

Unaudited Interim Group Results

for the six months ended 31 May 2006

- **HEPS up 19% to 177 cents per share**
- **Interim dividend increased 19% to 50 cents per share**



SJ Connolly (Chief executive)

Results

Hudaco Industries is a South African group of companies engaged in the business of importing and distributing branded industrial products. About half of group sales are to the South African manufacturing and mining markets with the balance evenly distributed between the construction, automotive aftermarket and security industries.

This year the group is reporting for the first time in terms of International Financial Reporting Standards (IFRS). The changes made to the accounting policies resulting from the adoption of IFRS and the impact of those changes are set out in a separate section of this announcement.

Demand from the mining sector was weak in the first half of 2006 as gold output fell 10% offset by small increases in output of platinum and coal. Demand from the manufacturing sector was also weak mainly due to the strong Rand. On the other hand sales of power tools, outboard motors and security equipment were well up on 2005, benefiting from continued robust consumer spending on housing and leisure products.

The firm Rand meant that the group was still dealing with the effects of price deflation in the first half of 2006. With expenses rising by the local inflation rate the Bearings and Power Transmission Products division, which had no volume sales growth, was again faced with a profit squeeze. Fortunately, in the Powered Products and Security divisions, volume sales growth was more than sufficient to cover cost increases.

First half sales at R793 million are 14% up on last year. The operating margin improved from 9.5% to 10.1% and operating profit is up 21% to R80 million. Headline earnings per share increased 19% to 177 cents. The implementation of IFRS had a minimal effect on headline earnings per share. An interim dividend of 50 cents per share has been declared, an increase of 19%.

The balance sheet is in good shape. Working capital (inventories, accounts receivable and accounts payable) at R424 million is R60 million above 2005 year end levels. This is to be expected as we are currently stocking up for the second half of the year which is traditionally a busier trading period. Net cash on hand (cash balances less interest bearing debt) at the half year is R134 million.

Black Economic Empowerment (BEE)

Hudaco is in the process of selecting and structuring a BEE shareholding. Ideally an announcement in this regard will be made in this financial year.

Prospects

The group remains optimistic about the future. Government spending on infrastructure should get underway in the next 12 months and higher commodity prices will support an increase in mining investment once certainty is reached on various regulatory issues. These positives will provide a welcome spin-off to the manufacturing sector whilst the consumer side of the economy should remain strong as employment levels continue to rise.

This scenario should have a positive effect on sales levels in the Bearings and Transmission Products businesses which have struggled over the last few years. Prospects for the Powered Products and Security Equipment businesses remain sound.

Prospects for the remainder of 2006 are good whilst in the medium term we expect Hudaco's earnings to grow commensurately with the above outlook.

Dividend

Notice is hereby given that interim dividend No. 38 of 50 cents per share has been declared in respect of the six months ended 31 May 2006.

The last day to trade in order to participate in the dividend ("cum" the dividend), will be Thursday, 3 August 2006. The shares will commence trading "ex" the dividend from the commencement of business on Friday, 4 August 2006 and the record date will be Friday, 11 August 2006. The dividend will be paid on Monday, 14 August 2006. Share certificates may not be dematerialised between Friday, 4 August 2006 and Friday, 11 August 2006, both days inclusive.

For and on behalf of the Board

PL Campbell (Chairman)

SJ Connolly (Chief executive)

