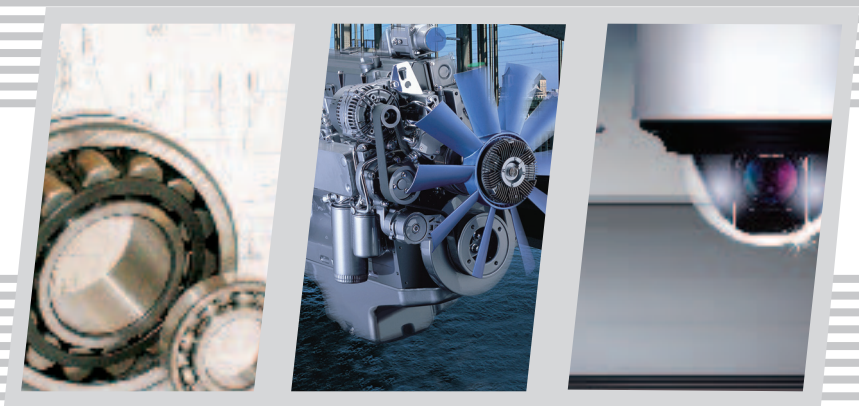


Hudaco



UNAUDITED INTERIM GROUP RESULTS
FOR THE SIX MONTHS ENDED 31 MAY 2010

Hudaco Industries is a South African group specialising in the importation and distribution of selected high quality engineered products in the southern African region. Hudaco businesses serve markets that fall into two primary categories. The bearings and power transmission and diesel engine businesses supply engineering consumables mainly to mining and manufacturing customers whilst the security, power tool and automotive aftermarket businesses supply products into markets reliant on consumer spending.

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, technical advice, application and installation training and troubleshooting, combined with ready availability at a fair price. The group has a network of specialised branches and independent distributors throughout southern Africa to ensure product availability to its customers.

With the exception of Deutz Dieselpower, in which Deutz AG has a 30% share, all Hudaco businesses are 15% owned directly by BEE shareholders.



“Value-added distribution – our core competency”

- **Headline earnings flat at R107m**
- **Interim dividend maintained at R1,15 per share**
- **Acquisition of Filter and Hose Solutions announced**

Results

Hudaco is a South African group that imports and distributes mechanical and electrical consumable products. Its customers are mainly within the southern African manufacturing, mining, construction, automotive aftermarket and security industries.

Achieving flat earnings in the first half of 2010 is considered a satisfactory result.

During the six months under review, volume sales were higher than 2009 but this improvement was more than offset by the decrease in prices resulting from Rand appreciation of about 20%.

Rand sales in Hudaco are influenced by two variables: changes in volumes of product sold and changes in prices charged. The latter is closely linked to the Rand exchange rate because Hudaco is predominantly an importer.

From the beginning of the 2010 financial year until April 2010 volume sales in all businesses showed pleasing signs of recovery from the very depressed conditions prevailing during 2009. However in May 2010 (and continuing into June and July) sales declined sharply.

Hudaco businesses serve markets that fall into two primary categories. The 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 aftermarket businesses supply products into markets reliant on consumer spending. In implementing IFRS 8: Segment Reporting, the new segment report now differentiates between the Engineering Consumables and Consumer Related Products segments of Hudaco's business. We expect that these new groupings will prove to be meaningful for shareholders and analysts. Sales in the Engineering Consumables segment were R785 million whilst sales in the Consumer Related Products segment were R335 million.

The group gross profit margin at 40% is up 1,7% on last year; a deliberate strategy to counter the operating margin squeeze caused by the combination of falling Rand sales resulting from currency appreciation and increasing costs driven by local inflation. Operating expenses are up only 3,3% on 2009.

Group operating profit declined by 9,1% to R120 million with an operating margin to sales of 10,8% (last year 11,2%). Headline and basic earnings per share of 341 cents are almost the same as last year.

The interim dividend has been maintained at last year's R1,15 per share.

The balance sheet is healthy. Working capital (inventories, receivables and payables) at R625 million is at the same level as November 2009. Total inventories are also the same as at 2009 year-end and are in line with current trading levels. The group had R363 million cash on hand at May 2010.

Acquisition of Filter and Hose Solutions (Pty) Limited (FHS)

On 22 June 2010 Hudaco announced the acquisition of FHS subject to certain suspensive conditions, including a due diligence which is underway. FHS imports, purchases and distributes quality branded filter products used in open cast mining and other earthmoving equipment in South and southern Africa. Main brands include Donaldson filtration products and Malcorp industrial hose. Based in Boksburg, in Gauteng, the business employs 110 people and generates sales of R220 million per annum. The final purchase consideration will be a multiple of the average profit after tax (but before interest received) of FHS for the three years ending 31 August 2013, subject to a maximum consideration of R350 million, to be settled out of Hudaco's available cash resources. For example if the business grows profits at 12% per annum, which is possible but not assured, the total consideration will be R272 million.

The acquisition, effective 1 September 2010, is expected to make a positive contribution to Hudaco's earnings in 2011.

