Hudaco '06

Audited preliminary group results

for the year ended 30 November 2006

- *HEPS up 30% to 533 cents per share*
- *Total dividends increased 32% to 190 cents per share*

SJ Connelly (Chief executive)

Results

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

Total sales of R1,84 billion for the year are up 20% on 2005.

In the Bearings and Power Transmission products division trading conditions were moderately better than in 2005 and there was noticeably more quoting on project work from mines and manufacturers particularly towards the end of the year. Not many Hudaco businesses have a back order book but the few that do saw marked growth in 2006 which bodes well for sales in 2007. The Rand weakened significantly in 2006 which made it possible to increase prices to cover the impact inflation had been having on local distribution expenses. This gave welcome relief from the profit squeeze of the past few years and this division increased sales by 17% and operating profit by 28% which is a very satisfactory achievement.

The two other divisions, Powered products and Security equipment, with more exposure to consumer spending, particularly in the housing sector, once again enjoyed very good trading conditions, increasing volume and Rand sales significantly. Powered product sales rose by 29% and operating profit by 35% whilst Security equipment increased sales by 21% and operating profit by 45%.

The group's gross profit margin at 37.9% was 1.2% lower than in 2005 partly due to product mix and a lead-and-lags situation which occurs when prices are increased. Although expenses as a percentage of sales reduced from 27.3% to 25.2%, above-inflationary pressure is being felt on rental costs as leases are renewed because of the escalation in commercial property values and on salaries of technically skilled personnel as their scarcity becomes apparent. Group operating profit increased by 29% or R53 million to R234 million with an operating margin to sales of 12.7%.

Net interest received of R7 million (last year R4 million) and a tax rate similar to 2005 assisted the group to post a 30% increase in headline earnings per share of 533 cents. The final dividend has been increased to 140 cents (last year – 102 cents) bringing total dividends this year to 190 cents per share (last year – 144 cents), an increase of 32% covered 2,8 times by earnings per share.

The balance sheet is healthy. Working capital (inventories, accounts receivable and accounts payable) at R425 million is R66 million above 2005 levels. The increase results from normal business demands as sales increased. Net cash on hand (cash balances less interest-bearing debt) at year-end is R238 million, up R51 million on last year.

Although the group is committed to acquisitive growth and has the resources to achieve it, success tends to be erratic. Opportunities to make meaningful investments in entirely new businesses, within what is regarded as the core competency "value-added distribution", at prices which would improve earnings, are limited. Also, there is more competition for quality assets, often from private equity players. The group looked at a number of opportunities in 2006 without success. A few opportunities are still being looked at and will be pursued during 2007. If unsuccessful, it does not make sense for Hudaco to hold onto its cash indefinitely and the board will consider making a cash distribution to shareholders, probably at the time of announcing details of a BEE transaction, towards the middle of 2007.

Prospects

The next few years should be very good for Hudaco. Spending on infrastructure including additional power generation should get underway and high commodity prices support investment in mining projects as regulatory impediments are overcome. This surge in investment will benefit local manufacturers who have also recently received some welcome relief from the strong Rand of the past few years. The consumer side of the economy should remain strong as employment levels pick up although recent interest rate increases will reduce the rate of growth.

While exchange rate movements could create volatility, demand for Hudaco's product offering is expected to be strong until at least 2010 and the outlook for overall earnings growth over the next few years is very positive.

Dividend

Notice is hereby given that final dividend No 39 of 140 cents per share has been declared in respect of the year ended 30 November 2006.

The last day to trade in order to participate in the dividend ("cum" the dividend), will be Friday, 9 March 2007. The shares will commence trading "ex" the dividend from the commencement of business on Monday, 12 March 2007 and the record date will be Friday, 16 March 2007. The dividend will be paid on Monday, 19 March 2007. Share certificates may not be dematerialised or rematerialised between Monday, 12 March 2007 and Friday, 16 March 2007, both days inclusive.

Audit opinion

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

For and on behalf of the Board

PL Campbell (Chairman) **SJ Connelly** (Chief executive)