Income statement

	Six months ended		Year ended	
R million	31 May 2006	% change	31 May 2005*	30 Nov 2005**
Turnover	792,8	14	697,0	1 529,8
Cost of sales	490,0		422,6	930,9
Gross profit	302,8		274,4	598,9
Operating expenses	222,4		208,0	417,7
Operating profit	80,4	21	66,4	181,2
Closure of discontinued operations				6,2
Capital items				(3,4)
Profit before interest	80,4		66,4	184,0
Net interest received	2,5		1,8	3,6
Profit before taxation	82,9		68,2	187,6
Taxation	28,2		22,8	60,3
Profit after taxation	54,7	20	45,4	127,3
Attributable to shareholders of the group	52,7	21	43,6	122,3
Attributable to minorities	2,0		1,8	5,0
	54,7		45,4	127,3
Headline earnings per share (cents)	176,9	19	148,1	408,6
Basic earnings per share (cents)	176,9		148,1	413,3
Diluted earnings per share (cents)	172,0		146,0	401,8
Reconciliation to headline earnings				
Profit attributable to shareholders	52,7		43,6	122,3
Add back:				
– Closure of discontinued operation				(4,8)
– Capital items				3,4
Headline earnings	52,7	21	43,6	120,9
Dividends				
– Per share (cents)	50,0	19	42,0	144,0
– Amount (Rm)	14,9		12,4	42,8
Shares in issue	29 891		29 610	29 756
– Total (000)	32 399		32 118	32 264
– Held by subsidiary company (000)	(2 508)		(2 508)	(2 508)
Weighted average shares in issue				
– Basic (000)	29 783		29 473	29 592
– Diluted (000)	30 636		29 889	30 440

Statement of changes in equity

	Six months ended		Year ended	
R million	31 May 2006	31 May 2005*	30 Nov 2005**	
Equity at beginning of period as previously stated	595,8	506,5	506,5	
Change in accounting policy – IFRS (see note)	18,0	18,2	18,2	
Equity at beginning of period, as restated	613,8	524,7	524,7	
Attributable profit for the period	52,7	43,6	122,3	
Increase in share based payments reserve	0,8	0,9	1,7	
Deferred on hedging instruments	2,6	3,1	0,2	
Gain on translation of foreign entities	1,8	(1,0)	1,1	
Share issues	1,7	2,1	3,7	
Dividends	(30,4)	(27,4)	(39,9)	
Equity at the end of the period	643,0	546,0	613,8	

Segment analysis

	Turnover				Operating profit				Average net operating assets		
R million	31 May 2006	% change	31 May 2005*	30 Nov 2005**	31 May 2006	% change	31 May 2005*	30 Nov 2005**	31 May 2006	31 May 2005*	30 Nov 2005**
Bearings and Transmission Products	453,1	8	420,7	900,6	34,6	4	33,2	91,4	389,9	335,0	349,4
Powered Products	199,9	28	156,0	370,7	36,9	42	25,9	71,7	78,2	58,8	59,8
Security Equipment	139,9	15	121,2	259,2	15,5	45	10,7	23,5	75,3	73,3	73,3
Internal/head office	(0,1)		(0,9)	(0,7)	(6,6)		(3,4)	(5,4)	(12,9)	(17,7)	(19,1)
Operations discontinued in 2004										12,5	
Total Group	792,8	14	697,0	1 529,8	80,4	21	66,4	181,2	530,5	461,9	463,4

Cash flow statement

	Six months ended		Year ended	
R million	31 May 2006	31 May 2005*	30 Nov 2005**	
Cash generated from trading	87,7	73,8	195,3	
Applied to working capital	(56,1)	(45,9)	(60,4)	
Cash generated from operating activities	31,6	27,9	134,9	
Net interest received	2,5	1,8	5,0	
Taxation paid	(32,7)	(36,9)	(62,9)	
Cash flow from operations	1,4	(7,2)	77,0	
Dividends paid	(36,3)	(27,4)	(42,1)	
NET CASH APPLIED	(34,9)	(34,6)	34,9	
Investment in new operations – net	(6,6)	(17,9)	(45,3)	
Cash applied to capital items			(1,6)	
Investment in property, plant and equipment – net	(8,6)	(3,6)	(9,0)	
NET CASH INVESTED	(15,2)	(21,5)	(55,9)	
Cash utilised	(50,1)	(56,1)	(20,7)	
Shareholder funding	1,7	1,9	3,3	
DECREASE IN NET CASH	(48,4)	(54,2)	(17,4)	