Prospects

Growing our business in the current economic environment is a frustrating challenge. A lack of growth in our main customer base, mining and manufacturing, makes it difficult, if not impossible, to grow our existing businesses. Changes in market shares in our product range happen very slowly given customer loyalty to brands, so growth from effort in that direction is often not immediately apparent. Earnings growth in a weak economy must come from acquisitions and FHS represents a welcome addition to group activities this year.

The unexpected sharp sales decline in May 2010 which has continued into June and July, makes it difficult to predict the group's earnings performance for the full financial year. It is too early to tell whether this sudden slump is due to temporary lower economic activity during the carnival atmosphere of the World Cup or the beginnings of another recession (a so-called double dip). If the current weakness in sales persists it will be hard to achieve earnings growth this year.

However, just as the group's reliance on GDP spending shielded it from the full impact of the recession in 2009, so the group will remain strong through the current second round of uncertainty in world and local markets. Our longer-term view is that a meaningful resumption in broad based economic growth in South Africa is unlikely before the second half of 2011.

Directorate

The board is pleased to announce that Graham Dunford, who served as alternate director to Graham Gardiner on the Hudaco Industries board since January 2009, has been appointed as executive director with effect from 15 July 2010. Graham Dunford is chief executive of the bearings and power transmission businesses within the Engineering Consumables segment.

Declaration of interim dividend number 47

Interim dividend number 47 of 115 cents per share is declared payable on Monday, 23 August 2010 to ordinary shareholders recorded in the register at the close of business on Friday, 20 August 2010. The timetable for the payment of the dividend is as follows:

Last day to trade <i>cum</i> dividend	Friday, 13 August 2010
Trading <i>ex</i> dividend commences	Monday, 16 August 2010
Record date	Friday, 20 August 2010
Payment date	Monday, 23 August 2010

Share certificates may not be dematerialised or rematerialised between Monday, 16 August 2010 and Friday, 20 August 2010, both days inclusive. The certificated register will be closed for this period.

Results presentation

Hudaco will host presentations on the financial results in Johannesburg and Cape Town on Monday, 19 July 2010 and Tuesday, 20 July 2010 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 from Wednesday, 21 July 2010.

For and on behalf of the board

RT Vice

Independent non-executive chairman

19 July 2010
Elandsfontein

SJ Connelly

Chief executive

Group statement of financial position

R million	31 May 2010	31 May 2009	30 Nov 2009*
ASSETS			
Non-current assets	2 428	2 430	2 418
Property, plant and equipment	89	93	91
Investment in preference shares	2 181	2 181	2 181
Goodwill	117	131	117
Intangible assets	16	25	18
Deferred taxation	25		11
Current assets	1 286	1 207	1 288
Inventories	601	758	597
Trade and other receivables	321	340	356
Taxation	1	5	
Cash and cash equivalents	363	104	335
TOTAL ASSETS	3 714	3 637	3 706
EQUITY AND LIABILITIES			
Equity	1 223	1 078	1 184
Interest of the shareholders of the group	1 194	1 042	1 150
Non-controlling interest	29	36	34
Non-current liabilities	2 181	2 186	2 186
Subordinated debenture	2 181	2 181	2 181
Deferred taxation		5	
Due to vendors – interest bearing			5
Current liabilities	310	373	336
Trade and other payables	297	310	326
Due to bankers		44	
Due to vendors – interest bearing	5	19	
Taxation	8		10
TOTAL EQUITY AND LIABILITIES	3 714	3 637	3 706

* Audited

Group statement of comprehensive income

R million	Six months ended 31 May 2010	% change	Six months ended 31 May 2009	Year ended 30 Nov 2009*
Turnover	1 116	(5)	1 176	2 420
Cost of sales	669		726	1 469
Gross profit	447		450	951
Operating expenses	327		318	644
Operating profit	120	(9)	132	307
Capital items			1	(7)
Profit before dividends received, interest received and finance costs	120	(10)	133	300
Dividends received on preference shares	99		100	202
Interest received	9		1	5
Finance costs	(115)		(120)	(235)
Profit before taxation	113		114	272
Taxation	7		6	24
PROFIT FOR THE PERIOD	106		108	248
Other comprehensive income	4		3	2
Increase in equity compensation reserve	3		4	3
Movement on fair value of cash flow hedges	1		(1)	(1)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	110	(1)	111	250
Profit attributable to:				
Shareholders of the group	107		107	243
Non-controlling shareholders	(1)		1	5
	106		108	248
Total comprehensive income attributable to:				
Shareholders of the group	111		110	245
Non-controlling shareholders	(1)		1	5
	110		111	250
Headline earnings per share (cents)	341		346	801
Basic earnings per share (cents)	341		346	784
Diluted headline earnings per share (cents)	336		338	785
Diluted basic earnings per share (cents)	336		338	769
Reconciliation to headline earnings				
Profit attributable to shareholders of the group	107		107	243
Adjusted for:				
– Impairment of goodwill and intangible assets				9
– Surplus on disposal of assets				(1)
– Tax effect				(1)
– Non-controlling interest				(1)
Headline earnings	107		107	249
Dividends				
– per share (cents)	115		115	350
– amount (Rm)	36		36	109
Shares in issue	31 532		30 966	31 240
– total (000)	34 040		33 474	33 748
– held by subsidiary company (000)	(2 508)		(2 508)	(2 508)
Weighted average shares in issue				
– basic (000)	31 395		30 928	31 023
– diluted (000)	31 909		31 734	31 644

