Hudaco

INTEGRATED REPORT 2021

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Refers to additional information in the report

Refers to additional information on our website: www.hudaco.co.za

PROFILE

Hudaco Industries is a South African group specialising in the importation and distribution of high-quality branded automotive, industrial and electronic consumable products, mainly in the southern African region.

Hudaco businesses serve markets that fall into two primary categories. The automotive aftermarket, power tool and fasteners, data networking, security and communication equipment and battery businesses supply products into markets with a bias towards consumer spending whilst the bearings and belting, electrical power transmission, diesel engine, hydraulics and pneumatics, specialised steel, thermoplastic fittings and filtration businesses supply engineering consumables mainly to mining and manufacturing customers.

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. Hudaco's black employees are its BEE partners and have a 15% equity interest in all Hudaco businesses, with the exception of DD Power in which Deutz AG has a 30% share.

GROUP OVERVIEW

- Comparable earnings per share up 30% on 2019 and 102% on 2020
- Headline earnings per share up 21% on 2019 and 56% on 2020
- Dividend up 27% on 2019 to 760 cents per share
- Turnover up 8% on 2019 and 16% on 2020
- Operating profit of R826 million up 18% on 2019 and 62% on 2020
- Net borrowings down R174 million for the year to R469 million
- Cash generated from operations at R910 million
- Return on equity 19.5%

2021 HIGHLIGHTS

- Increases in gross margin and operating margin
- The Hudaco team's continued response to Covid-19
- 2021 earnings well above 2019
- Distributions to black staff from BEE trusts resumed

CHALLENGES IN 2021

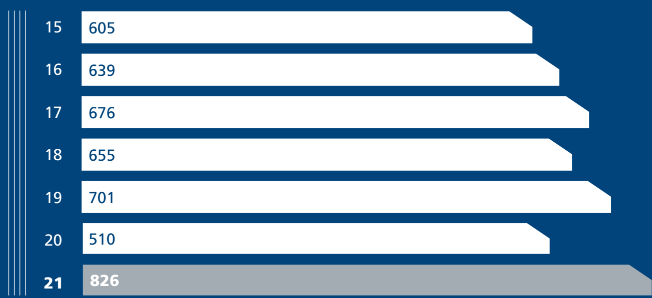
- Securing adequate inventory with the international and local supply chain challenges
- Riots in KZN and Gauteng in July
- Safety of employees in the pandemic
- Persistently disappointing performance from the security and communication businesses
- Three-week NUMSA strike
- Lack of traction in other southern African countries

RESULTS IN BRIEF

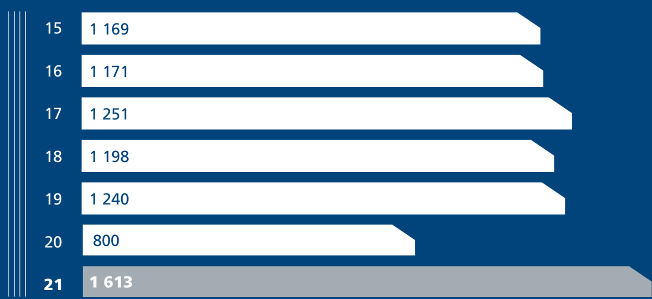
30 November	2021	2020
Turnover (Rm)	**7 258**	6 254
Operating profit (Rm)	**826**	510
Comparable earnings (Rm)	**490**	252
Headline earnings (Rm)	**498**	331
Attributable earnings (Rm)	**499**	36
Comparable earnings per share (cents)	**1 613**	800
Headline earnings per share (cents)	**1 641**	1 050
Dividends per share (cents)	**760**	410

TURNOVER (RM)

OPERATING PROFIT (RM)



COMPARABLE EARNINGS PER SHARE (CENTS)



DIVIDENDS PER SHARE (CENTS)

ABOUT THIS REPORT

Hudaco is committed to conducting its business ethically and responsibly with a view to creating value in the long-term interest of society. Our integrated annual report (IAR) is aimed at providers of capital as well as a diverse range of other stakeholders.

Scope and boundary

This IAR covers the period 1 December 2020 to 30 November 2021. The group's financial year ends on 30 November, and unless otherwise indicated or described, the information included in this report refers to the years ended 30 November 2021 and 30 November 2020. The previous IAR covered the period 1 December 2019 to 30 November 2020. The IAR deals with all Hudaco's operations, which are overwhelmingly in South Africa, and to a small extent in other southern African countries and outside Africa.

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The entities reported on include Hudaco Industries Limited and its subsidiaries. Their businesses are described on page 6 of this IAR.

The group financial information is prepared according to International Financial Reporting Standards (IFRS). Material non-financial information is also included. This report aims to present a concise and balanced perspective of Hudaco's strategy, performance, governance and prospects.

Basis of preparation

This IAR is prepared in terms of the JSE's Listings Requirements for integrated reporting and the King IV Report on Corporate Governance for South Africa (King IV). It also meets all the other legal requirements to which the company must adhere (such as the Companies Act). This IAR is used as a vehicle to communicate Hudaco's evolving business model and the quality of the decisions that have led to the financial results. Based on Hudaco's leadership engagement, governance processes and formal and informal stakeholder engagement initiatives, particularly with investors, the board is satisfied that all material matters have been disclosed in this report.

Our revenue, profits, social and environmental impact and benefits accrue from our many businesses that do not report independently in the public domain. In this report we try to strike a balance between adequate composite reporting at a group level, and communicating sufficient, but not excessive, detail of the underlying operations. This report is an attempt to demonstrate the integration of the operational, financial and sustainability (environmental, social and governance) issues relating to the key drivers of the business. In the report, we explain how the executives of Hudaco have applied their minds to considering these issues while developing the business strategy.

In compiling this integrated report, the following were taken into consideration:

- the Hudaco mission;
- Hudaco's strategic objectives to achieve the mission;
- the Hudaco business model;
- input received from the stakeholder engagement process;
- legislation and guidelines;
- King IV;
- JSE Listings Requirements;
- performance and developments during the year; and
- matters the board believes are of relevance to stakeholders.

Frameworks used in compiling the separate elements of the IAR include:

Report element	Guidelines	Reference
Corporate governance	The JSE Listings Requirements and King IV	Pages 81 to 91
Black economic empowerment status report	Codes of Good Practice, issued by the Department of Trade and Industry (dti)	Pages 42 to 43
Environmental impact and employee report	Various relevant guidelines including those contained in the global reporting initiative (GRI) G3 indicators	Pages 43 to 45 and 47 to 56
Annual financial statements	International Financial Reporting Standards (IFRS), Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, the South African Companies Act and the JSE Listings Requirements	Pages 92 to 135

Assurance

No external assurance has formally been sought, other than from the external auditors, BDO South Africa Incorporated, for the annual financial statements.

Board approval

Assisted by the audit and risk management committee, the board accepts ultimate responsibility for the integrity and completeness of this IAR. It is the directors' opinion that this report presents a fair and balanced view of the group's integrated performance.

The financial statements have been approved by the board. BDO South Africa Incorporated have signed an unqualified audit opinion on the annual financial statements.

Forward-looking statements

This report may contain forward-looking statements with respect to Hudaco's future performance and prospects. While these statements represent the board's judgements and future expectations, several factors may cause actual results to differ materially from these expectations.

Hard copy and report feedback

This integrated report is available in hard copy from the company's head office at +27 11 657 5000 or info@hudaco.co.za. Any questions regarding this report or its contents should be channelled through the group secretary. Feedback on this report is welcomed and similarly can be made directly to the group secretary.

THE SIX CAPITALS – OUR TRANSFORMATIVE IMPACT

Each capital plays a role in our business model. However, the emphasis we place on each is influenced by our core function of importing and distributing high-quality branded automotive, industrial and electronic consumable products, our business model and our chosen strategy. Our decisions and trade-offs influence the efficiency of our operations and their impact on the six capitals.

FINANCIAL CAPITAL

Our financial inputs comprise a solid equity position and long-term financial stability.

Impact

- Profit shared with ordinary shareholders (R213 million in dividends and repurchased shares from ordinary shareholders for R69 million);
- Contributed to societal growth by buying goods and services (R5.0 billion), paying taxes (R422 million) and employment (R1.3 billion);
- Market capitalisation of R4.2 billion as at 30 November 2021; and
- Provision of credit to customers of R1.1 billion as at 30 November 2021.

HUMAN CAPITAL

Effective leadership, an ethical culture and Hudaco employees' competencies, skills and diversity as well as our decentralised management style are critical to our success.

Impact

- Provide 3 768 jobs with improved diversity, with 23% of senior managers being black and 29% being women;
- R7.2 million spent on direct training for ongoing skills and development; and
- Granted 23 bursaries to permanent employees.

INTELLECTUAL CAPITAL

Product knowledge, sourcing knowledge, market knowledge, sales and marketing, brands and intellectual property and value-add capabilities.

Impact

- Continued availability of product and services;
- Product identification, specification and supply;
- Advice on usage or installation; and
- Customer training.

MANUFACTURED CAPITAL

Infrastructure (including tools, technology, machines and buildings) used in the production of services and the delivery of products to customers.

Impact

- Property, plant and equipment of R285 million;
- Source products from more than 800 international suppliers scattered across the industrialised world; and
- Carry more than 230 000 line items – inventory holding is Hudaco's most important asset as our key competitive advantage is the ability to provide product on demand.

NATURAL CAPITAL

Land, energy sources, paper and water. Hudaco is committed to progressively reducing our environmental impact over time and assisting others to do so too.

Impact

- Continued to support sustainable energy sector, lower energy usage and other climate-related solutions;
- Launched a business that designs and supplies sustainable energy solutions.

SOCIAL AND RELATIONSHIP CAPITAL

Stakeholder and supplier relationships along with socio-economic development and skills development.

Impact

- R2.5 million spent on education and skills development of family members of employees;
- Loans and contributions of R11.7 million to small and medium enterprises; and
- Build and maintain stakeholder relationships.

HISTORY

1890s

Formation

In 1891, just five years after the discovery of gold on the Witwatersrand, J Hubert Davies started an industrial equipment supply business in Johannesburg. By the turn of the century, the business was a major player in the distribution of mechanical and electrical industrial products. In 1917, it was converted into a private company, which facilitated the introduction of senior managers as shareholders and directors.

1930s

First JSE listing

In September 1938, Hubert Davies and Company Limited listed on the Johannesburg Stock Exchange. It delisted almost four decades later, in 1977, when it became a wholly owned subsidiary of Blue Circle Limited. The United Kingdom-based industrial group had already acquired a substantial interest in the company three years earlier.

1970s

Expansion and decentralisation

In the 1970s, Hubert Davies expanded its product offering and branch network to extend across southern Africa. Then a strategic decision was made to specialise by product and activity, to provide more focused customer service and achieve improved market penetration. Following on from this, a management philosophy of decentralising decision-making and responsibility was introduced. This philosophy is still in place today.

1980s

Second JSE listing

In line with the specialisation trend among businesses at that time, Hudaco Industries was established as a separate autonomous company in 1981, owning the group's distribution businesses. In May 1984, with banks as partners, management acquired control of Hudaco Industries from Blue Circle, in what was then the largest South African private equity leveraged buyout. On 14 November 1985, Hudaco Industries Limited listed on the Johannesburg Stock Exchange at a subscription price of R1.50 per share, with a market capitalisation of R29 million. Several large acquisitions followed, including listed companies Frencorp, Valard and Elsec.

2000s

B-BBEE shareholding and growth

In 2007, the group sold 15% of the majority of its operating businesses to black, previously disadvantaged shareholders as part of a B-BBEE initiative. This 15% is now owned for the benefit of Hudaco's black employees. The 2000s also saw the group's annual turnover increase to R4 billion.

2010s

Diversification to reduce dependence on mining and manufacturing

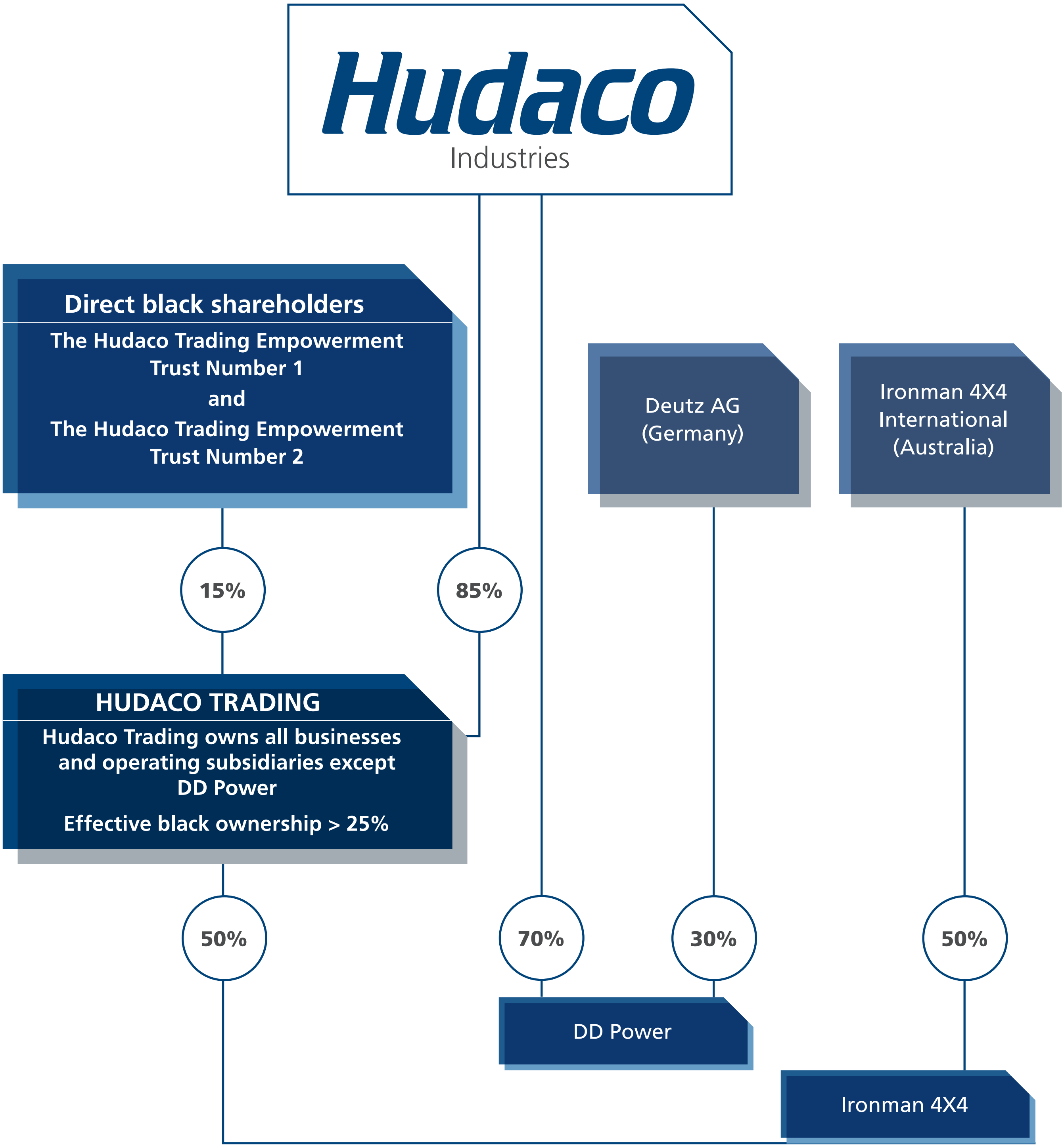
This decade saw Hudaco make several significant acquisitions, including Filter and Hose Solutions, Global Communications, the Dosco group, MiRO and Partquip. The latter serves the automotive aftermarket and is now the group's largest single business. Many smaller businesses have also been acquired. This acquisition strategy included a strong initiative to diversify the revenue base, thereby reducing dependence on the group's traditional core markets of mining and manufacturing, which experienced very difficult trading conditions and in which growth was elusive for an extended period. This boosted contributions from the automotive, data networking, security and alternative energy sectors.