25 January 2007

Hudaco
Industries Limited

Income statement

R million	30 Nov 2006	% change	30 Nov 2005*
Turnover	**1 837,8**	20.1	1 529,8
Cost of sales	**1 140,8**		930,8
Gross profit	**697,0**		599,0
Operating expenses	**462,5**		417,7
Operating profit	**234,5**	29.4	181,3
Closure of discontinued operations – recoupment			6,2
Capital items	**(9,6)**		(3,4)
Profit before interest	**224,9**		184,1
Net finance revenue	**7,1**		3,6
– Interest received	**12,7**		11,6
– Interest paid	**5,6**		8,0
Profit before taxation	**232,0**	23.6	187,7
Taxation	**76,3**		60,4
Profit after taxation	**155,7**		127,3
Attributable to shareholders of the group	**149,9**	22.5	122,3
Attributable to minorities	**5,8**		5,0
	155,7		127,3
Headline earnings per share (cents)	**532,5**	30.3	408,6
Diluted headline earnings per share (cents)	**519,0**		397,3
Basic earnings per share (cents)	**501,7**		413,3
Diluted basic earnings per share (cents)	**488,9**		401,8
Reconciliation to headline earnings			
Profit attributable to shareholders	**149,9**		122,3
Adjusted for:			
– Capital items	**9,6**		3,4
– Closure of discontinued operation			(4,8)
– Surplus on disposal of plant and equipment after taxation	**(0,4)**		
Headline earnings	**159,1**	31.5	120,9
Dividends			
– Per share (cents)	**190,0**	31.9	144,0
– Amount (Rm)	**56,9**		42,8
Shares in issue	**29 993**		29 756
– Total (000)	**32 501**		32 264
– Held by subsidiary company (000)	**(2 508)**		(2 508)
Weighted average shares in issue			
– Basic (000)	**29 870**		29 592
– Diluted (000)	**30 652**		30 440

Cash flow statement

R million	30 Nov 2006	30 Nov 2005*
Cash generated from trading	**248,5**	195,7
Applied to working capital	**(62,6)**	(62,2)
Cash generated from operating activities	**185,9**	133,5
Net interest received	**8,1**	4,9
Taxation paid	**(64,9)**	(62,9)
Cash flow from operations	**129,1**	75,5
Dividends paid	**(54,2)**	(42,1)
NET CASH RETAINED	**74,9**	33,4
Investment in new operations – net	**(11,3)**	(45,3)
Cash applied to capital items		(1,6)
Investment in property, plant and equipment – net	**(15,8)**	(9,0)
NET CASH INVESTED	**(27,1)**	(55,9)
Cash retained after investment	**47,8**	(22,5)
Shareholder funding	**2,9**	3,3
INCREASE IN CASH	**50,7**	(19,2)

Balance sheet

R million	30 Nov 2006	30 Nov 2005*
ASSETS		
Non-current assets	**125,3**	127,5
Property, plant and equipment	**66,9**	61,8
Deferred taxation	**1,2**	1,5
Goodwill	**57,2**	64,2
Current assets	**1 095,0**	892,0
Inventories	**451,9**	375,1
Accounts receivable	**354,7**	279,2
Bank deposits and balances	**288,4**	237,7
TOTAL ASSETS	**1 220,3**	1 019,5
EQUITY AND LIABILITIES		
Equity	**749,9**	636,4
Shareholders' equity	**728,4**	611,9
Minority interest	**21,5**	24,5
Non-current liabilities	**6,3**	61,0
Interest-bearing debt		50,0
Due to vendors – interest bearing	**6,3**	11,0
Current liabilities	**464,1**	322,1
Accounts payable	**381,7**	296,0
Interest-bearing debt	**50,0**	
Due to vendors – interest bearing	**8,0**	12,7
Taxation	**24,4**	13,4
TOTAL EQUITY AND LIABILITIES	**1 220,3**	1 019,5

Statement of changes in shareholders' equity

R million	30 Nov 2006	30 Nov 2005*
Equity at beginning of period as previously stated	**611,9**	506,5
Change in accounting policy – IFRS (see note)		16,3
Equity at beginning of period, as restated	**611,9**	522,8
Attributable profit for the period	**149,9**	122,3
Increase in equity compensation reserve	**3,0**	1,7
Deferred on hedging instruments	**0,2**	0,2
Gain on translation of foreign entities	**5,9**	1,1
Share issues	**2,9**	3,7
Dividends	**(45,4)**	(39,9)
Equity at the end of the period	**728,4**	611,9

Segment analysis

	Turnover			**Operating profit**			**Average net operating assets**		
R million	**30 Nov 2006**	% change	30 Nov 2005*	**30 Nov 2006**	% change	30 Nov 2005*	**30 Nov 2006**	% change	30 Nov 2005*
Bearings and Power Transmission products	**1 049,2**	16.5	900,3	**116,4**	28.0	91,0	**387,2**	11.5	347,4
Powered products	**477,0**	28.6	370,8	**98,5**	34.8	73,1	**79,4**	32.8	59,8
Security equipment	**312,6**	20.6	259,5	**35,8**	44.8	24,7	**77,1**	5.2	73,3
Internal/head office	**(1,0)**		(0,8)	**(16,2)**		(7,5)	**1,7**		(18,2)
Total group	**1 837,8**	20.1	1 529,8	**234,5**	29.4	181,3	**545,4**	18.0	462,3

Hudaco
Industries Limited

Supplementary information

These results were prepared applying accounting policies which conform with International Financial Reporting Standards (IFRS) and are consistent with those applied in the previous financial year, except for the changes noted under "IFRS Adjustments".

