

## Unaudited Interim Group Results

for the six months ended 31 May 2007

- **HEPS up 44% to R2,55**
- **Interim dividend increased by 30% to 65c per share**
- **R100 million special dividend (R3,30 per share)**



**SJ Connelly** (Chief executive)

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

## Results

Sales of R993 million for the six months are up 25% on the comparable period last year whilst operating profit of R115 million is up 44%.

Trading conditions in the Bearings and Power Transmission products division were considerably better in the first half of 2007. The Rand's weakness in the second half of 2006 had made it possible to increase prices for the first time in many years and the benefit flowed into these first half results. Furthermore, the up-tick in project enquiries from mines and manufacturers in the second half of last year translated into orders this year. The division increased sales 26% but because overheads rose at a slower rate, it benefited from operational leverage and grew operating profit by 77%, an excellent achievement.

The Powered products division had mixed fortunes. Demand for diesel engines and spares was strong and also came with improved operational leverage. Increased competition in the power tool market resulted in a lower gross profit margin. The division increased sales 25% and operating profit 23%.

The Security equipment division with exposure to building activity and consumer spending continued to enjoy good trading conditions in South Africa this half year. The UK operation posted disappointing results but operational and product changes bode well for a turnaround. The division increased sales 23% and operating profit 22%.

Net interest received of R6 million (last year R2.5 million) and an unchanged tax rate assisted the group to post a 44% increase in headline earnings per share to 255 cents. The interim dividend has been increased by 30% to 65 cents (last year - 50 cents).

The balance sheet is healthy. Although working capital at R495 million is R70 million above 2006 year end levels, a large part of the increase is due to stocking up to cope with increased volume sales. The group traditionally also stocks up at the half year in anticipation of the busier trading in the second half of the year. Net cash on hand at the half year is R193 million, down R45 million from the 2006 financial year end.

## BEE transaction

The company is in the process of finalising negotiations for the introduction of a significant BEE shareholding which, if successfully concluded, may have a material effect on the price of the company's securities. Accordingly, shareholders are advised to exercise caution when dealing in the company's securities until a full announcement is made.

## Special dividend

The group remains committed to growth by acquisition but limited opportunities and high asking prices have resulted in no meaningful successes since 2005 although the group has a small number of currently active opportunities which may yet turn into acquisitions. Taking these and the short term cash bridging requirements of our planned BEE transaction into account, the group still has excess capital for its near and medium term requirements. The board has therefore decided to pay a special dividend amounting to R100 million (R3,30 per share).

Notice is hereby given that special dividend No.41 of R3,30 per share has been declared. The last day to trade in order to participate in the dividend ("cum" the dividend), will be Friday, 7 December 2007. The shares will commence trading "ex" the dividend from the commencement of business on Monday, 10 December 2007 and the record date will be Friday, 14 December 2007. The dividend will be paid on Tuesday, 18 December 2007. Share certificates may not be dematerialised or rematerialised between Monday, 10 December 2007 and Friday, 14 December 2007, both days inclusive.

## Prospects

The group has good prospects. The medium-term outlook for the economy continues to be positive with investment, both public and private, expected to replace consumption as the engine of growth. There is evidence that spending on infrastructure and additional power generation is starting. Furthermore, high commodity prices support investment in mining projects if regulatory and infrastructural impediments can be overcome. A surge in investment in these areas will certainly benefit local manufacturers. Growth in the consumer side of the economy appears to be weakening but with fixed investment comes job creation which should support activity in this sector.

Headline earnings per share (before any special changes - IFRS 2 - which may arise from the proposed BEE transaction) for the full year are expected to be well ahead of last year but the rate of growth in the second half is unlikely to match the 44% growth of the first half.

## Dividend

Notice is hereby given that interim dividend No. 40 of 65 cents per share has been declared in respect of the six months ended 31 May 2007. The last day to trade in order to participate in the dividend ("cum" the dividend), will be Friday, 5 October 2007. The shares will commence trading "ex" the dividend from the commencement of business on Monday 8 October 2007 and the record date will be Friday, 12 October 2007. The dividend will be paid on Monday, 15 October 2007. Share certificates may not be dematerialised or rematerialised between Monday, 8 October 2007 and Friday, 12 October 2007 both days inclusive.