Today

A quality diversified industrial distributor

Today, with a proud history of 130 years since J Hubert Davies, saw the long-term business potential of the initial gold rush, the group remains true to its roots. The group now employs nearly 3 800 people and has a market capitalisation of about R4.2 billion. With the contraction of mining and manufacturing in South Africa in the past few years, Hudaco's diversification strategy has served it well and 60% of its profits are now derived from sectors where activity is more closely aligned to levels of consumer spending. Its shareholders include many blue-chip players in the South African investment industry and black employees now have an equity interest in the main operating subsidiary.

ABRIDGED GROUP STRUCTURE



GROUP AT A GLANCE

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CONSUMER-RELATED PRODUCTS

PRINCIPAL ACTIVITIES	BUSINESSES
Automotive aftermarket products	**Abes Technoseal, Partquip, A-Line Wheels and Ironman 4X4**
The distribution of clutch kits, automotive ignition leads, oil and hydraulic seals, wheels, brake and clutch hydraulics, mountings, bushes, hydraulic repair kits, cylinders, hose, CV joints, wheel hubs, suspension components and 4X4 vehicle components to the automotive and industrial aftermarket.	Distribute a select range of automotive spares and accessories.
Batteries and sustainable energy	**Deltec, Specialised Battery Systems, Eternity Technologies and Hudaco Energy**
The distribution of maintenance-free lead acid, stand-by and solar batteries, providing solar power and storage solutions for the commercial, industrial and residential markets, and the supply of batteries, high frequency chargers and related battery management equipment to the traction battery market as well as the design, assembly and management of battery bays for warehouses and distribution centres.	Distribute maintenance-free automotive, stand-by and solar batteries, inverters, PV modules and batteries for forklifts as well as provide residential, commercial and industrial storage and full on-site facilities management for forklift battery bays in large warehouses and distribution centres.
Power tools and fasteners	**Rutherford and FTS Boltworld**
The distribution of power tools, marine engines, survey instrumentation and fasteners.	Distribute Makita power tools and Mercury marine engines and a comprehensive range of fasteners.
Data networking equipment	**MiRO and SS Telecoms**
The distribution of IP convergence technologies including wireless networking, VoIP and physical security solutions.	Distribute Ubiquiti, Mikrotik, Cambium, Grandstream and other data networking equipment and solutions.
Security and security related communications solutions	**Elvey Security Technologies, Pentagon, Commercial ICT and Global Communications**
The distribution of intrusion detection, surveillance, access control, and fire detection equipment and seamlessly integration of systems over IP in combination with building management systems as well as the provision of two-way radios and satellite communications, outsourced IT, wireless networking, mobile and VoIP services, and hardware, comprising an end-to-end security and ICT solution.	Distribute Bosch, DSC, Optex, Impro, Permaconn, Texacom, Ax-is and other leading security-related solutions and other intrusion and surveillance equipment and solutions, Kenwood, Barrett and JVC communication equipment.

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ENGINEERING CONSUMABLES

PRINCIPAL ACTIVITIES	BUSINESSES
Diesel engines and spares	**Deutz Dieselpower**
The distribution of Deutz diesel engines and Deutz spares and the provision of service support.	Represents Deutz AG – one of the world's leading independent manufacturers of diesel engines.
Bearings and belting	**Bearings International, Brewtech Engineering and Belting Supply Services**
The distribution of bearings, chains, belting, industrial hose, seals, electric motors and transmission products.	There are over 50 branches across South Africa. The main bearing brands distributed are FAG from Germany and KOYO from Japan while other products include Rexnord conveyer solutions and Habasit belting.
Filtration	**Filter and Hose Solutions**
The distribution of filtration solutions, kits and accessories, to mining, process and manufacturing markets.	Distributor of Donaldson, Filtrec and Mann + Hummel high-quality filtration products and solutions for a broad range of applications.
Hydraulics and pneumatics	**Ernest Lowe, HERS, Dosco and GPM**
The distribution and manufacture of hydraulic and pneumatic products, including gear pumps, service and repairs and design of systems as well as the distribution of drivetrains.	Supply Norgren and JELPC products as well as full service to required degree of precision and design of hydraulic systems, manufacture and distribute locally and internationally GPM gear pumps and distribute Kessler drivetrains.
Thermoplastic pipes and fittings	**Astore Keymak**
The distribution of thermoplastic pipes and fittings and manufacture of dragline hose.	Distributes Agru thermoplastic pipes and fittings and manufactures Keymak dragline hose.
Specialised steel	**Ambro Steel, Sanderson Special Steels, Bosworth, Joseph Grieveson and The Dished End Company**
The sale, cutting and hardening of round, hexagonal and hollow steel bar and key steel, bending steel for dished ends and manufacture of conveyor drive pulleys and idlers as well as ferrous and non-ferrous castings.	Provide full service to customers including supply, cutting to size and heat treatment and the manufacture of dished and flanged ends, Bosworth conveyor drive pulleys and idlers as well as bespoke castings in a jobbing foundry.
Electrical power transmission	**Powermite, Proof Engineering, Three-D Agencies, Hudaco Power Transmissions and Varispeed**
The distribution of variable speed drives, geared motors, electric motors, electrical cabling, plugs, sockets and related products to the manufacturing, mining and agricultural aftermarkets.	Distribute Yaskawa variable speed drives, a range of geared motors, sophisticated cabling and accessories and manufacture electrical plugs, sockets, connectors and flame-proof lighting.

KEY DRIVERS

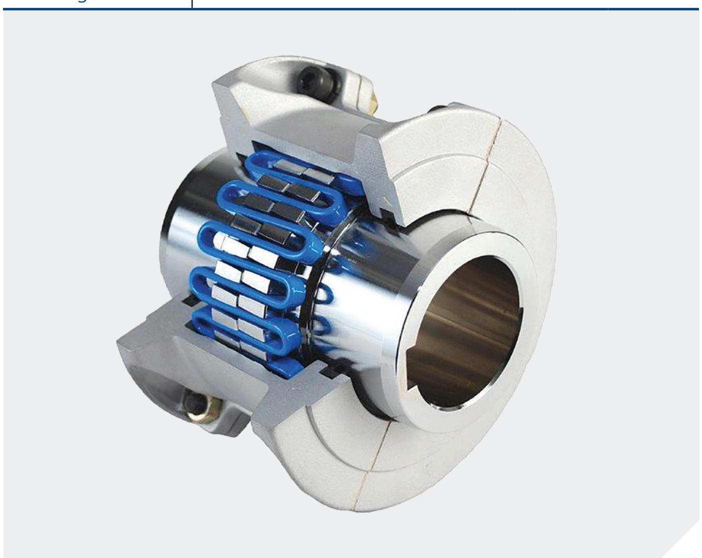
- Consumer spending
- Building activity
- Employment levels
- Vehicle sales
- Analogue to digital migration
- Broadband, Wi-Fi and VoIP expansion
- Adoption of sustainable energy solutions

R million	2021	2020
Turnover	**3 777**	3 360
Operating profit	**552**	369
Average net operating assets	**2 036**	2 184
Number of permanent employees	**1 608**	1 642

KEY DRIVERS

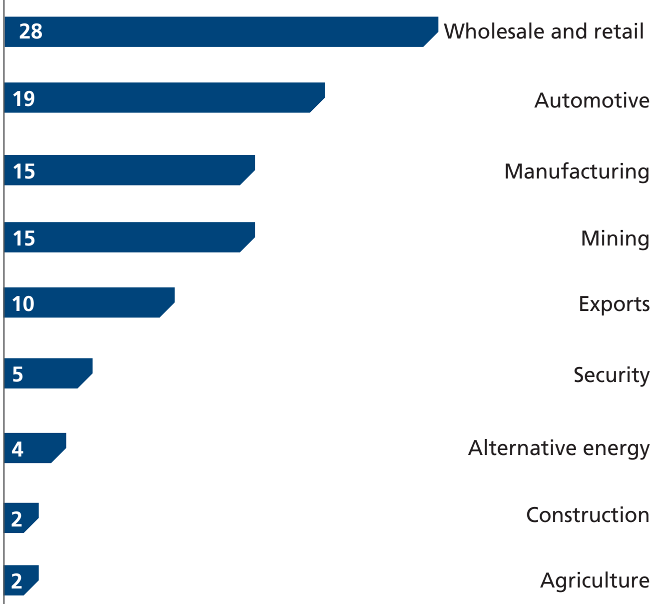
- GDP growth
- Mining activity
- Mining investment
- Mining mechanisation
- Manufacturing activity
- Electricity usage management

R million	2021	2020
Turnover	**3 501**	2 907
Operating profit	**366**	178
Average net operating assets	**1 855**	1 936
Number of permanent employees	**1 962**	1 919



GROUP

SALES BY MARKET SECTOR – 2021 (%)



KEY DRIVERS

- Exchange rates
- Acquisitions

R million	2021	2020
Turnover	**7 258**	6 254
Operating profit	**826**	510
Average net operating assets	**3 790**	4 095
Number of permanent employees	**3 593**	3 587

SEVEN-YEAR REVIEW

R million	2021	2020	2019	2018	2017	2016	2015
GROUP STATEMENT OF INCOME							
Turnover	**7 258**	6 254	6 704	6 381	5 902	5 534	5 230
Profit before interest and tax	**836**	245	731	632	656	645	600
Net finance costs	**68**	104	103	91	81	87	73
Profit before taxation	**768**	141	628	541	575	558	527
Taxation	**219**	133	160	144	156	148	141
Profit after taxation	**549**	8	468	397	419	410	386
Income from joint venture		1	3	3	3	3	3
Profit for the year	**549**	9	471	400	422	413	389
Non-controlling interest	**50**	(27)	42	19	25	25	20
Attributable earnings	**499**	36	429	381	397	388	369
Shares in issue (000) (weighted average)	**30 357**	31 527	31 646	31 646	31 646	31 646	31 646
Earnings per share (cents)							
– comparable	**1 613**	800	1 240	1 198	1 251	1 171	1 169
– headline	**1 641**	1 050	1 355	1 289	1 256	1 222	1 163
– basic	**1 643**	113	1 355	1 202	1 254	1 226	1 164
Dividends per share (cents)	**760**	410	600	570	560	525	525
GROUP STATEMENT OF FINANCIAL POSITION							
Property, plant and equipment	**285**	265	274	249	270	256	261
Right-of-use assets	**422**	414					
Investment in joint venture			12	9	9	7	7
Goodwill	**1 170**	1 170	1 512	1 505	1 480	1 243	1 001
Intangible assets	**26**	33	51	77	70	68	69
Deferred taxation – net	**74**	40	38	34	13	26	15
Inventories	**2 004**	1 598	1 720	1 822	1 538	1 508	1 369
Trade and other receivables	**1 245**	1 196	1 269	1 278	1 156	1 046	990
Trade and other payables	**(1 272)**	(936)	(968)	(989)	(943)	(898)	(764)
Taxation – net	**(32)**	(13)	8	(29)	(26)	3	3
Net operating assets	**3 922**	3 767	3 916	3 956	3 567	3 259	2 951
Lease liabilities	**(477)**	(455)					
Net borrowings	**(469)**	(643)	(1 008)	(1 163)	(860)	(905)	(1 016)
Employment of capital	**2 976**	2 669	2 908	2 793	2 707	2 354	1 935
Equity holders of the parent	**2 863**	2 593	2 742	2 509	2 295	2 065	1 844
Non-controlling interest	**113**	76	101	70	81	65	51
Equity	**2 976**	2 669	2 843	2 579	2 376	2 130	1 895
Amounts due to vendors on acquisitions			65	214	331	224	40
Total capital employed	**2 976**	2 669	2 908	2 793	2 707	2 354	1 935
GROUP STATEMENT OF CASH FLOWS							
Cash generated from trading	**1 026**	726	794	760	776	709	677
Decrease (increase) in working capital	**(116)**	182	59	(292)	(65)	37	(153)
Cash generated from operations	**910**	908	853	468	711	746	524
Other income – proceeds of damages claim		35					
Taxation paid (including tax settlement)	**(220)**	(113)	(196)	(164)	(131)	(175)	(378)
Net cash from operating activities	**690**	830	657	304	580	571	146
Investment in new operations	**9**	(6)	(114)	(242)	(210)	(165)	(463)
Investment in property, plant, equipment and intangible assets	**(67)**	(39)	(74)	(51)	(47)	(30)	(31)
Dividends and interest received				4			
Net cash from investing activities	**(58)**	(45)	(188)	(289)	(257)	(195)	(494)
Share-based payments	**(16)**	(3)	(22)	(18)	(16)	(5)	(24)
(Decrease) increase in long-term borrowings	**(150)**	(138)	(96)	339	(35)	(90)	603
Repurchase of shares	**(69)**	(82)					
Finance costs paid	**(68)**	(103)	(103)	(91)	(81)	(86)	(73)
Repayment of lease liabilities	**(94)**	(92)					
Dividends paid	**(213)**	(139)	(189)	(211)	(178)	(174)	(158)
Net cash from financing activities	**(610)**	(557)	(410)	19	(310)	(355)	348
Decrease (increase) in bank balances	**22**	228	59	34	13	21	0

MISSION

Hudaco has been an important part of the South African business landscape for 130 years. Our mission is to develop and manage a sustainable business for the long-term benefit of all stakeholders, in both current and future generations.

Achieving Hudaco's mission

SHAREHOLDERS

We aim to produce superior returns for our **shareholders** by managing our business and by taking advantage of acquisitive and organic growth opportunities

Measurement of success*

The **primary** measures are **financial** and are detailed in the financial review on pages 24 to 28

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CUSTOMERS

We safeguard our strong market shares by offering quality products and have them readily available to our **customers**

Measurement of success*

Growth in market share, measured where information is available and using customer **satisfaction** reviews

SUPPLIERS

We establish enduring partnerships with our **suppliers**, combining their leading world brands and our distribution strengths in southern Africa

Measurement of success*

Retention of significant brands, principal relationship reviews, **benchmarking** the market position of a brand in South Africa with its market position internationally

PEOPLE

We ensure that a significant part of Hudaco's strength – its **people** – thrive in a decentralised, dynamic and challenging and equitable business environment

Measurement of success*

Retention and promotion record; **reward** commensurate with performance; **success** on educational programmes; health and safety record; **support** for wellness initiatives

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TRANSFORMATION

We are committed to playing a part in the **transformation** of South Africa's society and economy to help redress the inequities of the past

Measurement of success*

Employment equity: appointment and promotion of more black people to senior positions; proportion and success of black people on our educational programmes; **black economic empowerment**: empowering previously disadvantaged South African employees to have an equity interest in the Hudaco group

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COMMUNITIES

We aim to achieve our objectives in a manner governed by the highest standards of ethical conduct, sensitive to the needs of the **communities** in which our businesses operate

Measurement of success*

Success of students on our BEE **bursary programme**, support for and success of our socio-economic development and skills development initiatives, including absorption where relevant

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ENVIRONMENT

We are conscious of our responsibilities for safety and the **environment**

Measurement of success*

Health and **safety** record and **progress** on **goals** as set out in the **environmental impact report** and **employee report**

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* *We measure success through financial and non-financial assessments.*

BUSINESS MODEL

Hudaco's core activity is the importation and distribution of high-quality branded **industrial, automotive** and **electronic consumable** products.

The three main objectives we strive to achieve are as follows:

- We seek out and secure exclusive distribution rights from leading international manufacturers with a global brand presence and a commitment to maintaining market leadership, particularly through technical innovation.
- We look for products with which we can add value through the distribution chain, stockholding, product availability and providing technical support. Typically, these would be technical specification, advice on usage or installation and customer training. The extent of value add is determined by whether the customer's purchasing decision could be influenced by the addition of a technical support function.
- We focus on offering maintenance spares for critical customer equipment. Purchasing decisions for these items are made easily and quickly without onerous tender procedures.

Key elements of our success

Selling products which require value to be added and our decentralised management style: our objective is to offer customers more than just a product in a box.

Value add can be some or all of the following:

- availability;
- product identification, specification and supply;
- advice on usage or installation;
- customer training; and
- provision of credit to customers.

