firmer trading conditions as the 2010 financial year came to a close and signs that the mining industry is starting to invest once more gives us confidence that volume sales will increase again in 2011. This will be supplemented by contributions from newly acquired businesses, particularly FHS, which will be consolidated for the full twelve months of 2011. As long as the Rand does not strengthen further this should translate into an increase in earnings in 2011.

### Declaration of final dividend number 48

Ordinary dividend number 48 of R2,35 per share is declared payable on Monday, 14 March 2011 to ordinary shareholders recorded in the register at the close of business on Friday, 11 March 2011. The timetable for the payment of the dividend is as follows:

Last day to trade <i>cum</i> dividend	Friday, 4 March 2011
Trading ex dividend commences	Monday, 7 March 2011
Record date	Friday, 11 March 2011
Payment date	Monday, 14 March 2011

Share certificates may not be dematerialised or rematerialised between Monday, 7 March 2011 and Friday, 11 March 2011, both days inclusive. The certificated register will be closed for this period.

### Results presentation and annual general meeting

Hudaco will host presentations on the financial results in Johannesburg and Cape Town on Friday, 28 January and Monday, 31 January 2011 respectively. Anyone wishing to attend should contact Robin Benson at 011 345 8214.

The slides, which form part of the presentation, will be available on the company's website on Tuesday, 1 February 2011.

The company's 26th annual general meeting will be held in the boardroom, at Hudaco's new corporate offices situated at Greenstone Hill Office Park, Building 9, Emerald Boulevard, Greenstone Hill, Edenvale at 11:00 on Thursday, 24 March 2011. Further details on the company's annual general meeting will be included in the annual report that will be published on [www.hudaco.co.za](http://www.hudaco.co.za) during the first week of February 2011 and will be posted to shareholders during February 2011.

### Approval of financial statements

The financial statements have been approved by the board and abridged for purposes of this report. Grant Thornton has signed an unqualified audit opinion on the annual financial statements. Both the financial statements and the auditors' opinion are available for inspection at the company's registered office.

For and on behalf of the board

**RT Vice**

*Independent non-executive chairman*

27 January 2011

**SJ Connelly**

*Chief executive*

- **Headline earnings** per share maintained at **R8,00**
- **Ordinary dividends** maintained at **R3,50** per share
- Acquisition strategy gains momentum
- Well positioned for economic upturn

### Group statement of financial position

R million	30 Nov 2010	30 Nov 2009
<b>ASSETS</b>		
<b>Non-current assets</b>	<b>2 700</b>	2 418
Property, plant and equipment	131	91
Investment in preference shares	2 181	2 181
Goodwill	331	117
Intangible assets	34	18
Deferred taxation	23	11
<b>Current assets</b>	<b>1 348</b>	1 288
Inventories	663	597
Trade and other receivables	423	356
Cash and cash equivalents	262	335
<b>TOTAL ASSETS</b>	<b>4 048</b>	3 706
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>	<b>1 314</b>	1 184
Interest of the shareholders of the group	1 287	1 150
Non-controlling interest	27	34
<b>Non-current liabilities</b>	<b>2 280</b>	2 186
Subordinated debenture	2 181	2 181
Due to vendors – interest bearing	99	5
<b>Current liabilities</b>	<b>454</b>	336
Trade and other payables	420	326
Due to vendors – interest bearing	28	
Taxation	6	10
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>4 048</b>	3 706

### Group statement of comprehensive income

R million	Year ended 30 Nov 2010	% change	Year ended 30 Nov 2009
<b>Turnover</b>	<b>2 458</b>	2	2 420
– Ongoing operations	2 393	(1)	2 420
– Operations acquired in 2010	65		
Cost of sales	1 464		1 469
<b>Gross profit</b>	<b>994</b>	5	951
Operating expenses	694		644
<b>Operating profit</b>	<b>300</b>	(2)	307
– Ongoing operations	286		307
– Operations acquired in 2010	14		
Impairment of goodwill and intangible assets	(22)		(8)
Net surplus on sale of business			1
<b>Profit before dividends received, interest received and finance costs</b>	<b>278</b>		300
Dividends received on preference shares	201		202
Interest received	17		5
Finance costs	(235)		(235)
<b>Profit before taxation</b>	<b>261</b>		272
Taxation	24		24
<b>PROFIT FOR THE YEAR</b>	<b>237</b>		248
<b>Other comprehensive income</b>			
Movement on fair value of cash flow hedges			(1)
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>237</b>	(4)	247
Profit attributable to:			
Shareholders of the group	234		243
Non-controlling shareholders	3		5
	237		248
Total comprehensive income attributable to:			
Shareholders of the group	234		242
Non-controlling shareholders	3		5
	237		247
<b>Headline earnings per share (cents)</b>	<b>800</b>		801
<b>Basic earnings per share (cents)</b>	<b>745</b>		784
Diluted headline earnings per share (cents)	784		785
Diluted basic earnings per share (cents)	730		769
<b>Reconciliation to headline earnings</b>			
Profit attributable to shareholders of the group	234		243
Adjusted for:			
– Impairment of goodwill and intangible assets	22		9
– Surplus on disposal of business	(2)		(1)
– Tax effect	(2)		(1)
– Non-controlling interest	(2)		(1)
<b>Headline earnings</b>	<b>252</b>		249
<b>Dividends</b>			
– per share (cents)	350		350
– amount (Rm)	110		109
<b>Shares in issue</b>	<b>31 540</b>		31 240
– total (000)	34 048		33 748
– held by subsidiary company (000)	(2 508)		(2 508)
<b>Weighted average shares in issue</b>			
– basic (000)	31 466		31 023
– diluted (000)	32 109		31 644