For and on behalf of the Board

**PL Campbell** (Chairman)

**SJ Connelly** (Chief executive)

28 June 2007

## Income statement

R million	Six months ended			Year ended
	31 May 2007	% change	31 May 2006	30 Nov 2006*
Turnover	992,6	25	792,8	1 837,8
Cost of sales	628,4		490,0	1 140,8
Gross profit	364,2		302,8	697,0
Operating expenses	248,8		222,4	462,5
Operating profit	115,4	44	80,4	234,5
Impairment of goodwill				(9,6)
Profit before interest	115,4		80,4	224,9
Net finance revenue	6,4		2,5	7,1
Profit before taxation	121,8		82,9	232,0
Taxation	40,9		28,2	76,3
Profit after taxation	80,9	48	54,7	155,7
Attributable to shareholders of the group	76,7	45	52,7	149,9
Attributable to minorities	4,2		2,0	5,8
	80,9		54,7	155,7
Headline earnings per share (cents)	255,1	44	176,9	532,5
Basic earnings per share (cents)	255,1		176,9	501,7
Diluted headline earnings per share (cents)	248,6		172,0	519,0
Diluted earnings per share (cents)	248,6		172,0	488,9
Reconciliation to headline earnings				
Profit attributable to shareholders	76,7		52,7	149,9
Adjusted for:				
– Surplus on disposal of plant and equipment after taxation				(0,4)
– Impairment of goodwill				9,6
Headline earnings	76,7	45	52,7	159,1
Dividends				
– Per share (cents)	65,0	30	50,0	190,0
– Amount (Rm)	19,7		14,9	56,9
Shares in issue	30 250		29 891	29 993
– Total (000)	32 758		32 399	32 501
– Held by subsidiary company (000)	(2 508)		(2 508)	(2 508)
Weighted average shares in issue				
– Basic (000)	30 047		29 783	29 870
– Diluted (000)	30 834		30 636	30 652

## Cash flow statement

R million	Year ended		
	Six months ended 31 May 2007	31 May 2006	30 Nov 2006*
Cash generated from trading	123,6	87,7	248,5
Applied to working capital	(68,3)	(56,1)	(62,6)
Cash generated from operating activities	55,3	31,6	185,9
Net interest received	6,4	2,5	8,1
Taxation paid	(52,7)	(32,7)	(64,9)
Cash flow from operations	9,0	1,4	129,1
Dividends paid	(42,0)	(36,3)	(54,2)
NET CASH APPLIED	(33,0)	(34,9)	74,9
Investment in new operations – net	(8,0)	(6,6)	(11,3)
Investment in property, plant and equipment – net	(8,6)	(8,6)	(15,8)
NET CASH INVESTED	(16,6)	(15,2)	(27,1)
Cash utilised	(49,6)	(50,1)	47,8
Shareholder funding	4,7	1,7	2,9
DECREASE IN NET CASH	(44,9)	(48,4)	50,7

## Statement of changes in equity

R million	Year ended		
	Six months ended 31 May 2007	31 May 2006	30 Nov 2006*
Equity at beginning of period	728,4	611,9	611,9
Difference on prior year adjustment		1,9	
Attributable profit for the period	76,7	52,7	149,9
Increase in equity compensation reserve	2,2	0,8	3,0
Deferred gain on hedging instruments	1,3	2,6	0,2
Gain on translation of foreign entities	0,5	1,8	5,9
Share issues	4,7	1,7	2,9
Dividends	(42,0)	(30,4)	(45,4)
Equity at the end of the period	771,8	643,0	728,4