Decentralising management has the following advantages:

- allows faster decision-making;
- facilitates superior customer service;
- empowers employees; and
- leads to high standards and disciplines.

Hudaco's value-add offering is in demand by our customers. Hudaco is in the fortunate position of being able to maintain its technical skills base through loyal and motivated employees. We are also able to quickly and easily train new staff through training offered internationally by our suppliers and our own in-house training programmes.

Source

Hudaco sources products from more than 800 international suppliers scattered across the industrialised world. We also manufacture certain niche products.

We carry more than 230 000 line items in stock. Demand is relatively inelastic, with low line item sales predictability, whilst supplier lead times can range from three months to well over a year, in extreme cases. Inventory holding is therefore Hudaco's most important asset, as our key competitive advantage is the ability to offer availability on demand.

Principals/suppliers

Hudaco's businesses distribute top-quality branded products and have represented their major principals for many years. The following factors strengthen our ability to retain existing distribution rights:

- Market share is key. If our local market share is similar to that which our principal enjoys internationally, distribution rights are unlikely to be disturbed.
- The local southern African market is small in world terms, making entering it directly not worthwhile.
- South Africa is heavily regulated with unique laws (for example BEE) not well understood by the international community. Further, the regulatory and compliance landscape is not stable – new BEE and labour requirements are a regular occurrence. This tends to dissuade suppliers from entering the market directly.
- The level of corruption and/or perceived corruption in South Africa. Overseas suppliers perceive that rights to conduct business are increasingly subject to government patronage and that awarding government business is sometimes accompanied by demands for payoffs. For legal and reputational risk reasons, international corporations avoid doing business in such environments themselves. Nevertheless, Hudaco does not, and will not, participate in corrupt activities.
- Long-term relationships (frequently on a personal level) and a well-established distribution footprint – both of which are hard to replicate.

- Our suppliers rely on our understanding of the specific challenges of doing business in Africa, particularly the political and regulatory risks and the limitations which the size of these economies pose, and appoint us to represent their brands in markets which they would not ordinarily have been able to access.
- Crucially, we must adapt continually to the dynamics of doing business in Africa.
- Technical support is provided from South Africa until we have developed locals with managerial and technical skills.

Distribution

Principal activities/product range

- Products are distributed throughout southern Africa by our 29 businesses.
- We supply some 30 000 active customers from over 130 southern African branches (most of which are in South Africa).
- In most African countries we supply through local distributors, but we have branches in Namibia, where we have a longer track record of doing business, in Zambia, and in Kenya.

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Consumer-related products

- Automotive aftermarket products
- Batteries and solar products
- Data networking equipment
- Power tools and fasteners
- Security and communication equipment

Engineering consumables

- Bearings and belting
- Diesel engines and spares
- Filtration
- Electrical power transmission products
- Hydraulics and pneumatics
- Thermoplastic pipes and fittings
- Specialised steel

Acquisitions

Hudaco's first priority is to take advantage of organic growth opportunities within the markets it serves. However, after funding organic growth and paying dividends to shareholders, Hudaco's high cash-generating characteristics mean that resources are still available to fund the acquisition of new businesses. We use acquisitions of successful (and usually privately held) businesses to provide an additional platform for future growth. In our acquisition efforts we seek to acquire agencies for products where customers either already require these characteristics or, by introducing them, we think we can increase customer loyalty to the brand.

We believe that there are many private business owners in South Africa who are aware of Hudaco, like our management style and consider our buyout formula attractive. When the time is right, we hope they will approach us directly with a view to possibly selling their businesses to us.

Our board has agreed on a strategy to pursue acquisitions with the aim of:

- ideally closing one major acquisition of at least R300 million turnover every two years;
- continuing to acquire smaller businesses provided they can be bolted-on to existing businesses;
- concluding a major, R1 billion plus acquisition, if such an opportunity can be found; and
- avoiding dependency on any one market sector by diversifying our portfolio of businesses.

Where practicable, Hudaco seeks to:

- purchase the business not the company;
- purchase thriving (not distressed) businesses with depth in management;
- enter into service agreements with management;
- include earn-out arrangements; and
- purchase for cash, unless the acquisition is large enough to warrant issuing shares.

Target criteria

Our acquisition target criteria are businesses that mostly are/have:

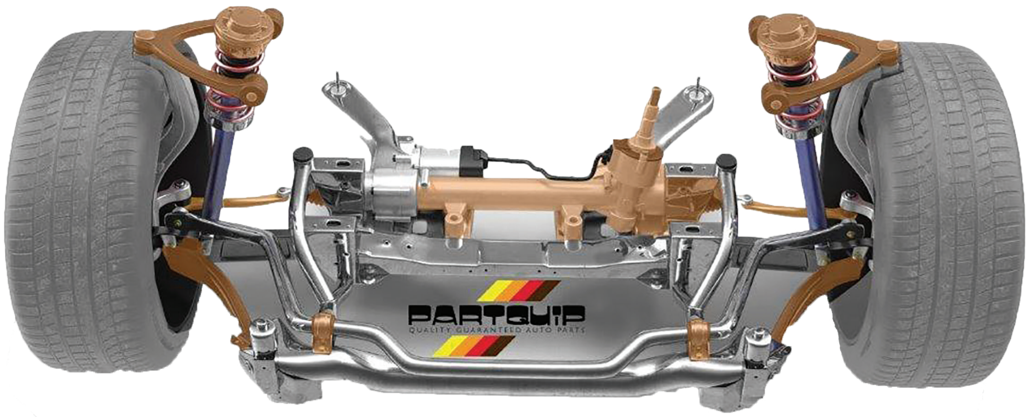
- customers which require value added distribution;
- an identifiable competitive advantage, eg strong brand/s;
- already profitable and earning good returns;
- in growth markets;
- distribution rights for products which are not currently offered by any business within the group;
- strong general and financial management and good controls;
- a presence in non-capital, industrial, automotive or electronic products;
- selling to markets in southern Africa; and
- preferably headquartered in Gauteng.

Our acquisition success factors

- The quality of the personal relationships between Hudaco and the seller of the business is one of the most important factors for a successful acquisition. We don't impose joint purchasing or tendering, preferring to preserve each business' route to market by allowing significant autonomy. Managing directors of businesses that come into the group may be invited to play a wider role within the group once they have completed their three-year earn-out and they have proved to us and to themselves that they are comfortable in a corporate environment. We benefit greatly from the presence of the sellers of a successful business on our team as they often bring with them experience and ideas worth sharing across the broader group.
- Our decentralised structure helps to ensure that the businesses that we buy remain intact, ie the brand, the staff and the reputation. Hudaco only intervenes when performance requires it or where extracting synergy was a significant factor in motivating the acquisition.

JOINT REPORT OF THE CHAIRMAN AND CHIEF EXECUTIVE

Having stock available is critical for Hudaco, so the decision to increase stock early in the year by one month of sales stood us in good stead because we could supply when many of our competitors could not. This supreme effort by all our businesses in the strategic management of their entire value chain kept us a step ahead.



2021 Overview

Hudaco's businesses have recovered exceptionally well from the ravages of the Covid-19 pandemic and associated lockdowns and we are delighted that we were able to grow headline earnings by 21% over 2019 to 1 641 cents and comparable earnings by 30% over 2019 to 1 613 cents, in a year where difficulties have once again beset business in South Africa. Although we are obliged to publish these results against those of last year, in this narrative, we compare the performance against 2019. In our opinion, it is a more relevant yardstick because of the devastating effect of Covid-19 lockdowns on the 2020 results.

2021 was a year where we had to be agile and adapt to ever-changing business conditions. South Africa went into its second Covid wave at the beginning of this financial year, its third wave in June and its fourth as the year drew to a close. KwaZulu-Natal and Gauteng experienced eight terrible days of dramatic and violent riots and looting in July. Hudaco lost two KZN branches and had to close several businesses for the week. Then in October we had the three-week NUMSA metal industries strike, which affected most of our engineering consumables businesses. Loadshedding was intermittent throughout the year, demonstrating Eskom's lingering inability to supply adequate energy to meet demand. Supply chain constraints, internationally and locally, most of which started with Covid lockdowns early in 2020, became a persistent challenge. Many factories, particularly in China, still have production backlogs. There is still a worldwide shortage of semiconductors and certain raw materials, which has a knock-on impact on many other products. Once we were allocated products by suppliers, finding shipping containers became the next hurdle, followed by challenges finding ships prepared to carry our cargo. Shipping lines are increasingly becoming reluctant to dock in Durban port and endure docking and offloading delays and the ensuing related congestion, for which our largest container port has become notorious. Freight forwarders and suppliers immediately took advantage of supply chain congestion and product shortages to increase prices. The cost of shipping a container has risen to more than tenfold the pre-Covid cost. Fortunately, for most of our products, Hudaco has the pricing power to pass these increases on to our customers and thus protect our margins.

Having stock available is critical for Hudaco, so the decision to increase stock early in the year by one month of sales stood us in good stead, because we could supply when many of our competitors could not. This supreme effort by all our businesses in the strategic management of their entire value chain kept us a step ahead.

Annual turnover was up 8.3% over 2019 to R7.3 billion, whilst operating profit increased 18% to R826 million. Turnover from the consumer-related products segment was up 5.2% and operating profit increased 31.1%, while engineering consumables' turnover increased 12.2% and its operating profit increased 28.9%. Our sales by market sector analysis reflected strong growth in the mining, manufacturing, agriculture and wholesale and retail sectors. Declines came from the security and export sectors.

The return on equity increased from 17.4% to 19.5% and the cash generative nature of Hudaco's businesses was clearly evident in cash generated from operations of R910 million.

The final dividend has been increased to 520 cents, giving us a total dividend for 2021 of 760 cents, 26.7% up on 2019. Comparable earnings cover the total dividend 2.1 times, which falls within our long-term dividend policy range of paying between 40% and 50% of comparable earnings.

Financial position

While consistently solid, the financial position has strengthened even further in 2021. The group had R469 million in net bank borrowings at year end, down R174 million from 2020, after spending R69 million on repurchasing shares. More importantly, interest payments were covered 23 times by operating profits, compared with our internal benchmark of at least five times. We still have significant additional bank borrowing facilities available, so if further suitable acquisition opportunities are identified, we have the capacity to fund them.

At the beginning of 2020, we made a strategic decision to increase our inventory levels by up to one month's sales, approximately R400 million. This has stood us in good stead and notwithstanding supply chain constraints, inventory actually on hand ended the year R289 million up on 2020 with goods in transit increasing by R117 million, so overall inventories were up R406 million at R2 004 million.

Consumer-related products

The consumer-related products segment comprises 11 businesses. In 2021, it made up 52% of Hudaco's sales and 60% of operating profit. In 2019, this segment contributed 53% of the group sales and 60% of operating profit.

Consumer spending was clearly under pressure again this year on the back of the increased unemployment rate and a depressed economy and although up on 2020, it was behind that of 2019. Having solid and long relationships with our suppliers enabled us to negotiate better volume supply than we would usually have been allocated in the context of their stock constraints. Partquip and Rutherford were the outstanding performers in this segment, whilst our security division was again the poor performer. We have a completely new management team embedded there now and are looking forward to a much-improved performance in 2022.

The segment managed to increase sales by 5.2% to R3.8 billion. Having the right stock alleviated the pressure on margins. We improved margins and grew our market share this year, which meant operating profit increased by 31% to R552 million. The operating profit margin was a very healthy 14.6%.

Engineering consumables

The 18 engineering consumables businesses made up the other 48% of group sales and 40% of operating profit. In 2019 this segment contributed 47% of the group sales and 40% of operating profit.

The two most significant market sectors in this segment are mining and manufacturing. We had strong growth in both sectors, and growing sales by 12.2% to R3.5 billion and increased operating profit by 28.9% to R366 million. The businesses that performed exceptionally well were Ambro Steel, Bearings International, Powermite, Hudaco Power Transmissions (formerly Bauer) and Gear Pump Manufacturing. HERS, Bosworth and Joseph Grieveson delivered very disappointing results. We are still to see the full benefit of the improved efficiencies and synergies we have been working towards in the hydraulics businesses. The operating profit margin increased to 10.4% from 9.1%.

We are quietly optimistic about the year ahead and believe that the momentum and market share gains our businesses built up in 2021 will continue.

Acquisitions

As part of our strategy, we continue to look for businesses in growth areas to diversify further and strengthen our portfolio. Due to the impact of Covid in 2020, we put a moratorium on acquisitions. We lifted this in June of 2021 and now have a pipeline. Potential vendors of successful businesses, unfortunately, would like to be paid a multiple on pre-Covid numbers and do not lower their price expectations even though profits are under pressure, which effectively means they demand increased multiples for their businesses. Hudaco is reluctant to pay more aggressive multiples without convincing evidence that they will return to or exceed previous numbers.

We are very excited to announce that we have signed an agreement to acquire the business of CADAC as a going concern, with the effective date likely to be during February 2022. CADAC is a household brand in southern Africa, distributing a wide range of gas-related products for cooking, heating, lighting and braaiing, including gas cylinders, stoves, heaters, cookers, skottels, braais, coolers and accessories.

The purchase price is based on a multiple of the average adjusted after-tax profit for the three years ending 30 September 2020, 30 September 2021 and 28 February 2023, with a maximum price of R100 million.

Repurchase of shares

Capital allocation is always an essential consideration for Hudaco. During the 12 months, in the absence of suitable acquisitions and given the prevailing price of Hudaco's shares, the company repurchased 609 211 shares at an average cost of R112.83 per share, before transaction costs. The total cost was R69 million. In 2020, 1 024 600 shares were repurchased at a total cost of R82 million. Since 1 December 2021, the share repurchase programme has continued under a mandate given to a broker and without further reference to the company, resulting in a further 60 880 shares being acquired. The mandate has been irrevocable until the closed period comes to an end upon the release of these results. The 2021 repurchase programme commenced on 1 April 2021. The lowest price paid was R96.19, and the highest was R128.00, excluding transaction costs.

Strategic focus

In 2021, 47% of group sales were to the wholesale and retail (including power tools, fasteners and data connectivity equipment) and automotive sectors, while only 30% of sales were to the mining and manufacturing sectors, compared with 50% in 2010. This is a direct consequence of the group's diversification strategy, thereby mitigating the risk of exposure to mining and manufacturing, which have been in decline. Over the same period, group turnover has increased from R2.5 billion to R7.3 billion.

Our key strategic focus remains unchanged: distributing strong international branded products requiring added value in instant availability and technical input. Our philosophy of carefully managing the relationship between margins, inventories and costs means that businesses that find themselves currently serving low or no growth markets generally remain cash generative. We continue to invest this cash in our higher growth businesses and seek to make accretive acquisitions that diversify and strengthen our overall offering. We also continue to look for new markets and grow our businesses' reach geographically, where appropriate and returning the security division to profitability in 2022 is front of mind.

Prospects

We are quietly optimistic about the year ahead and believe that the momentum and market share gains our businesses achieved in 2021 will continue.

In the consumer-related products segment, we expect to see synergies and benefits from the security and communications businesses, with the new management team in place. Our businesses supplying products to the automotive aftermarket should benefit from the bigger second hand car pool requiring more parts.

The power tools and rapidly expanding fastener business should continue to grow their market share with their extensive range of products. We are also excited about the alternative energy sector and the positive impact the newly established Hudaco Energy business should have on our diesel engine, battery and electrical businesses already supplying to the sustainable energy market.

In the engineering consumables segment, the mining and manufacturing sectors make up 56% of sales. As the worldwide demand for South Africa's raw materials increases as the Covid-19 economic recovery gathers momentum and local production ramps up, all our businesses in this segment are expected to benefit.

We are optimistic about CADAC, its growth potential and the contribution it will make to our group. It is everything Hudaco looks for in an acquisition: a brand well known in South Africa, distributing an extensive range of high-quality products in the southern African region, with good growth potential under Hudaco leadership.

We will continue to manage our capital allocation to conditions as they unfold, whether by increasing stock, investing in acquisitions, paying down debt, repurchasing shares or distributing dividends.