### Segment information

	Turnover		Operating profit		Average net operating assets	
	Year ended 30 Nov 2010	% change	Year ended 30 Nov 2009	Year ended 30 Nov 2010	% change	Year ended 30 Nov 2009
R million						
Engineering consumables	1 750	2	1 711	206	(8)	225
– Ongoing operations	1 685	(2)	1 711	192	(15)	225
– Operations acquired in 2010	65			14		
Consumer related products	716	(1)	720	117	8	108
Total operating segments	2 466	1	2 431	323	(3)	333
Head office, shared services and eliminations	(8)		(11)	(23)		(26)
<b>TOTAL GROUP</b>	<b>2 458</b>	2	2 420	<b>300</b>	(2)	307

### Group statement of cash flows

R million	Year ended 30 Nov 2010	Year ended 30 Nov 2009
Cash generated from trading	327	333
Decrease in working capital	12	166
<b>Cash generated from operations</b>	<b>339</b>	499
Finance costs	(234)	(235)
Taxation paid	(49)	(63)
<b>Net cash from operating activities</b>	<b>56</b>	201
Net investment in new operations	(184)	(7)
Net investment in property, plant and equipment	(50)	(17)
Discontinuation of business		7
Dividends and interest received	218	203
<b>Net cash from investing activities</b>	<b>(16)</b>	186
Proceeds from issue of shares	7	8
Dividends paid	(120)	(129)
<b>Net cash from financing activities</b>	<b>(113)</b>	(121)
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(73)</b>	266

### Group statement of changes in equity

R million	Year ended 30 Nov 2010	Year ended 30 Nov 2009
<b>Equity at the beginning of the year</b>	<b>1 184</b>	1 055
Comprehensive income for the year	237	247
Increase in equity compensation reserve	5	3
Issue of shares	7	8
Dividends	(121)	(129)
<b>Equity at the end of the year</b>	<b>1 314</b>	1 184

### Supplementary information

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards, the JSE Listing requirements and in the manner required by the Companies Act of South Africa. IAS 1 (revised), IFRS 3 (revised) and IFRS 8 have been adopted for the first time. The comparative figures in the segment information have been restated as a result of the adoption of IFRS 8. Except for these, the principal accounting policies set out in the group's 2009 annual report have been consistently applied throughout the current year.

	30 Nov 2010	30 Nov 2009
Average net operating assets (NOA) (Rm)	948	1 015
Operating profit margin (%)	12,2	12,7
Average NOA turn (times)	2,6	2,4
Return on average NOA (%)	31,6	30,2
Net asset value per share (cents)	4 080	3 681

### Operating profit has been determined after taking into account the following charges (Rm)

– Depreciation 18 18

– Amortisation of intangible assets 4 4

### Capital expenditure

– Incurred during the period 52 20

– Authorised but not contracted for 31 71

– Already contracted for 28 22

### Commitments and contingencies

– Operating lease commitments on properties 116 103

– Cost of businesses acquired after year end

– Minimum 111

– Maximum potential earn out payments 323

### Acquisition of new businesses

The group acquired 100% of FHS on 1 September 2010 for a consideration based on future profits and which is estimated to be R306 million.

The results since acquisition date included in consolidated results for the year are as follows:

Turnover	65
Profit after tax	9

If the acquisition had been concluded at the beginning of the financial year the consolidated results for the group would have been as follows:

Turnover	2 618
Profit after tax	241

Since year end the group also acquired the businesses of Midrand Special Steels, Global Communications (subject to suspensive conditions) and Pentagon Distribution, which in aggregate would have contributed as follows to the group results had the acquisitions been concluded at the beginning of the financial year:

Turnover	314
Profit after tax	21

### HUDACO INDUSTRIES LIMITED

Incorporated in the Republic of South Africa

Registration number 1985/004617/06

ISE Code: HDC

ISIN: ZAE000003273

### Transfer secretaries:

Computershare Investor Services (Pty) Limited

PO Box 61051, Marshalltown 2107

### Registered office:

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Tel +27 11 345 8200 Fax +27 11 392 2740

E-mail [info@hudaco.co.za](mailto:info@hudaco.co.za)

### Directors:

RT Vice (chairman)\*, SJ Connelly (chief executive)

CV Amoils (financial director), GR Dunford

GE Gardiner, JB Gibbon\*, YKN Molefi\*

CWN Molope\*, SG Morris\*

\* Independent non-executive

### Group secretary:

R Wolmarans

### Sponsor:

Nedbank Capital