* Audited

Group statement of cash flows

R million	Six months ended 31 May 2010	Six months ended 31 May 2009	Year ended 30 Nov 2009*
Cash generated from trading	134	143	333
Decrease in working capital	2	19	166
Cash generated from operations	136	162	499
Finance costs	(115)	(119)	(235)
Taxation paid	(24)	(44)	(63)
Net cash from operating activities	(3)	(1)	201
Net investment in new operations		(4)	(7)
Net investment in property, plant and equipment	(6)	(8)	(17)
Discontinuation of businesses			7
Dividends and interest received	108	100	203
Net cash from investing activities	102	88	186
Proceeds from issue of shares	8	1	8
Dividends paid	(79)	(97)	(129)
Net cash from financing activities	(71)	(96)	(121)
Net increase (decrease) in cash and cash equivalents	28	(9)	266

* Audited

Group statement of changes in equity

R million	Six months ended 31 May 2010	Six months ended 31 May 2009	Year ended 30 Nov 2009*
Equity at the beginning of the period	1 184	1 055	1 055
Comprehensive income for the period	110	111	250
Issue of shares	8	1	8
Dividends	(79)	(89)	(129)
Equity at the end of the period	1 223	1 078	1 184

* Audited

Supplementary information

The consolidated financial statements have been prepared in accordance with IAS 34: Interim Financial Reporting, International Financial Reporting Standards, the JSE Listings Requirements and in the manner required by the Companies Act of South Africa. IAS 1 (Revised) and IFRS 8 have been adopted for the first time. The comparative figures in the segment analysis have been restated as a result of the adoption of IFRS 8 in the current period. The principal accounting policies set out in the group's 2009 annual report have been consistently applied throughout the period ended 31 May 2010. Except for information at 30 November 2009, no information set out in this announcement has been audited or reviewed by the company's auditors.

	31 May 2010	31 May 2009	30 Nov 2009*
Average net operating assets (NOA) (Rm)	872	1 058	1 015
Operating profit margin (%)	10,8	11,2	12,7
Average NOA turn (times)	2,5	2,2	2,4
Return on average NOA (%)	27,5	25,0	30,2
Net asset value per share (cents)	3 787	3 365	3 681

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

– Depreciation	8	8	18
– Amortisation of intangible assets	2	1	4

Capital expenditure

– Incurred during the period	6	10	20
– Authorised but not contracted for	18	21	71
– Already contracted for	64		22

Commitments and contingencies

– Operating lease commitments on properties	109	104	103
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The contingent liability in respect of an employer contribution holiday in a retirement fund no longer exists, as the appeal board ruled in favour of the group.

* Audited

Segment analysis

	Turnover			
R million	31 May 2010	% change	31 May 2009	30 Nov 2009*
Engineering consumables	785	(7)	846	1 711
Consumer related products	335	0	334	720
Total operating segments	1 120	(5)	1 180	2 431
Intragroup sales	(4)		(4)	(11)
Total group	1 116	(5)	1 176	2 420

	Operating profit			
R million	31 May 2010	% change	31 May 2009	30 Nov 2009*
Engineering consumables	81	(18)	99	225
Consumer related products	48	9	44	108
Total operating segments	129	(10)	143	333
Head office and shared services	(9)		(11)	(26)
Total group	120	(9)	132	307

	Average net operating assets			
R million	31 May 2010	% change	31 May 2009	30 Nov 2009*
Engineering consumables	653	(19)	804	764
Consumer related products	192	(22)	246	233
Total operating segments	845	(20)	1 050	997
Head office and shared services	27		8	18
Total group	872	(18)	1 058	1 015

* Audited

Notes

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ENGINEERING CONSUMABLES

Bearings



Distributor of bearings, seals and transmission products.

Diesel engines and spares



Distributor of Deutz diesel engines and spare parts.

Power transmission



Distributor of special solid and hollow round steel.



Distributor of specialised thermoplastic pipes and fittings.



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 geared motors, frequency inverters and electric motors.



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, related CCTV equipment and fibre-optics.

Automotive



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

Hudaco Industries Limited

Incorporated in the Republic of South Africa
Reg no 1985/004617/06
Share code HDC
ISIN ZAE000003273

Transfer secretaries

Computershare Investor Services (Pty) Limited
PO Box 61051, Marshalltown 2107

Registered office

Hudaco Park, 190 Barbara Road, Elandsfontein, 1406
Tel +27 11 345 8200 Fax +27 11 392 2740

E-mail 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

These results are available on www.hudaco.co.za