Hudaco's business model, principally the sale of replacement parts with a high value-added component, and its financial characteristics – high margin and strong cash flows with a limited requirement for investment in fixed assets, make Hudaco resilient. This set of results again bears testimony to that characteristic.

The ANC government's economic policies and its governance failures have been significant contributors to the challenging economic conditions and the ballooning numbers of unemployed experienced by South Africa. Further, the findings set out in the recently released Zondo Report on State Capture are glaring examples of the deterioration in the country's governance. We urge the government to take decisive action to implement the recommendations of the Zondo Commission, to hold people to account for their actions, to in future appoint only highly ethical, competent people to senior state positions and, for the benefit of all citizens of South Africa, to embrace the well-known economic policies that have brought great prosperity to many modern nations over the past seven or so decades.

Appreciation

As we have said before, challenging has become the new normal in South Africa and Covid-19 has exacerbated the demanding economic and political conditions under which we operate. It is only through the commitment and experience of the members of the executive committee, as well as management at an individual business level that the group has been able to deliver the sterling results achieved this year. There is an excellence among our people at all levels within the group and their contribution is valued and appreciated. Our loyal suppliers and customers are essential stakeholders too and we thank them for their roles in our mutual success.

We thank our non-executive directors for always constructively challenging our thinking and sharing the benefit of their extensive experience in the company's best interests.

SJ Connelly
Chairman

GR Dunford
Chief executive

17 February 2022

STRATEGIC FOCUS

2021

- Sustain focus on working capital — Achieved
- Develop more black managers within the group — Partially achieved
- Improve performance of security and communication businesses — Not achieved
- Continue extraction of synergies through rationalisation of engineering consumables businesses — Achieved
- Find a significant value-adding acquisition — Partially achieved
- Grow capacity of alternative energy businesses — Achieved

2022

- Manage through international supply chain challenges
- Further improve margins
- Contain the expense ratio as input costs rise
- Develop more black African managers within the group
- Improve performance of security and communication businesses
- Find a significant value adding acquisition

Achieved Not achieved Partially achieved

STAKEHOLDER ENGAGEMENT

In terms of the requirements of sustainability reporting standards, we ask stakeholders what material information they require to maintain a mutually successful and sustainable business relationship. Stakeholders we are accountable to are: investors, shareholders, principals/suppliers, staff, customers and communities in the vicinity of our premises. In this report, we aim to provide each with information on material issues as identified in the table below.

We have rated the following stakeholders as the most significant (in no particular order) based on the likelihood that they will access and use this report, our ability to provide information that will be useful to them and their level of interaction with the group:

- Shareholders and investors, current and future, private and institutional;
- Staff: the 3 768 people in Hudaco's 29 businesses;
- Principals/suppliers; and
- Bankers.

The table below details the issues considered by stakeholders to be material. These were determined through our stakeholder engagement process, which included discussions with members from each of the stakeholder groups, either directly or through executives of our businesses. The investment community is invited to suggest further disclosure where they identify a need for specific information, as are bankers during annual review meetings and, in this time of Covid-19, regular update discussions. Overwhelmingly, the major topics of interest this year for most categories of stakeholders were how the international and local supply chain challenges have affected the availability of the products the group supplies and the impact Covid-19 has continued to have on the group and its employees. Other topics included the effect of intermittent loadshedding, acquisition opportunities in a post-Covid environment, prospects for economic growth in South Africa, capital allocation, the impact of the ongoing volatility of the Rand. The relevance of the various sections of this report to the different classes of stakeholders is set out on the inside front cover.

Stakeholders' material issues

Stakeholders	Relationship	Reason	Material issues	Communication forum
Private shareholders and institutional investors	Shareholders	Derive dividend income from trading performance and capital appreciation from market value of Hudaco shares.	• Compliance, governance • Share price, dividend policy, return on investment, profitability • Capital allocation • Management competence • Depth of management and succession planning • Growth strategy • Business model • Acquisitions – deal flow and success • Executive remuneration • Other risks	• Integrated and interim reports • Informal discussions • Results presentations • Facilitated discussions • Hudaco website • Annual general meeting • Analyst reports • Press interviews • SENS announcements
Bankers	Financiers	Take credit risk on and derive interest and fee income from Hudaco.	• Statements of financial position, comprehensive income and cash flows • Key risks • Succession planning	• Integrated and interim reports • Results presentations • Annual credit review meetings • Capital raising and other discussions • Covenant reports • SENS announcements
Intermediary customers and end-users of products	Customers and end-users	Hudaco supplies them with quality products at reasonable prices and technical support to sustain their operations.	• BEE credentials • Brand • Product availability • Product quality • Technical support • Service turnaround • Pricing • Reputation	• Personal contact • Product marketing • Service levels • BEE scorecards • Business unit websites • ISO accreditation • Websites • Customer communications

Stakeholders	Relationship	Reason	Material issues	Communication forum
Management of businesses	Management, potential vendors	Rely on Hudaco for their livelihood and meeting career aspirations as well as for investment-related returns through the share appreciation bonus and share matching schemes. Covered by group life and disability assurance. Make use of corporate wellness initiatives to maintain a focus on executive health.	• Hudaco brand, association with quality products, endorsement in market through association • Treasury function, insurance, company secretarial functions, internal audit • Synergies within the group • Management and resource support from centre for growth • Group structure, relevance of Hudaco group issues to operations • Critical mass pricing advantage • Business model • Leadership succession planning, careers, knowledge management systems • Functional relationships with group management • Cash position during earn-out process • Remuneration • Wellness and health programmes • Group life and disability cover	• Integrated report • Results presentations (internal) • Management conferences • Personal contact • Video conferencing through Covid-19 • Retirement fund reports and information • Wellness days and reports • CFO meetings • Risk management meetings
Owners of privately owned businesses	Potential vendors	Hudaco provides a potential exit strategy or a means of realising the value in their businesses and building a career within the group.	• Acquisition and earn-out process • Exit opportunities • BEE credentials • Finance and support for growth opportunities	• Integrated report • BEE scorecards • Personal contact
Principals	Suppliers	Rely on Hudaco for a route to market without them having to establish a presence in SA, a relatively small market which has significant regulatory complexities.	• Market shares • Sales forecasts • Stockholding and ordering processes • Distribution strengths • Customer penetration • Cultural barriers in dealing with local buyers • Creditworthiness	• Personal contact • Video conferencing through Covid-19 • Integrated report • Business unit websites • ISO accreditation
Employees	Staff	Rely on Hudaco for their livelihood (during and post-employment) and personal development to meet career aspirations. Black employees and their close family may be eligible for bursaries from the BEE bursary scheme. Covered by group life and disability insurance. Make use of corporate wellness initiatives. Black employees with over three years' service have an equity interest.	• Career development • Leadership succession planning • Remuneration • Skills retention and development • B-BBEE • BEE bursary scheme • Health and safety • Wellness and health programmes • Group life and disability cover • BEE ownership trusts	• Integrated report • Policy documentation • Personal contact • Video conferencing through Covid-19 • Retirement fund reports and information • BEE bursary scheme communications • Wellness days and reports • Health and safety reports • Trustee elections and AGMs for BEE ownership trusts
Government	Tax collector, transformation regulator, education and training authority	Rely on Hudaco to collect and remit indirect taxes, to pay direct taxes, to progress transformation and to provide education and training programmes.	• VAT • PAYE • Income tax • Dividends tax • Customs duty • BEE • Learnerships and apprenticeships	• Statutory returns • Integrated reports • Results presentations • Correspondence • BEE certification • Employment equity reports • Workplace skills plans and reports

RISKS AND MITIGATION

Key risks

In the table below, we highlight the key risks faced by the group, in order of perceived priority, and how these risks are mitigated:

Risk	Explanation	Potential exposure	Mitigation	Residual risk assessment/ probability	Associated opportunity
Loss of a major brand	While the portfolio of brands is diverse, there are two major brands the loss of which could have a significant effect on the results of the group. These brands, each of which contributes 8% to 10% of group operating profit, would be hard to replace. The portfolio also includes several other important brands.	Up to R80 million in operating profit per annum per brand.	Maintaining strong relationships with principals and serving them well in the South African market. This is monitored by the audit and risk management committee. The relationships with the major brands are managed by the group chief executive. Acquisitions increase the number of suppliers and dilute exposure to any one brand. The element we cannot mitigate is the risk that a major principal ceases to exist, eg through international corporate activity.	Highly unlikely. This risk follows from the strategy of representing quality major international brands.	There would not be an opportunity associated with the loss of one of the group's two major brands. The loss of a lesser brand may present an opportunity to bring into the portfolio a brand that has something more to offer.
Disruptions in the supply chain	Shortages of raw materials and components, a dearth of shipping containers, scarcity of ships coming to South Africa and inefficiencies at local ports all have the potential to impede Hudaco's access to adequate inventory.	Up to R200 million in operating profit per annum if not adequately managed.	Businesses maintaining close relationships with principals and making them aware as early as possible of requirements. Monitoring closely orders in progress. Using first rate, agile shipping and logistics companies to expedite receipt of goods.	Highly likely. The Covid-19 pandemic has caused major disruptions to the international supply chain and the challenges are likely to continue for the time being.	Supply chain disruption has affected competitors too. Hudaco's significant stock levels and agility in managing the supply chain enable it to meet customer needs and maintain margins where competitors have no stock.
Foreign exchange rate risk – significant strengthening of the Rand	If the Rand strengthens, the purchase prices of our products drop and selling prices must be reduced to remain competitive. This reduces gross profit and since our expenses are Rand-based, they do not decline. Net operating profit decreases.	Without management intervention, for each 10% by which the Rand strengthens, operating profit could decrease by R200 million per annum.	Management of quantities and lead times helps to delay the impact. Management intervention to increase gross margins. The primary risk cannot be mitigated.	Variable depending on extent. This risk is integral to our strategy of holding inventory to provide customers with ready availability of imported goods with long lead times.	A sustained weakening of the Rand by more than the inflation rate without significant volatility would result in gross profits rising faster than expenses, increasing the operating profit margin.
Ineffective insurance	The risk that there is a major loss (eg through fire) and that the insurance claim is not met because the policy was defective or the insurer fails.	R200 million.	Insuring through reputable long-established underwriters and engaging high-quality insurance brokers as advisors.	Highly unlikely.	No associated opportunity.
Inadequate supply of electricity and diesel	The lack of electricity is a constraint on GDP, a significant driver for Hudaco. The mining industry, in particular, tends to be affected when electricity is in short supply. Hudaco's sales tend to decrease when its customers are unable to operate due to electricity constraints. A prolonged lack of electricity could cause a shortage of diesel, which would exacerbate the situation.	Unable to quantify.	Acquiring businesses that serve different sectors, some of which are less dependent on electricity supply. Geographic diversification.	Highly likely, considering recent experience of loadshedding and the current parlous state of Eskom. This risk is integral to our strategy of supplying to industries that happen to have high electricity requirements.	Potential to sell batteries, inverters, solar products and generators to industry and the consumer market.
Poor acquisition	Acquired business performs well below expectations or exposes the group to significant unexpected risks.	R150 million.	Approving acquisitions on the basis of thorough due diligence reviews conducted by professionally qualified advisers and by our own experienced acquisitions team and including earn-out and clawback provisions in acquisition agreements.	Unlikely. This risk is introduced by the strategy to grow the group by acquisition.	Quality acquisitions add significant value to the group.
Not meeting BEE requirements	Although Hudaco has put in place an appropriate BEE shareholding structure and targets on the dti scorecard have been achieved, this is against a backdrop of ever-changing requirements. Certain industries (eg mining) have their own charters with different requirements and certain entities set criteria more stringent than the applicable charter. Sales may be lost through not having adequate BEE credentials.	Unable to quantify.	The group transformation and human resources executive monitors legislation and charter requirements to keep our businesses abreast of new requirements. She helps to ensure the necessary certifications have been obtained by the group or each business, as appropriate. Aspects such as ownership requirements are escalated to board level.	Less than even chance. This strategic risk is part of doing business in South Africa and is always front of mind in operations.	We have been able to grow the group through acquisitions because we offer strong BEE credentials to vendors. Also, as competitors are faced with the same BEE challenges, we are able to attract business from those that fall short of requirements. On the revised dti scorecard, we have over 26% black ownership and the overall rating is level 4, which provides a customer with 100% procurement recognition.

Risk	Explanation	Potential exposure	Mitigation	Residual risk assessment/ probability	Associated opportunity
Reputational risk	The risk is that the group or an individual business may suffer damage to its reputation in the event of a product or corporate governance failure or through association with a supplier whose reputation becomes tainted.	R60 million.	A strong corporate governance framework and code of ethics as well as specific assurances to ensure compliance with competition legislation. Sourcing major brands from high-quality principals and seeking assurance, including through factory visits, in respect of the ethical practices and product quality of second and third tier suppliers.	Unlikely. The decentralised structure increases the risk relative to a centralised model but should also serve to contain any potential damage.	Hudaco's governance and ethics should put it at an advantage relative to competitors that face the same risks. While reputational issues are undesirable and absolutely to be avoided, the appropriate response, managed well, can have the effect of enhancing a reputation.
Sustained labour unrest in the mining or manufacturing sectors	Of group turnover, currently 15% is sold directly to the mining industry and 15% into manufacturing, much of which is to service the mining industry.	R50 million.	The group has a diverse customer base both within and outside of mining. It is unlikely that all types of mining will be affected.	Even chance.	This provides an incentive to further diversify the customer base through extending our range of products and customer geographies.
Local manufacturer more competitive	Although for most of our key agencies there is little prospect of a local manufacturer being able to produce a product of similar quality at a competitive price, there are some where this could be a threat when the Rand and the economy are weak.	R30 million.	Carrying a second-tier range, which many of our businesses do, and finding other sources of supply reduce the potential impact.	Highly unlikely for major brands but more risk on lesser product lines.	Second tier brands have been successful for the group. We distribute some excellent local products and could get distribution rights for emerging quality local brands.
Litigation risk	The group is involved in litigation from time to time. In such instances there is a risk of loss if Hudaco is the defendant and of costs if Hudaco is the plaintiff.	R15 million.	Use of high-quality legal teams and careful management of cases, including through thorough preparation.	Highly unlikely.	Depending on the circumstance, legal action could provide the opportunity to recover assets, preserve reputation or defend a threat to assets.
Natural disaster or epidemic at supplier(s) or customer	A natural disaster or epidemic could cripple a factory of a major supplier(s) (or of a component supplier to our supplier) or the operations of a major customer. We have seen through Covid-19 that the risk of a pandemic, by definition on a much greater scale, also exists.	R20 million. For a pandemic, R500 million.	We carry up to six months' stock which gives time to react to such an event. Major suppliers generally operate from several factories in different cities and/or countries. The loss of a factory could be disruptive to the supply of certain products but production would quickly be moved to other factories. The group has a widespread supplier and customer base and is not overly reliant on any single one. Insurance is held against certain supply interruptions.	Highly unlikely. Nevertheless, the risk has materialised as a pandemic, with devastating effect the world over.	Natural disasters or epidemics in other parts of the world do not represent opportunities to the group, except to the extent that those competitors whose suppliers do not have the same level of geographic diversification as ours may be affected more heavily. A natural disaster locally may create demand for some of the products we sell.
Credit risk	Although credit risk is well spread and larger debtors are usually blue chip, government now awards large contracts to new BEE entities, on which we occasionally have to take credit risk.	R20 million.	In such cases, we manage the delivery process as closely as possible and strive to find other ways to minimise this risk. Normal credit risk is managed through having low concentration of credit risk and through disciplined control procedures.	Unlikely to be abnormal. This risk, beyond the normal, is a consequence of BEE procurement.	If managed well, there are significant opportunities in supplying the requirements of government.
Increase in interest rates	Acquisitions have been funded through borrowings, which introduces the risk that finance costs will go up if market interest rates increase.	R11 million per annum if the JIBAR increases by 2% per annum.	Effective management of working capital to minimise exposure. Other forms of raising funds for acquisitions can be considered.	Highly likely.	Higher interest rates could have the effect of reducing prices of businesses for sale. A decrease in interest rates will give rise to an equivalent reduction in finance costs.
Loss of key executives in businesses or at group level	When members of the executive team retire or leave, the risk is that transition could have a significant negative effect on the group. Some businesses are sold to us as an exit strategy for some of the existing owners. Succession planning and integration into the group is therefore vital for sustainability of the business.	Unable to quantify.	The group has a formal succession policy. Succession plans, emergency and planned, are considered annually by the nomination committee. Members of the group executive team have developed in-depth knowledge of each business. Replacements for executives who retire are able to spend several months working under the guidance of their predecessors and experienced people are appointed to the executive committee when required. Earn-out periods keep vendors in acquired businesses to facilitate transition.	Highly unlikely. The risk is always prevalent but arises specifically through the strategy of growing the group by acquiring entrepreneurial businesses.	Retirement of members of the executive team creates visible opportunities to which the next level of management can aspire. This provides them with an incentive to prove their value through superior performance.