## Balance sheet

R million	31 May 2007	31 May 2006	30 Nov 2006*
ASSETS			
Non-current assets	127,6	129,7	125,3
Property, plant and equipment	69,5	65,7	66,9
Deferred taxation – net	0,9		1,2
Goodwill	57,2	64,0	57,2
Current assets	1 029,2	871,7	1 095,0
Inventories	517,3	407,3	451,9
Accounts receivable	318,4	280,4	354,7
Bank call deposits and balances	193,5	184,0	288,4
TOTAL ASSETS	1 156,8	1 001,4	1 220,3
EQUITY AND LIABILITIES			
Equity	797,2	662,9	749,9
Shareholders' equity	771,8	643,0	728,4
Minority interest	25,4	19,9	21,5
Non-current liabilities		10,1	6,3
Deferred taxation – net		0,2	
Due to vendors – interest bearing		9,9	6,3
Current liabilities	359,6	328,4	464,1
Accounts payable	340,7	263,7	381,7
Interest bearing debt		50,0	50,0
Due to vendors – interest bearing	6,6	7,0	8,0
Taxation	12,3	7,7	24,4
TOTAL EQUITY AND LIABILITIES	1 156,8	1 001,4	1 220,3

## Supplementary information

These results were prepared in terms of IAS 34, applying accounting policies which conform with International Financial Reporting Standards (IFRS) which are consistent with those applied in the previous financial year.

	31 May 2007	31 May 2006	30 Nov 2006*
Average net operating assets (Rm)			
	584,7	530,5	545,4
Operating profit margin (%)	11,6	10,1	12,7
Average NOA turn (times – annualised)	3,4	3,0	3,4
Return on average NOA (%) – annualised	39,5	30,3	42,9
Interest covered by operating profit (times)	n/a	n/a	n/a
Gearing – net (%)	nil	nil	nil
Net asset value per share (cents)	2 551	2 151	2 429
Capital expenditure			
– Spent during the period (Rm)	10,6	9,2	18,1
– Budgeted for second half of the year (Rm)	16,0	7,0	
Operating lease commitments – property (Rm)	50,4	48,0	36,9
Net cash comprises (Rm)	193,5	134,0	238,4
– Bank call deposits and balances	193,5	184,0	288,4
– Interest bearing debt		(50,0)	(50,0)

## Segment analysis

	Turnover				Operating profit				Average net operating assets		
	31 May 2007	% change	31 May 2006	30 Nov 2006*	31 May 2007	% change	31 May 2006	30 Nov 2006*	31 May 2007	31 May 2006	30 Nov 2006*
R million											
Bearings and power transmission products	<b>569,5</b>	26	453,1	1 049,2	<b>61,2</b>	77	34,6	116,4	<b>425,9</b>	389,9	387,2
Powered products	<b>250,7</b>	25	199,9	477,0	<b>45,5</b>	23	36,9	98,5	<b>95,7</b>	78,2	79,4
Security equipment	<b>172,6</b>	23	139,9	312,6	<b>18,9</b>	22	15,5	35,8	<b>79,0</b>	75,3	77,1
Internal/head office	<b>(0,2)</b>		(0,1)	(1,0)	<b>(10,2)</b>		(6,6)	(16,2)	<b>(15,9)</b>	(12,9)	(1,7)
Total Group	<b>992,6</b>	25	792,8	1 837,8	<b>115,4</b>	44	80,4	234,5	<b>584,7</b>	530,5	545,4

\*Audited

## Bearings and power transmission products



Distributor of oil and hydraulic seals.



Distributor of bearings, seals and transmission products.



Distributor of power transmission and conveyor belting products and industrial hose.



Manufacturer of conveyor drive pulleys.



Manufacturer and distributor of hydraulic and pneumatic equipment.



Distributor of clutch kits.



Distributor of electrical cabling, plugs and other related products.



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

## Powered products

### DEUTZ DIESELPPOWER

Distributor of Deutz diesel engines and provider of after-market services.



Distributor of power tools, outboard motors, survey equipment and rivets.

## Security equipment



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

### Transfer secretaries

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### Registered office

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### Directors

PL Campbell# (Chairman) SJ Connelly (Chief Executive) GE Gardiner  
JB Gibbon# YKN Molefi# PM Poole RT Vice#

# Independent non-executive

### Secretary

RGL Arnestad