	30 Nov 2006	30 Nov 2005*
Average net operating assets (Rm)	**545,4**	462,3
Operating profit margin (%)	**12.7**	11.8
Average NOA turn (times)	**3,4**	3,3
Return on average NOA (%)	**42.9**	39.2
Interest covered by operating profit (times)	**n/a**	n/a
Gearing – net (%)	**nil**	nil
Net asset value per share (cents)	**2 429**	2 056
Capital expenditure		
– Spent during the period (Rm)	**18,1**	11,4
– Budgeted for 2007 (Rm)	**22,6**	
Operating lease commitments – property (Rm)	**36,9**	40,0
Net cash comprises (Rm)	**238,4**	187,7
– Bank deposits and balances	**288,4**	237,7
– Interest-bearing debt	**(50,0)**	(50,0)
Capital items (Rm)	**9,6**	3,4
– Impairment of goodwill and properties	**9,6**	2,5
– Fees paid on unsuccessful acquisitions		1,6
– Profit on disposal of businesses and properties		(0,7)

A contingent liability exists in respect of an unresolved dispute with the Financial Services Board on whether the rules of one of the group's defined contribution retirement funds correctly authorised an employer contribution holiday of approximately R1,7 million per annum from 1992 to 2001.

*Restated

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, forgings and rollings.

Manufacturer and distributor of hydraulic and pneumatic equipment.

Distributor of clutch kits.

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.

Powered products

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
Computershare Investor Services 2004 (Pty) Ltd
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

IFRS adjustments

The group has adopted International Financial Reporting Standards (IFRS) for the year ending 30 November 2006. The first results to be published under IFRS are for this reporting period. The transitional arrangements allowed for in IFRS 1 have been applied with effect from 1 December 2004, the date of transition to IFRS. This means the balance sheet at 30 November 2005 and all other comparative information has been restated, where applicable, to comply with the new accounting standards.

The following IFRS's have impacted on group accounting policies, reported performance and financial position:

Business combinations – The group has elected not to apply IFRS 3 to business combinations prior to March 2004. The group adopted IFRS 3 – business combinations from 1 April 2004 and therefore no adjustments were required.

Share-based payments – The group has now applied IFRS 2 to account for share-based payments in respect of options granted in terms of the share incentive scheme after 7 November 2002. This means that the expense of the options granted is recognised in the income statement over the vesting period, with a corresponding credit to equity.

Cumulative translation differences – The group has elected to apply IAS 21 retrospectively for cumulative translation differences of all foreign operations. The cumulative translation differences at 1 December 2004 have been set to zero in terms of IFRS 1 – by transfer of the balance to retained earnings, and IAS 21 has been applied from that date.

Property, plant and equipment – The group has re-assessed the useful lives and residual values of its property, plant and equipment in accordance with IAS 16 and adjusted depreciation accumulated to 30 November 2005 where appropriate.

Revenue recognition – The group has re-assessed the definition of revenue in terms of IAS 18 and settlement discounts that are closely related to revenue are now deducted from turnover. Turnover, gross profit and operating expenses have been reduced by R19,4 million for the year ended 30 November 2005.

Impact on reported results	30 Nov 2005
As previously reported under SA GAAP	124,2
Adjustments for IFRS:	(1,9)
IFRS 2 – share-based payments	(1,7)
IAS 16 – depreciation of property, plant and equipment	(0,2)
Deferred taxation effect of IFRS adjustments	0,0
Profit attributable to shareholders under IFRS	122,3

	30 Nov 2005	
Impact on reserves	Other† reserves	Retained Income
As previously reported under SA GAAP	(7,2)	587,8
Adjustments for IFRS:	11,2	4,9
IFRS 2 – share-based payments	3,0	(3,0)
IAS 16 – net depreciation of property, plant and equipment		22,7
IAS 21 – translation reserve on foreign operations	8,2	(8,2)
Deferred taxation effect of IFRS adjustments		(6,6)
As reported under IFRS	4,0	592,7

†Other reserves comprise the foreign exchange translation reserve and the equity compensation reserve

Directors
PL Campbell# (Chairman) SJ Connelly (Chief Executive) GE Gardiner JB Gibbon#
YKN Molefi# PM Poole # Independent non-executive

Secretary
RGL Arnestad