BOARD OF DIRECTORS

NON-EXECUTIVE DIRECTORS

STEPHEN CONNELLY (70)

ACMA

Non-executive chairman of the board and the nomination committee and member of the remuneration committee

Stephen immigrated to South Africa in 1976. In 1982 he was a founding partner of Valard Limited where he was managing director. Valard was acquired by Hudaco in 1992. Stephen was Hudaco's chief executive for 22 years until his retirement in 2014. He continued to serve on the board in a non-executive capacity and was appointed chairman in April 2018. He is also independent non-executive chairman of Sturrock & Robson, a privately owned international group of engineering businesses with its head office in Europe.

Stephen joined the board in 1992.

NONYAMEKO "NYAMI" MANDINDI (55)

BSc (Quantity Surveying), Executive Masters in Positive Leadership and Strategy

Independent non-executive director, chairman of the social and ethics committee and member of the audit and risk management committee and the remuneration committee

Nyami started her career as one of the first black female quantity surveyors in South Africa. As one of the founding partners of a QS firm in the 1990s, she contributed to the growth of the firm to one of the top five quantity surveying businesses in SA. She has vast operational experience having served as CEO of Intersite and Project Manager for the Rea Vaya BRT system for the City of Johannesburg. She served as CEO and business line director of Southern & East Africa of Royal Haskoning DHV, where she was part of the global leadership team, leading the Africa Growth Strategy. She was also the chairman of Group Five and a member of its nomination committee.

Nyami serves on the boards of Hyprop Investments, Exemplar REITail Limited and Kusile Africa Development.

Nyami joined the board in 2015.

MARK THOMPSON (69)

BCom, BAcc, CA(SA), LLB

Independent non-executive director, chairman of the remuneration committee, member of the audit and risk committee and of the nomination committee

Mark served, *inter alia*, as chief financial officer of Sappi and group treasurer of Anglo American and was a member of the Rand Merchant Bank audit committee and its corporate and investment banking credit committee and a member of the board and chairman of the audit, risk and compliance committee of First Rand Insurance Services Company.

He currently holds non-executive positions with Sasfin Bank and Sasfin Holdings (member of the board, audit committee, group risk and capital management committee as well as chairman of the credit and large exposures committee), PPC (member of the board, investment and strategy committee and chairman of the audit, risk and compliance committee), Rockwood Private Equity (member of its advisory board and member of the board of one of its major unlisted investments and chairman of both its audit and remuneration committees) and Sappi Limited Pension Fund (chairman of the audit committee).

Mark joined the board in 2017.

DHANASAGREE "DAISY" NAIDOO (49)

Masters in Accounting (Taxation), CA(SA)

Lead independent non-executive director, chairman of the audit and risk management committee, member of the nomination committee and of the social and ethics committee

Daisy serves as an independent non-executive director on the boards of Anglo American Platinum, Absa Group, Absa Financial Services and Mr Price Group. In addition, she chairs the audit committees of Mr Price and Absa Financial Services.

She spent nine years with Sanlam Capital Markets, including as head of the Debt Structuring Unit and served as a member of the Tax Court of South Africa for ten years, until January 2022.

Daisy joined the board in 2011.

EXECUTIVE DIRECTORS

GRAHAM DUNFORD (57)

NDip: Mechanical Engineering

Chief executive and executive committee chairman

Graham joined Hudaco in 2001 when it purchased Bauer Geared Motors, where he was the managing director. He became CEO: Electrical power transmission in 2005, CEO: Power transmission in 2009 and CEO: Bearings and power transmission in 2010.

He joined the board in 2009 as an alternate director and became a full board member in 2010.

He was appointed group chief executive in 2014.

CLIFFORD AMOILS (60)

BCom, BAcc (cum laude), CA(SA)

Group financial director and member of the executive committee

Clifford was a partner at Grant Thornton (which has since merged into BDO) for 21 years and headed its audit division. He was a member of its National Council and served on Grant Thornton International's audit advisory committee. He was a member of the Financial Reporting Investigation Panel of the JSE from 2008 to 2018.

He joined the board in 2009.

LOUIS MEIRING (57)

NDip: Electrical Engineering

Executive director and member of the executive committee and social and ethics committee

Immediately prior to joining Hudaco, Louis was with the Zest WEG Group for 27 years, serving as its group CEO from 2012. He has extensive experience in the engineering consumables industry.

He joined the board in 2019.

EXECUTIVE COMMITTEE

GRAHAM DUNFORD (57)	CLIFFORD AMOILS (60)	LOUIS MEIRING (57)	PHYLLA JELE (43)	BARRY FIELDGATE (60)
NDip: Mechanical Engineering	*BCom, BAcc (cum laude), CA(SA)*	*NDip: Electrical Engineering*	*BA, MAP, Executive Human Resources Programme, Programme in Human Resources Management*	
Chief executive	*Group financial director*	*Executive director*	*Group executive: Transformation and human resources*	*Portfolio executive: Deutz Dieselpower, Filter and Hose Solutions, MiRO, SS Telecoms, Ambro Steel, Sanderson Special Steels and The Dished End Company*
33 years' service	*13 years' service*	*3 years' service*	*2 years' service*	*14 years' service*
1	2 3	4	3	5

Service is with Hudaco and businesses acquired.

CHIEF EXECUTIVE

1 The executive committee is chaired by the chief executive, Graham Dunford, and meets quarterly, prior to the board meeting. Its principal terms of reference are to advise the chief executive on the formulation of operating policy, the implementation of group strategy and the management of group risks.

CONSUMER-RELATED PRODUCTS

Automotive aftermarket
- 6 Abes Technoseal
- 7 Partquip
- 7 A-Line Wheels
- 7 Ironman 4X4

Batteries and sustainable energy
- 6 Deltec Energy Solutions
- 6 Eternity Technologies
- 6 Specialised Battery Systems
- 4 Hudaco Energy

Data networking
- 5 MiRO
- 5 SS Telecoms

Security and communication
- 4 Commercial ICT
- 4 Elvey Security Technologies
- 4 Pentagon
- 4 Global Communications

Power tools and fasteners
- 9 Rutherford
- 9 FTS Boltworld

ENGINEERING CONSUMABLES

Bearings and belting
- 8 Bearings International
- 8 Belting Supply Services
- 8 Brewtech Engineering

Diesel engines and spares
- 5 DD Power
- 5 Deutz Dieselpower

Filtration
- 5 Filter and Hose Solutions

			
DAVID ALLMAN (63)	**CARL ROGERS (59)**	**ERNIE SMITH (51)**	**CHRIS PILLAY (48)**
S.A.I.M. Dip: Marketing Management/Production Management	*BCom, MBA*	*BTech: Industrial Engineering*	*BA Hons (cum laude), MBA*
Portfolio executive: Abes Technoseal, Deltec Energy Solutions, Eternity Technologies and Specialised Battery Systems	*Portfolio executive: Partquip, A-Line Wheels and Ironman 4X4*	*Portfolio executive: Astore Keymak, Bearings International, Belting Supply Services, Brewtech Engineering, Bosworth Executive: QHSE and projects*	*Portfolio executive: Rutherford and FTS Boltworld*
35 years' service	*27 years' service*	*4 years' service*	*1 year service*
6	7	8	9

Hydraulics and pneumatics
- 4 Dosco Precision Hydraulics
- 4 Ernest Lowe
- 4 Gear Pump Manufacturing
- 4 HERS

Thermoplastic pipes and fittings
- 8 Astore Keymak

Specialised steel
- 5 Ambro Steel
- 8 Bosworth
- 4 Joseph Grieveson
- 5 Sanderson Special Steels
- 5 The Dished End Company

Electrical power transmission
- 4 Powermite
- 4 Proof Engineering
- 4 Three-D Agencies
- 4 Varispeed
- 4 Hudaco Power Transmissions

GROUP SERVICES

Finance
- 2 Accounting
- 2 Finance
- 2 Risk
- 2 Tax
- 2 Treasury
- 2 Group secretarial

Human resources
- 3 Human resources
- 3 Transformation
- 8 Occupational health and safety

Environment
- 8 Environmental management

FINANCIAL REVIEW

An important function at group level is the allocation of capital. Hudaco's overriding strategy is to use available resources to invest in growing existing businesses and to acquire new businesses that then become part of the group's core. Nevertheless, on a regular basis and each time we consider an acquisition, we assess the other capital allocation options available to us, including repaying borrowings and buying back shares.

Measurement of financial performance

Our overriding financial objective is to achieve long-term growth in earnings and dividends per share while generating adequate returns for shareholders, and our internal operating measures and incentive programmes are geared towards this goal. We measure our financial performance based on comparable earnings because we believe it is more representative of the ongoing results of the group. Comparable earnings exclude the impact of the following:

- The proceeds of a legal settlement in 2020 of R35 million, pertaining to a case brought by Hudaco against the advisers on its BEE transaction put in place in 2007. The proceeds increased 2020 basic and headline earnings per share by 111 cents per share.
- Profits and/or losses that arose because, based on results to date, the latest estimate of the earn-out payments to be made to vendors of businesses acquired in recent years were different from the previous estimate. IFRS 3 requires that, where a business is acquired with a contingent purchase consideration, changes to the estimated purchase price be recognised in profit for the year. The accounting is counter-intuitive because a loss arises when the acquired business performs better than expected and a profit arises where it underperforms expectations. In 2021 a recoupment from a vendor increased basic and headline earnings per share by 28 cents while there was a gain of 139 cents in 2020.
- Impairment of goodwill, which is also excluded from headline earnings. Reductions in vendor liabilities on earn-out payments are sometimes counter-balanced by an impairment of goodwill in the business concerned. There was no goodwill impairment in 2021 or 2019. In 2020 impairment of goodwill decreased basic earnings per share by 932 cents. This impairment was added back for headline earnings per share in 2020.

The impact of the initial lockdown in response to the Covid-19 pandemic in the first half of 2020 was so overwhelming that the results for the full 2020 year do not provide a meaningful point of comparison for the 2021 financial performance. To provide perspective, where appropriate, metrics from our 2019 results are also included:

- We target real growth in comparable earnings per share over the medium and long-term. Comparable eps for 2021 is 1 613 cents, compared to 800 cents in 2020 and 1 240 cents in 2019, an increase of 30.1% on 2019. The repurchase of shares during 2021 and 2020 reduced the weighted average number of shares outstanding so it is also worth considering the total comparable earnings, which increased 24.8% from R392 million in 2019 to R490 million in 2021. As expected, the repurchases have had a positive effect on earnings per share.
- Hudaco aims to achieve earnings growth at a rate at least in line with the earnings of the All Share Industrial Index (J257). Since 2016, earnings in the J257 showed compound growth of 11% and since 2011 its growth has been 8.7%. To achieve this, we encourage our businesses to grow while producing a

return over time exceeding the cost of capital. Based on the 2021 results, notwithstanding the excellent 2021 performance and the resilience shown in 2020 in the face of the Covid-19 lockdowns, we lag the growth in the industrial index over ten years by 3%. Achieving growth with the turmoil for so much of the 10-year period in what had been our core markets – mining and manufacturing – has been difficult.

- Return on capital employed is considered in the context of the weighted average cost of capital, particularly in the context of striving to add to and not diminish the intrinsic value of the group.
- Return on equity is an important measure at group level. We target to achieve ROE of a minimum of 18% but strive to reach 24%. The ROE for 2021 was 19.5%. We recognise that, with equity increasing by income retained, in years when earnings don't grow by at least as much as the increase in equity, axiomatically ROE will decline.
- The main operating performance measure used by the businesses in the group is RONTA – the return (PBITA) on average net tangible operating assets (NTOA) employed during the year. NTOA is total assets excluding investments, goodwill, intangibles and cash, less current liabilities excluding interest-bearing debt. Each business is measured against its own benchmark – its objective being to maximise its RONTA by managing the balance between the operating profit margin (%) and net operating asset turn (times). The lower the operating profit margin, the higher the net operating asset turn must be to achieve a return exceeding the cost of capital.

We achieved an operating profit margin of 11.4% for 2021, compared with 8.2% in 2020 and 10.4% 2019. The NTOA turn of approximately three times is usual and requires management to achieve the right balance between the elements of working capital, ie inventory, receivables and supplier credit.

We have set an internal target of RONTA of no less than 30% for the group as a whole. In the face of Covid-19 this was not achieved for 2020 but in 2021 RONTA was a respectable 37%, while in 2019 we just achieved our target as the RONTA was 30%.

Impairment of goodwill

Assessing goodwill for potential impairment always requires a high degree of judgement in projecting the future cash flows of a business. We normally do this annually at financial year end unless factors have arisen that warrant assessment during the year. The assessment at 30 November 2021 indicated that no further impairment of goodwill was required. In 2020, the board was of the view that the Covid-19 pandemic was a factor that warranted assessment during the year, so goodwill impairment tests were conducted for the May 2020 interim results. There was significant uncertainty around future cash flows in the throes of the pandemic so a thorough exercise was conducted based on a range of potential outcomes and building additional risk premium into the weighted average cost of capital. The best estimate of impairment indicated that it was appropriate to impair goodwill by R345 million, more than half of which was in the Global Communications and security cluster. We assessed goodwill for impairment again at the 2020 year end and concluded that there had been no further impairment in any of the businesses.

Capital allocation and share repurchases

An important function at group level is the allocation of capital. Hudaco's overriding strategy is to use available resources to invest in growing existing businesses and to acquire new businesses that then become part of the group's core, generating profits and cash for many years into the future and taking advantage of synergies that make sense within our decentralised business model. This approach of building for the long term is different from the private equity model, in which the leverage and exit strategy are fundamental to success. With this in mind, first prize is to continue applying cash generated and moderate borrowings to acquire successful businesses at a multiple of around five or six times profit after tax, which is particularly value accretive when Hudaco shares are trading at multiples of 10 or 11 times earnings, as they usually do. Nevertheless, on a regular basis and each time we consider an acquisition, we assess the other capital allocation options available to us, including repaying borrowings and buying back shares.

Suitable acquisitions proved elusive and the Hudaco share price traded lower during both 2020 and 2021 so buying back shares became an attractive option. After paying down some of the debt, the company utilised available cash resources, to repurchase 1.84% of the issued shares in the open market. In total, 609 211 shares were repurchased between 1 April and 7 October 2021 at a cost of R69.0 million, including transaction costs. Excluding transaction costs, the lowest price paid per share was R96.19, the highest R113.50 and the weighted average R112.83. These repurchased shares were delisted and cancelled: 404 146 on 29 July 2021 and 205 065 on 15 December 2021.

Since 30 November 2021, the share repurchase programme has continued under a mandate given to a broker and without further reference to the company, resulting in a further 60 880 shares being acquired. The mandate has been irrevocable until the closed period comes to an end upon the release of these results. The lowest price paid was R126.00 and the highest has been R128.00, excluding transaction costs. These shares will be delisted and cancelled in due course.