Balance sheet

	31 May 2006	31 May 2005*	30 Nov 2005**
R million			
ASSETS			
Non-current assets	129,7	144,0	128,8
Property, plant and equipment	65,7	70,6	63,6
Deferred taxation – net		4,7	1,0
Goodwill	64,0	68,7	64,2
Current assets	821,7	800,5	886,6
Inventories	407,3	362,5	375,0
Accounts receivable	280,4	242,4	279,2
Bank call deposits and balances	134,0	195,6	232,4
TOTAL ASSETS	951,4	944,5	1 015,4
EQUITY AND LIABILITIES			
Equity	662,9	573,5	637,6
Shareholders' equity	643,0	546,0	613,8
Minority interest	19,9	27,5	23,8
Non-current liabilities	10,1	75,0	61,0
Interest bearing debt		50,0	50,0
Deferred taxation – net	0,2		
Due to vendors – interest bearing	9,9	25,0	11,0
Current liabilities	278,4	296,0	316,8
Accounts payable	263,7	242,2	290,7
Due to vendors – interest bearing	7,0	46,1	12,7
Taxation	7,7	7,7	13,4
TOTAL EQUITY AND LIABILITIES	951,4	944,5	1 015,4

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".









	31 May 2006	31 May 2005*	30 Nov 2005**
Average net operating assets (Rm)	530,5	461,9	463,4
Operating profit margin (%)	10,1	9,5	11,8
Average NOA turn (times – annualised)	3,0	3,0	3,3
Return on average NOA (% – annualised)	30,3	28,8	39,1
Interest covered by operating profit (times)	n/a	n/a	n/a
Gearing – net (%)	nil	nil	nil
Net asset value per share (cents)	2 151	1 844	2 063
Capital expenditure			
– Spent during the period (Rm)	9,2	7,0	11,4
– Budgeted for second half of the year (Rm)	7,0	6,2	
Operating lease commitments – property (Rm)	48,0	47,5	40,0
Net cash comprises (Rm)	134,0	145,6	182,4
– Bank call deposits and balances	134,0	195,6	232,4
– Interest bearing debt – non-current	0,0	(50,0)	(50,0)

There is a contingent liability 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 R2,5 million per annum from 1992 to 2001.



**Audited – restated

*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.
	Manufacturer and distributor of hydraulic and pneumatic equipment.		Distributor of Valeo 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

	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.
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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 and 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 sheets at 31 May and 30 November 2005 and all other comparative information has been restated, where applicable, to comply with the new accounting standards.

The following IFRS standards have impacted on group accounting policies and 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 (1,25%) for the year ended 30 November 2005 and by R8,2 million for the six months ended 31 May 2005.

Reconciliation of profit attributable to shareholders	31 May 2005	30 Nov 2005
As previously reported under SA GAAP	44,6	124,2
Adjustments for IFRS:	(1,0)	(1,9)
IFRS 2 – share-based payments	(0,9)	(1,7)
IAS 16 – depreciation of property, plant and equipment	(0,1)	(0,2)
Deferred taxation effect of IFRS adjustments	(0,0)	(0,0)
Profit attributable to shareholders under IFRS	43,6	122,3

Reconciliation of reserves	31 May 2005 Other [†] reserves	31 May 2005 Retained Income	30 Nov 2005 Other [†] reserves	30 Nov 2005 Retained Income
As previously reported under SA GAAP	(7,3)	520,7	(8,2)	587,9
Adjustments for IFRS:	9,7	8,4	10,6	7,4
IFRS 2 – share-based payments	2,5	(2,5)	3,4	(3,4)
IAS 16 – net depreciation of property, plant and equipment		25,5		25,4
IAS 21 – translation reserve on foreign operations	7,2	(7,2)	7,2	(7,2)
Deferred taxation effect of IFRS adjustments		(7,4)		(7,4)
As reported under IFRS	2,4	529,1	2,4	595,3

[†]Other reserves are the foreign exchange translation reserve and the share based payments reserve

Directors

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

Secretary

RGL Arnestad