Dividends

Hudaco's long-term dividend policy is to pay interim and final cash dividends to shareholders totalling between 40% and 50% of comparable earnings, resulting in dividends being covered by earnings by between 2.5 and 2.0 times. This year, the dividends per share total 760 cents and are made up of an interim dividend of 240 cents and a final dividend of 520 cents. This amounts to R229 million and represents 46.7% of comparable earnings for the year. Dividends in 2019 totalled 600 cents per share, of which 410 cents was a final dividend, representing a total of 48% of comparable earnings, whereas no interim dividend was paid in 2020 because of the impact of the Covid-19 pandemic on the first half results and in the second half a final dividend of 410 cents per share was declared.

Cash flow

Hudaco businesses are cash generative. General economic stagnation can inhibit the generation of cash from certain businesses but that is transient and not endemic to the business model. Other of our businesses usually compensate for this with very strong cash flows.

FINANCIAL REVIEW continued

Net cash flow from operating activities of R690 million (2020: R830 million), after investing R116 million in working capital and paying R220 million in taxation, was very strong and, as always, demonstrates the cash-generative nature of Hudaco's businesses. R213 million was paid out as dividends, finance costs excluding on the lease liabilities for premises were R36 million, R68 million was spent on property, plant, equipment and software and R126 million, including finance costs, was paid to landlords for the right to use premises. R69 million was invested in repurchasing Hudaco shares, share-based payment obligations of R16 million were settled and long-term borrowings were paid down by R150 million. The net short-term position moved R25 million, from positive bank balances of R136 million to R161 million.

The additional R116 million invested in working capital was pursuant to a deliberate strategy to increase inventories in the face of a myriad of challenges within the international supply chain, including a worldwide shortage of certain raw materials (especially semi-conductors), reduced production capacity because of Covid-19, the dearth of shipping containers available in China, backlogs in shipping capacity, inefficiencies at South African ports and the consequential reluctance of some shipping lines to stop in South Africa.

Borrowings

Hudaco's borrowings have arisen from the acquisition strategy to achieve growth in the face of a moribund economy but the gearing deliberately remains conservative. At 30 November 2021, net borrowings amounted to R469 million, down R174 million from R643 million in 2020. The interest rate on the R300 million credit facility with Rand Merchant Bank and the R500 million facility with Absa is JIBAR plus 1.44%. At year end JIBAR was 3.725%. There are also facilities of R300 million with Standard Bank and R500 million with Nedbank, both at an interest rate of JIBAR plus 1.55%. All four are evergreen revolving credit arrangements whereby a bank is required to provide 367 days' notice should it wish to call up the facility but Hudaco has full flexibility to make repayments and to redraw funds, subject to basic credit assessments at certain levels. At year end, facilities of R550 million were committed by the banks but not utilised.

Hudaco has the capacity to take on more senior debt and our acquisition strategy may create the opportunity to do this in future, so we consider it prudent to have facilities available. Perhaps more important than managing gearing is an objective to ensure that interest on senior debt is covered at least five times by operating profit. We also aim to operate with EBITDA being at least 50% of net senior debt. Our covenants with the banks are less onerous, being four times interest cover and EBITDA 40% of net senior debt.

IFRS 16: *Leases*

As a result of implementing IFRS 16: *Leases* with effect from 1 December 2019, there is now a right-of-use asset for premises of R422 million and a lease liability of R477 million on the statement of financial position. The statement of comprehensive income contains a depreciation charge of R108 million and finance costs of R32 million. Rent actually paid to landlords amounted to R126 million.

Taxation

The group's effective rate of taxation this year is 28.5%. There are no existing factors that would normally result in the rate varying significantly from the standard rate, however this year the impairment of deferred tax assets in Kenya and Namibia had the effect of increasing the effective rate, while the recoupment of purchase price from the vendor of a business and our BEE learnership programme reduced it.

The gross contribution to government in South Africa, comprising direct and indirect taxation, amounted to R769 million (2020: R576 million) for the year ended 30 November 2021. The composition of this figure is set out in the value-added statement on page 29.

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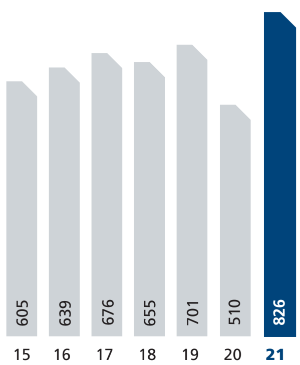
Financial risk management

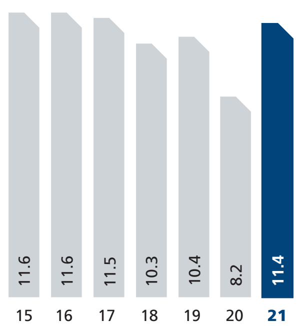
Significant financial risks in the group have been identified and are considered at each board, executive committee and audit and risk management committee meeting. These are described on pages 18 and 19. The impact of each risk is quantified and its probability is assessed. Measures are put in place to manage the risk, after which the residual risk is assessed. A risk tolerance line helps to ensure that any risks potentially greater than an acceptable level are

18

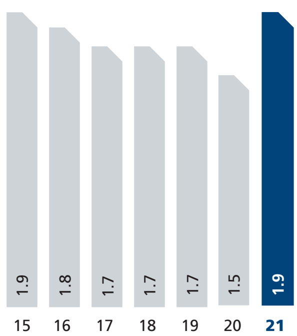
OPERATING PROFIT (RM)



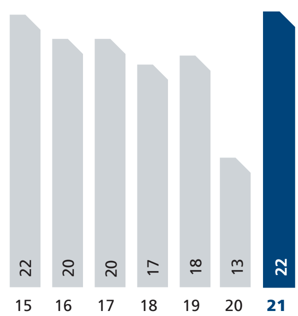
OPERATING PROFIT MARGIN (%)
OPERATING PROFIT/TURNOVER



NOA* (TIMES)
TURNOVER/AVERAGE NOA



RETURN ON NOA* (%)
OPERATING PROFIT/AVERAGE NOA



* *Net operating assets*

identified early and avoided or mitigated. The group's risk appetite and risk tolerance statements are considered by the operational risk committee, executive committee and audit and risk committee. The ways in which the group manages foreign currency risk, interest rate risk, credit risk and liquidity risk are fully set out in note 24 to the financial statements. 124

Each business, or cluster of businesses with shared services, has its own financial team in place which operates substantially independently but to group prescribed standards and policies. The size and strength of the team depends on the size and complexity of the business or cluster. Smaller businesses are provided with appropriate support from within a cluster.

Group services

Services currently handled at head office, and provided free of charge to operating businesses, are tax, company secretarial, treasury (including foreign exchange and hedging), insurance, certain elements of the B-BBEE scorecard, benchmarking and negotiation of leases for premises, employee benefits, group risk (including internal audit and IT governance), QHSE management, human resources support and the use of behavioural assessment software to assist in recruitment and management of personnel. Buying foreign exchange through head office is easier and cheaper for a business than dealing directly with a bank. Businesses enjoy lower bank charges, rates of interest and insurance premiums as well as better risk benefits for employees by being part of the Hudaco group.

Impact of changes in foreign exchange rates

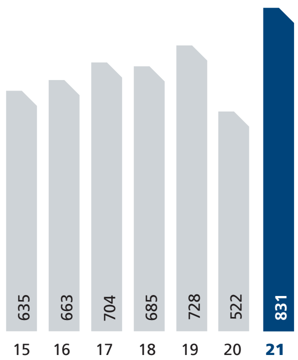
As Hudaco is predominately an importer, prices charged are linked to the Rand exchange rate. While Hudaco's sales line is affected by exchange rate movements, the group's expense line is affected by the local rate of inflation. This imbalance represents a real risk that sales could fall in response to a strengthening Rand whilst expenses, driven by local inflation, continue to rise. The result would be a margin squeeze. We estimate that a 10% strengthening of the Rand could, without management intervention, result in a R200 million fall in operating profit over a full financial year. Similarly, sustained weakness in the Rand creates the opportunity for higher operating margins but currency volatility can either negate or postpone any favourable impact on earnings. We continue to see significant volatility of the Rand, with the US Dollar costing R15.40 at the beginning of the year and R15.78, 2.5% weaker, at the end but with extremes of R13.50 and R16.32.

Over time, one would expect the Rand to weaken by the inflation differential between South Africa and its trading partners, allowing us to pass on imported inflation to our customers at roughly the same rate as the local inflation rate. As we are only too well aware, the Rand is volatile and does not follow the inflation rate differential in the short term. As an importer of our particular portfolio of products, we find ourselves exposed primarily to the Rand-Dollar and Rand-Euro exchange rates. Many of our suppliers manufacture from plants positioned all over the globe and are therefore able to hedge themselves against currency exposures by shifting production capacity over time between currency regions but this does not help with short-term fluctuations between currencies, least of all the Rand.

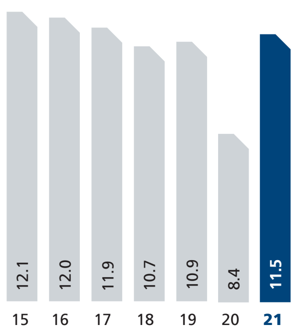
The volatility in the currency makes pricing a challenge and margins are usually kept under pressure, particularly in the weak economic environment to which we have become accustomed, driven by political uncertainty, particularly international, Covid-19 uncertainty affecting world markets and the fragility of our electricity supply. The graph on page 28 shows how the weighted exchange index for the basket of currencies that Hudaco purchases has moved relative to the consumer price index (CPI). Our basket of currencies, on average, cost 9% less in 2021 than in 2020 but there were fluctuations of about 21% between highs and lows during the year. 28

We take out forward exchange contracts to meet future payment obligations in accordance with our hedging policies. Management of our foreign currency exposure is based on the principle of avoiding speculation and employing a hedging strategy designed to achieve high hedge effectiveness. All foreign currency liabilities are hedged directly by the time ownership of the asset passes to Hudaco. In addition, on average about 30% of orders on suppliers are also hedged directly to guard against spikes in exchange rates. An important driver of the extent to which orders are hedged is

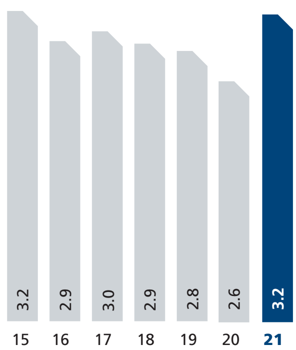
PBITA** (RM)



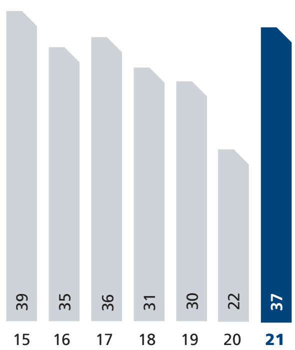
PBITA MARGIN (%)
PBITA**/TURNOVER



NTOA* TURN** (TIMES)
TURNOVER/AVERAGE NTOA



RETURN ON NTOA*** (%)
PBITA**/AVERAGE NOA



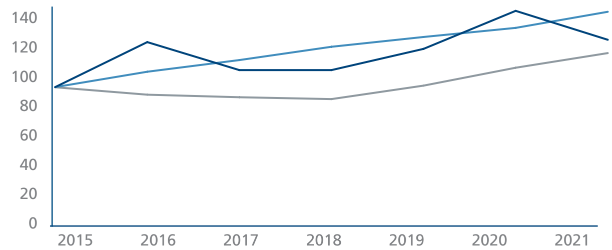
*** Operating profit before amortisation of intangible assets acquired as part of a business combination*

**** Net tangible operating assets*

the opportunity to change selling prices between the dates of placing the order on the supplier and delivery to the customer. In the context of Rand volatility instead of a gradually depreciating currency, there is a risk of being locked in at weak exchange rates at times when the Rand strengthens so we seek to manage exposure before a liability crystalises.

Response times to exchange rate fluctuations through pricing changes, both up and down, have traditionally been fairly quick (about three weeks to a month) but there is a built-in cushion in our five-month stockholding so prices on all products may not change at the same time.

HISTORICAL MOVEMENT IN FOREIGN EXCHANGE RATES FOR HUDACO'S BASKET OF CURRENCIES



— Average currency index
— Year end currency index
— Average CPI

IT systems
In line with our decentralised business model, the management team at each business or cluster of businesses is free to select whichever IT platform it considers most appropriate for the business concerned. There is no centralised IT platform and standardisation is not imposed, except within shared services clusters, but businesses are encouraged to take a lead from those most satisfied with their reporting systems. Generally, little modification is required to off-the-shelf software.

The IT governance committee provides input where appropriate and maintains an oversight role regarding control and best practice. Generally, the businesses that adopted a cluster shared services approach in recent years selected Syspro as their preferred IT platform. For more information on how IT is governed in the group, refer to the corporate governance report, specifically page 89.

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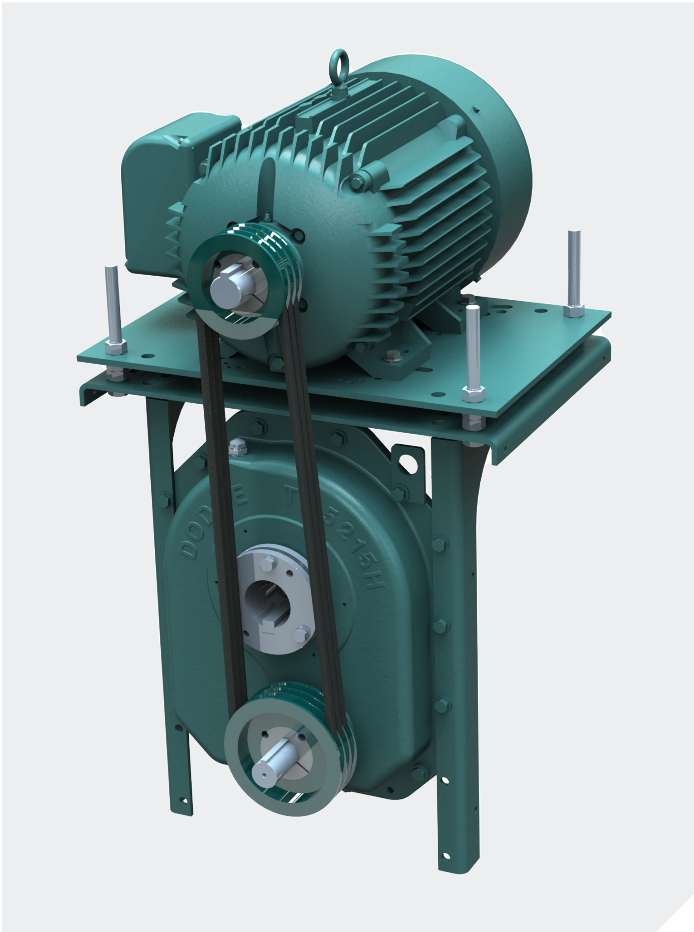
B-BBEE trusts
The two B-BBEE trusts that own 15% of Hudaco Trading Proprietary Limited have all black South African employees of Hudaco Trading who have more than three years' service as their beneficiaries. In February 2022, the trustees of those trusts resolved to distribute approximately R9 million to qualifying black employees, with about 1 800 employees each receiving R5 000.

Secondary listing on A2X
Since May 2020 there has been a secondary listing for Hudaco shares on the A2X exchange. The objectives are to facilitate a reduction in transaction costs for those investors wishing to use the alternative trading platform and to increase the liquidity of Hudaco shares. Volumes traded on this platform have not been significant thus far.



VALUE-ADDED STATEMENT

The group value-added statement measures the wealth the group has created in its operations by "adding value" to the cost of raw materials, products and services purchased. The statement below summarises the total wealth created and shows how it has been shared by the stakeholders who contributed to its creation. Also set out below is the amount retained and reinvested in the group for the replacement of assets and the further development of operations.

GROUP VALUE-ADDED STATEMENT

R million	2021	2020
Turnover	**7 258**	6 254
Less: Cost of materials, facilities and services from outside	**4 961**	4 415
Value added	**2 297**	1 839
Capital items	**10**	48
Income from joint venture		1
Other income		35
Total wealth created	**2 307**	1 923
Distributed to:		
Employees – salaries, wages and other benefits	**1 335**	1 182
Government (gross contributions)	**769**	576
Indirect contributions, duties and levies	**(551)**	(443)
Net finance costs	**36**	69
Shareholders – dividends	**213**	139
– repurchase of shares	**69**	82
Maintain and expand the group		
– profits retained (applied)	**272**	(214)
– depreciation, amortisation and impairment	**164**	532
Total wealth distributed	**2 307**	1 923

STATEMENT OF GROSS CONTRIBUTIONS TO THE GOVERNMENT IN SOUTH AFRICA

R million	2021	2020
Company income tax and CGT	**218**	133
Assessment rates	**6**	6
Customs and excise duty	**168**	86
Skills development levies, UIF and COIDA	**27**	14
Value-added tax not recognised as input credit	**3**	2
Direct contribution to government	**422**	241
Add the following collected on behalf of the government:		
Value-added tax (net)	**184**	193
Employees' tax and UIF	**163**	142
	769	576

REVIEW OF OPERATIONS

We hold distribution rights mainly on an exclusive basis for excellent product brands. These rights usually cover Africa south of the equator. Our most important group objective is to optimise growth within our existing portfolio of businesses through expanding their product offering, increasing market share and improving their geographic spread. Growth is augmented by the acquisition of additional agencies, both within existing operations and through business acquisitions.

Covid-19

Impact of the Covid-19 pandemic on Hudaco's businesses

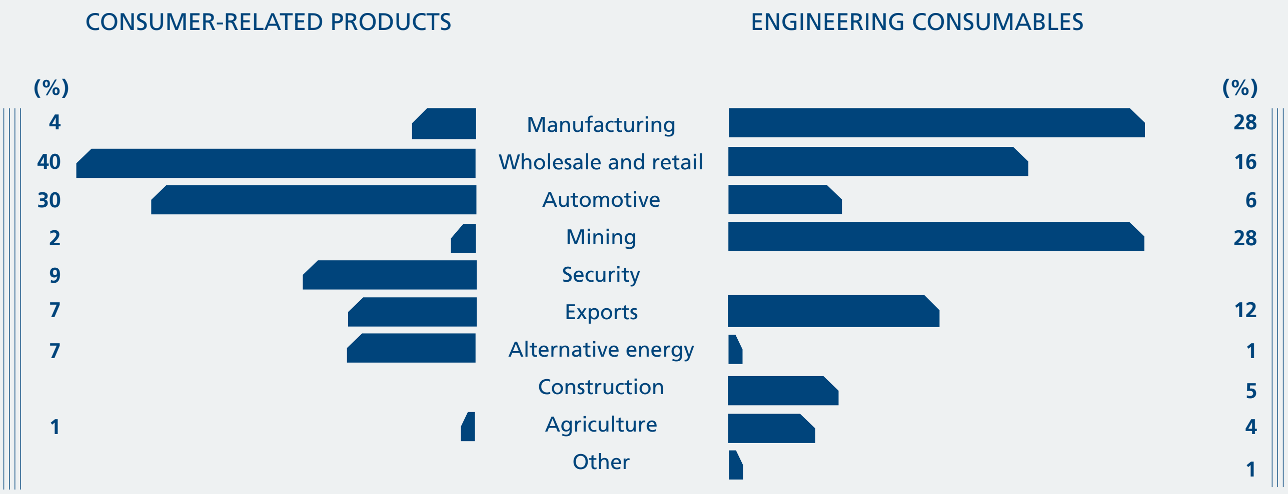
Hudaco's businesses have recovered very well from the ravages of the Covid-19 pandemic and associated lockdowns around the world experienced in the first half of 2020. As events unfolded and lockdown restrictions were eased, demand returned strongly in the second six months of 2020. Although volumes were not at quite the same levels as in the equivalent period in 2019, margins held up better. This recovery has continued through the 2021 financial year. Although there have been serious challenges, both internationally and locally, in the supply chain, the group has been agile in managing its resources and has been able to capitalise on its large stock holding and strong relationships with suppliers to restore margins and capture market share. Worldwide shortages of certain raw materials and components, shipping logjams and inefficiencies at South African ports continue to make it difficult to secure adequate supply of many products.

Actions taken to mitigate the impact on our businesses and associated risks

The health and safety of our nearly 3 800 employees has been of paramount importance since the arrival of Covid-19 on our shores. Our businesses continue to adhere to appropriate Covid-19 protocols throughout and most of our people are fully functional on site. While Covid-19 waves intensified, our businesses arranged for as many employees as possible to work from home until the waves subsided.

In 2020, the group implemented several measures and had to make difficult decisions in finding a balance between protecting jobs, preserving cash and sustaining liquidity, whilst endeavouring to contain the impact on the more vulnerable employees. These measures were detailed in our 2020 integrated report.

SALES BY MARKET SECTOR – 2021



Approach to Covid-19 vaccination

As soon as vaccinations became available in South Africa, Hudaco made arrangements to facilitate vaccination of as many staff members as possible. Initially this took the form of block booking for personnel over 60, and then over 50, at the Discovery Health vaccination facility, as well as providing transport and paid time off to attend. As more vaccination sites opened and the government abandoned trying to allocate times and locations to individuals, staff members found it more convenient to make their own arrangements. Hudaco continued to provide paid time off, information, encouragement and, where necessary, transport to vaccination sites. Some of the businesses arranged for onsite vaccinations.

To provide a working environment in which all employees can be as safe from Covid-19 as possible, from mid-January 2022, admission to Hudaco premises has only been granted to employees who have been fully vaccinated or who have had a negative Covid test within the prior seven days. The company will not contribute to the cost of Covid tests. No employee will be forced to be vaccinated and nobody will be compelled to divulge their vaccination status as it is their right to keep that confidential. Visitors to our premises will not be permitted beyond a designated area close to reception, unless they have been vaccinated.

CONSUMER-RELATED PRODUCTS

The main business of this segment is the distribution and supply of products to intermediaries (retailers or installers) for ultimate use by consumers or in applications driven by consumer spending. Activity in light construction (houses and commercial premises) also impacts demand, particularly for our power tools, security and Wi-Fi products.

This segment comprises the following main businesses and activities:

- Partquip distributes automotive spares and accessories and Ironman 4X4 accessories.
- A-Line Wheels distributes alloy and steel automotive wheels and accessories.
- Abes Technoseal distributes light and heavy duty clutch kits, ignition leads, oil seals and wiper blades.
- Rutherford distributes Makita industrial power tools, Mercury marine engines, survey equipment and nuclear gauges.
- FTS Boltworld supplies a comprehensive range of fasteners, including rivets, screws, bolts, nuts and washers.
- MiRO and SS Telecoms are value-added distributors of IP convergence technologies including wireless networking, VoIP and physical security solutions.
- The Elvey Security group, which comprises Elvey Security Technologies, Pentagon and Commercial ICT distributes intruder detection, surveillance, access control security communication and fire detection equipment, supplies and installs integrated security and life safety solutions, offering system design and integration into building management systems.
- Global Communications is a designer of integrated analogue and digital telecommunications infrastructure and a distributor of Kenwood telecommunication and radio equipment. Its back-office operations have been integrated into the Elvey Security group.
- Eternity Technologies, Deltec, Specialised Battery Systems and Hudaco Energy distribute traction, automotive, stand-by and solar battery systems, providing solar power and storage solutions for the commercial, industrial and residential markets and provide comprehensive forklift battery management services to distribution centres and warehouses.

Refer to page 46 for a geographic analysis of the source of supply of the consumer-related products range.

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Performance

The consumer-related products segment comprises 11 businesses. In 2021, it made up 52% of Hudaco's sales and 60% of operating profit. In 2020, this segment contributed 54% of Hudaco's sales and 67% of group operating profit.

Consumer spending was clearly under pressure again this year, on the back of the increased unemployment rate and a depressed economy. Although up on 2020, it was behind that of 2019. This segment faced the most severely constraining supply chain issues because most electronic products require components with semi-conductors, of which there was a worldwide shortage. Having solid and long relationships with our suppliers enabled us to negotiate better volume supply than we would normally have been allocated in the context of their stock constraints. Sales for the year exceeded those of the equivalent period in 2019 by 5% and having the stock available when others did not relieved pressure on margins. Accordingly, we improved margins and grew our market share, which meant operating profit increased by 27% on 2019 and the operating margin was a very healthy 14.8%.

Automotive aftermarket: Partquip, A-Line Wheels, Abes Technoseal and Ironman 4X4

New vehicle sales were up 22% compared to 2020, but down 16% compared to 2016 to 2019 averages. By comparison, used vehicle sales of approximately 123 000 units per month were in line with both 2020 and 2016 to 2019 averages, which resulted in the ratio of new to used vehicle sales edging back up, close to the norm of the 1 in 4 of the 2016 to 2019 period.

During the 2016 to 2019 period, the average increase in the vehicle pool on the E-Natis system was 19 000 vehicles per month, while in 2020, the vehicle pool remained static. For the year-to-date October 2021, the E-Natis vehicle pool grew by approximately 22 000 per month, which bodes well for an increase in the need for replacement parts in the future.

Partquip remains Hudaco's biggest business and distributes a select range of automotive spares, including suspension, bearings and mountings components, to resellers in the automotive aftermarket.

A-Line Wheels distributes alloy and steel wheels, together with accessories, to both OEMs and wheel and tyre fitment centres. Volume sales were marginally up on 2019.

Ironman 4X4, with its primary supplier Ironman 4X4 International in Australia as a 50% shareholder, distributes suspension systems and accessories for 4X4 vehicles in the recreation, commercial and original equipment markets. Despite having had critical stock shortages in the first few months of this year, this business bounced back strongly once stock arrived.

Abes Technoseal distributes light and heavy duty clutch kits, Bougicord ignition leads and rotary shaft seals to the automotive aftermarket. The sealing division offers hydraulic and pneumatic seals to the industrial and construction equipment markets. Abes produced commendable results, notwithstanding pandemic induced difficulty in obtaining inventory. The availability of stock and the introduction of new product lines, together with the expansion of the target markets of the sealing division, should ensure further growth opportunities in 2022.

PRINCIPAL BRANDS: AUTOMOTIVE AFTERMARKET

Partquip	Select range of quality guaranteed automotive components.	Own brand since 1984
A-line Wheels	Select range of alloy and steel wheels.	Own brand since 1999
Ironman 4x4	4-wheel drive suspension, accessories and camping equipment.	Sole distributor since 2005
Valeo	Light and heavy duty clutch kits from France.	Exclusive distributor since 2005
PHC Valeo	Clutch kits from Korea.	Exclusive distributor since 1994
Freudenberg Sealing Technologies	Oil seals from Germany.	Preferred distributor since 1950
Bougi Cord	Ignition cables from France.	Exclusive distributor since 2007

Power tools and fasteners: Rutherford and FTS Boltworld

Rutherford represents Makita Japan, which produces high-quality industrial power tools and outdoor power equipment designed for the professional and used mainly by manufacturing or installation businesses. Makita is a market leader in lithium-ion battery technology. The continual improvement in battery technology still drives significant growth in our Makita cordless power tool and cordless outdoor power equipment sales. Rutherford markets both the premium industrial Makita power tool range as well as the excellent second tier industrial power tool range, Makita MT. In 2021 the business produced excellent results, clawing back volumes lost to lockdown in 2020, reaching close to the 2019 levels.

FTS Boltworld is a leading distributor of industrial fasteners, offering a comprehensive range of bolts and fasteners. The business has grown market share by leveraging off the Rutherford branch network in Johannesburg, Cape Town and Durban, as well as exporting into Africa. It also has a branch in Klerksdorp. In 2021 FTS Boltworld produced exceptional results, driven by a focus on stock holding and business development, as well as fully integrating its operations into the Rutherford infrastructure.

Rutherford Marine is the agent for both the Mercury outboard and the Mercruiser inboard motor brands. In addition, Rutherford Marine offers an extensive range of marine accessories and continues to expand its boat-motor-trailer packages to dealers. Rutherford Marine produced an exceptional performance as it took full advantage of the staycation effect caused by international travel restrictions.

VI Instruments, Rutherford's survey instrumentation division, promotes both the South and Ruide survey instrumentation brands. Both brands offer high-quality value propositions to the market. In addition, VI markets the American Troxler brand of nuclear density gauges throughout Africa. VI Instruments produced a much improved performance.

PRINCIPAL BRANDS: POWER TOOLS AND FASTENERS

Makita	Japanese designed industrial power tools.	Distributor since 1968 Sole distributor since 1985
Mercury	Outboard motors from USA.	Sole distributor since 1986
Mercury MerCruiser	Inboard motors and sterndrives from USA.	Sole distributor since 1986
Troxler	Construction testing equipment, including nuclear gauges used for compaction control of soil, concrete, asphalt and aggregate from USA.	Sole distributor since 1974
South	Global positioning systems and survey instrumentation from China.	Sole distributor since 2015
Ruide	Global positioning systems and survey instrumentation from China.	Sole distributor since 2014
Handy Lad	Quality range of pre-packed fasteners.	Sole distributor since 2018

Security and communication equipment: Elvey Security Technologies, Pentagon, Commercial ICT and Global Communications

The security and communication businesses have had to contend with more upheaval over the past few years than any of Hudaco's other businesses. The economic pressure driving customers to lower cost products, the scarcity of project business and the changing technological landscape all impacted these businesses. As a result, in 2020 Hudaco commenced a restructuring programme to reduce the cost base and to position the business model for the new environment. While the restructuring is complete and a new management team has recently been appointed, profitability has not yet been restored.

Elvey group consists of Elvey Security Technologies, Global Communications, Pentagon and Commercial ICT, which go to market through their national infrastructure of 16 branches, several agencies, and sub-distributors. Elvey group remains the distribution business for security-related products and communication solutions within the Hudaco group.

In 2021, the group managed to stop a three-year decline. The new management team is focusing on growing the business by increasing market share and value selling. The economic pressure on end customers still has an impact on the sales through installers and security solution partners. Project business in both Global Communications and Pentagon stabilised but required greater project management discipline and guidance. Although the product and solution offerings remain unchanged from previous years, the back-office consolidation has been implemented successfully, with further visibility across the value chain through the implementation of a new inventory management and control system.

Global Communications has served its 200 radio distributors well in a market that has experienced the full impact of global shortages of computer chipsets. Vertical market alignment has filled the void left by military and police service contracts, on which the business was dependent in years gone by. Global Communications' focus aligned well with the exports division of Elvey Exports to serve Africa customers with a broader security solution basket, and they continue to invest in a strategy of building new networks to secure future sales of mobile and handheld devices.

The Fourth Industrial Revolution or Internet of Things (IoT) has started to have a significant impact on the security industry by connecting IP-based devices, including cameras and sensors. Commercial ICT is well positioned to offer these communication services where IP collaboration is required. It provides information technology, network infrastructure support and software licensing to the market.

Elvey group is well structured to scale with new product offerings that address the needs of security and communications-related customers and supplements its offering with superior service, training, and top-class technical support.

PRINCIPAL BRANDS: SECURITY AND COMMUNICATION EQUIPMENT

Texecom	A leading manufacturer of alarm systems from the UK.	Sole distributor since 2018
DSC From Tyco Security Products	Canadian manufacturer of intrusion detection products.	Distributor since 1990
Optex	Japanese intrusion detection devices.	Distributor since 1987
AJAX	Ukranian manufacturer of wireless self-contained intruder detection and smart home systems.	Distributor since 2021
Kenwood	Mobile radio solutions and networks.	Sole distributor since 1987
impro technologies Access Control	South African manufacturer of access control systems.	Distributor since 2011
exacq Technologies	A designer and manufacturer of integrated video management system (VMS) software and servers from Canada.	Distributor since 2018
Tridium	A manufacturer of building performance and analytics solutions.	Distributor since 2018

Data networking equipment: MiRO and SS Telecoms

MiRO faced numerous challenges throughout the year, mainly due to the global semiconductor shortages and the supply chain pressure in the east. As most of MiRO's products contain computer chipsets, the global chipset shortage has resulted in a doubling, and in some case tripling, of the manufacturing lead time of certain products. These increased lead times led to intermittent inventory shortages. As the chipset shortage crisis unfolded, MiRO made the necessary inventory management adjustments to minimise business interruption.

Despite these challenges, MiRO performed well, growing its turnover yet again. Growth was fuelled by the increasing need for connectivity in southern Africa, with Wi-Fi and fibre technologies seeing the highest growth rates. Additionally, with Covid-19 still a reality, hybrid work environments created more opportunities for MiRO. Employees upgraded their home networks, and businesses upgraded their office networks to accommodate the increased network traffic generated from online video meetings.

Further development was conducted on the MiRO B2B/B2C eCommerce website. Customer adoption increased significantly, leading to triple-digit growth in online sales. MiRO's solution portfolio also grew, through the addition of complementary products to its existing range of connectivity solutions and entering the smart home and home automation markets. These next-generation wireless solutions bring the Internet of Things (IoT) to the home.

The product range of SS Telecoms is complementary to MiRO's offering, so there are synergies to be gained from both businesses leveraging off the same back-office. To this end, SS Telecoms now functions on the MiRO platform.

PRINCIPAL BRANDS: DATA NETWORKING EQUIPMENT

UBIQUITI NETWORKS	Wireless data communication products from USA.	Distributor since 2008
MikroTik	Wireless products and routers from Latvia.	Distributor since 2006
Cambium Networks	Wireless broadband solutions from USA.	Master distributor since 2016
GRANDSTREAM CONNECTING THE WORLD	Complete VoIP telephony solutions.	Distributor since 2005

Batteries and sustainable energy: Deltec, Specialised Battery Systems, Eternity Technologies and Hudaco Energy

2021 was anything but a normal year for Deltec, which had a good year. It navigated successfully challenges such as increases in the price of lead, much higher shipping costs and longer lead times due to the unbalanced supply chain worldwide. The expansion of its lithium-based product offering for automotive, stand-by, solar and golf cart applications together with growth in the mining sector, played a role in growing market share.

Specialised Battery Systems (SBS) supplies the stand-by battery systems for support infrastructure to the UPS, telecommunication, security (alarm) and solar markets. SBS had an excellent year with the introduction of a complete inverter and battery pack kit for households and small businesses to use during loadshedding, whilst maintaining market share in the traditional larger data centre projects ensured growth overall.

Eternity Technologies operates in the traction, forklift and battery bay markets, supplying large warehouses that operate 24/7. Eternity also has a formation plant, which assembles and forms locally the complete range of 2 Volt surface motive power cells. The BSLBATT Lithium-ion product range provides new and replacement batteries for all types of material handling equipment.

Eternity Technologies recovered well compared to 2020 but results still lagged those of 2019. The traction industry, largely forklift and warehouse equipment, is going through a transformation and many clients are weighing up the pros and cons of lithium-ion technology versus lead-acid. Eternity is positioned to offer both options and is also looking to the future of motive power with new offerings such as the Quasar product, which is positioned between lithium-ion and lead-acid. Our pipelines are strong and there is significant interest from the market in the latest technology that will change the current conventional ways of charging, thus increasing our customers' productivity and reducing their costs. Some of the larger battery bay projects expected this year were deferred to 2022 due to disruptions in the supply chain.

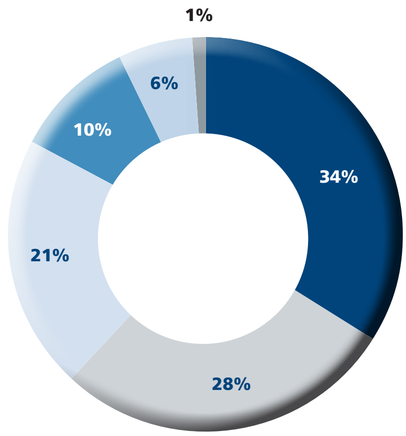
Hudaco Energy, which commenced operations in October 2021, has been put in place to provide solar power and storage for commercial, industrial and residential clients, supporting other Hudaco businesses in its comprehensive solution offering. It will be positioned as a value-adding distributor of premium (Tier 1) products. In addition to inverters and PV modules, Hudaco Energy will incorporate products such as batteries, diesel generators, electrical cables and electrical accessories, sourced from within the group.

PRINCIPAL BRANDS: BATTERIES AND SUSTAINABLE ENERGY

DELTEC BATTERIES	Sealed lead-acid batteries.	Own brand since 2000
U.S. Battery Manufacturing Company	Batteries for golf carts and industrial machines.	Sole distributor since 2012
CSB BATTERY	Back-up power in UPS, telecoms security, etc.	Sole distributor since 2012
CALCIUM BATTERY ROYAL	Back-up power in UPS.	Sole distributor since 2000
CEIL TRUSTED BATTERY SYSTEMS	Back-up power (UPS) and solar systems.	Sole distributor since 2000
SEC	48V Lithium battery modules for solar systems (energy storage systems).	Sole distributor since 2018
SBS SOLAR	Custom solar systems using the SBS solar products.	Sole distributor since 2009
Eternity TECHNOLOGIES	Full international range of British standard cells, DIN standard cells and BCI standard cells.	Sole distributor since 2014
Fronius	Innovative and tailor-made systems for charging batteries in intralogistics.	Sole distributor since 2013
Philadelphia Scientific industrial battery innovation	Improving the life and performance of industrial batteries.	Sole distributor since 2008
SLBATT	Full range of all SMP Lithium-ion battery modules to accommodate all different OEM model types.	Sole distributor since late 2018
SUNGROW Clean power for all	Solar and hybrid inverters and lithium storage.	Distributor since 2021
JinKO Solar	PV modules (solar panels).	Distributor since 2021

CONSUMER-RELATED PRODUCTS

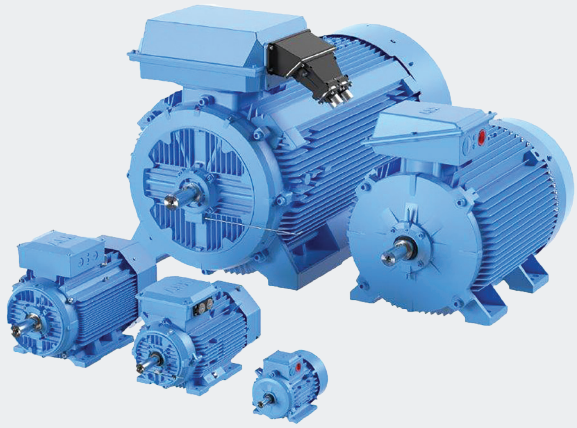
SOURCE OF PRODUCTS



China	34%
Asia	28%
Europe	21%
South Africa	10%
North America	6%
Other	1%

ENGINEERING CONSUMABLES

Most businesses in this segment distribute mature industrial products to mature economic segments (mainly mining and manufacturing). These market sectors were in decline for many years, partly due to natural boom and bust cyclicality of resources but also due to investment unfriendly regulations and political posturing. Against the background of the Covid-19 pandemic, there has been a significant recovery in commodity prices, accompanied by greater activity in the mining sector in particular. The expense structure of Hudaco's businesses in this segment is considerably higher because of the extensive branch network and the large number of separate businesses. Elements of this cost structure have been rationalised, which, together with the greater market activity and strong stock holding, has contributed to the improved operating performance.



This segment comprises the following main businesses and activities:

- Bearings and belting: Bearings International, Belting Supply Services and Brewtech have over 50 branches across southern Africa. The main brands distributed are INA, FAG and Koyo bearings, Habasit belting and Rexnord bearings, chain and sprockets. These businesses also distribute seals, electric motors and a range of transmission products.
- Diesel engines and spares: Deutz Dieselpower represents Deutz AG, one of the world's leading independent manufacturers of air-cooled and liquid-cooled medium-sized compact diesel engines.
- Filtration: Filter and Hose Solutions (FHS) is a leading distributor of high-quality filtration products, including the Donaldson, Filtrec and Mann + Hummel brands, and filtration solutions for a broad range of applications.
- Hydraulics and pneumatics operations comprise HERS, Dosco, Ernest Lowe and Gear Pump Manufacturing (GPM), which manufactures high-quality gear pumps for the local and international markets, with sales presence in the USA and UK.
- Specialised steel: Ambro Steel, Sanderson Special Steels, Bosworth (pulleys), Joseph Grieveson (castings) and The Dished End Company (dished ends for pressure vessels).
- Electrical power transmission: This comprises Powermite (industrial cabling), Three-D Agencies (cable accessories), Proof Engineering and Ampco (manufacturers and distributors of industrial connectors and lighting), Hudaco Power Transmissions (formerly Bauer Geared Motors, geared and electric motors) and Varispeed (electric motor control).
- Thermoplastic pipes and fittings: Astore Keymak imports thermoplastic pipes and fittings and manufactures drag-line hose.

Performance

The 18 businesses that constitute engineering consumables made up 48% of sales and 40% of operating profit. In 2020 this segment contributed 46% of sales and 33% of operating profit.

Many of the engineering consumables businesses were impacted by the three-week strike in October 2021 by members of the National Union of Metalworkers of South Africa. Understandably, our specialised steel businesses were the most affected.

In recent years, this segment has been correctly sized for the depressed market conditions, thereby embedding leverage capacity, poised for any upturn in economic activity. An increase of 12.6% in turnover, off the back mainly of growth in mining and related activities, has resulted in a 24.4% increase in operating profit and the operating margin increased to 10.4% from 9.4%.

As with the consumer-related products businesses, Hudaco's engineering consumables businesses are geared towards general economic activity (GDP). Fixed investment (GDFI) spending is important to our businesses but mostly because it creates more economic activity. This characteristic makes earnings of this segment less cyclical compared with, for instance, sellers of capital equipment. However, during economic downturns customers do reduce activity and often mothball capital equipment from which they can strip replacement parts. This obviously impacts our sales, but it generally does not last long and demand soon resumes.

The main brands stocked by Hudaco are of European, USA or Japanese origin or design but are manufactured in many countries around the world, including China. We are often asked if there is a threat of cheaper Chinese and Indian brands taking market share from Hudaco. When manufacturers in countries with lower production costs reach the appropriate quality to price standard, as they do, Hudaco is a logical and sought-after local distributor. We carry many brands from these countries alongside our more established brands and increasingly offer them to customers when we are confident that quality matches the application. We have first, second and sometimes third-tier products in most of our businesses.

Most businesses in this segment distribute mature industrial products to mature economic segments (mainly mining and manufacturing). These market sectors were in decline for many years, partly due to natural boom and bust cyclicality of resources but also due to investment unfriendly regulations and political posturing. Against the background of the Covid-19 pandemic, there has been a significant recovery in commodity prices, accompanied by greater activity in the mining sector, in particular. The expense structure of Hudaco's businesses in this segment is considerably higher because of the extensive branch network and the large number of separate businesses. Elements of this cost structure have been rationalised, which, together with the greater market activity and strong stock holding, has contributed to the improved operating performance.

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Refer to page 46 for a geographic analysis of the source of supply of the engineering consumables product range.

Thermoplastic pipes and fittings: Astore Keymak

Astore Keymak is a leading supplier and manufacturer of a comprehensive range of thermoplastic pipes, pipe fittings, hoses, valves, and pipeline accessories in various engineered plastic materials. It's key market segments include irrigation, industrial, mining and Infrastructure. The Astore division of the business experienced reasonable growth in 2021, mainly from the mining and agricultural segments, whereas the manufacturing division, Keymak, had a poor year. It had to contend with shortages and major price increases on PVC raw material, resulting in significant deterioration in gross margin, and was slow taking remedial action. The infrastructure sector has been in steady decline since 2016 and remains challenging, with little to no investment in water and sanitation infrastructure recorded in 2021. The appointment of a new sales director and the successful turnaround of our previously underperforming Cape Town and Pretoria branches have set a positive trajectory for the coming year. Improvements in operational efficiency of the manufacturing operation were effected in 2021 and further improvements in 2022, together with expansion of extrusion capacity through the commissioning of state-of-the-art extrusion machine technology in the first quarter, will remain key to gaining market share in the mining and agricultural segments.

PRINCIPAL BRANDS: THERMOPLASTIC PIPES AND FITTINGS

agru	Thermoplastic pipes and fittings from Austria.	Sole distributor since 1995
UNIDELTA	Mechanical seal compression fittings from Italy.	Sole distributor since 1997
FIP	PVC pipes, fittings, and valves from Italy.	Sole distributor since 1997

Bearings and belting: Bearings International, Belting Supply Services and Brewtech

Bearings International distributes bearings, transmission products, chains, seals, belts and electric motors through its extensive branch network to diverse end-user segments (including mining, steel, manufacturing, petro-chemical, sugar, other agriculture, wholesale and retail).

Despite several supply chain challenges, Bearings International had an exceptional year and showed significant growth during 2021, with record sales in all product categories and from all industry sectors but especially in mining, manufacturing and the agriculture sectors. Exports into Africa continued to be negatively impacted by the pandemic, however the second half of the year showed signs of recovery, which is expected to continue into the new year. Most of the branches and regions performed well, but the branches in KwaZulu-Natal were significantly impacted by the riots and looting in July, during which the Springfield Park branch was destroyed by fire. Demonstrating strong resilience, the team continued to serve the customer base by trading from the premises of another Hudaco business, while very promptly relocating to and setting up a new and superior facility in Prospecton, Durban.

The planned launch of the ABB electric motor range was delayed due to the international upstream supply chain constraints and did not deliver the expected results but both standard and premium efficiency range stock arrived in the third quarter and started showing good traction in the last quarter, which should support projected strong growth for the year ahead. An investment in digitisation has progressed well during 2021 to develop an e-commerce platform that will be launched in the first quarter of 2022. In 2022, which marks Bearings International's 65th year of existence, the focus will remain on further expansion of its branch network in underrepresented regions, full roll out of its field services offering and continuous improvement of operational efficiencies throughout the value chain to ensure an enhanced customer experience.

Belting Supply Services is a leading supplier of quality rubber and PVC belting including related products, industrial hose and cryogenic valves, instrumentation and sealing products into a mature market. It is a distributor for Habasit and Forbo belting, NCR industrial hose, Bestobell valves as well as NDC, Sauter and Madelena instrumentation.

Belting Supply Services had an excellent year despite facing some supply chain challenges related to increased lead times from foreign suppliers and shortages of shipping containers. Its traditional market sectors of food and beverages performed well during 2021, with some recovery seen in the mining and manufacturing sectors. The business saw solid growth in sealing and gasket products across all industry sectors and exceptional growth from PVC conveyor belting and hose products supplied to the food and agricultural sectors. A strategic focus on expanding market share in braided hose, fittings and especially rubber conveyor products supplied to the mining and quarrying sectors produced record sales and this will remain a focus area for 2022. The business has also seen good growth from its 24/7 on-site splicing service, which continues to add value for large industrial customers. All cost savings initiatives launched during 2020 have come to fruition and the integration of Brewtech into the same facility during the last quarter of 2021 will contribute to further cost savings going forward. Ongoing collaboration with other Hudaco material handling businesses remains a high priority and is expected to generate further growth in 2022.

Brewtech is a leading supplier of a range of stainless steel and plastic flat top chains, plastic modular and wire mesh belts, related conveyor components and specialized engineered plastic parts that are mainly produced in-house for applications within the food and beverage and related manufacturing and packaging sectors. It is a distributor of the Rexnord, Marbett, MCC and Intralox ranges of chains and has in-house engineering capability to design and produce complete conveyor systems.

The business had an exceptional year. The relaxation of restrictions on alcohol sales boosted the beverage industry, which is Brewtech's largest revenue contributor, and the strategy adopted during 2020 to expand focus to other industry segments started yielding positive results, which also mitigates future risk on the performance of a single industry segment. Brewtech relocated its Johannesburg operations to the premises of Belting Supply Services in City Deep during the fourth quarter of 2021. This allows for future expansion, unlocks opportunities for collaboration and reduces costs. Investment in the expansion of manufacturing capacity and the securing a number of new contracts leaves Brewtech well set for further growth in 2022.

PRINCIPAL BRANDS: BEARINGS AND BELTING

SCHAEFFLER INA FAG	Precision bearings from Germany.	Distributor since 2005
JTEKT Koyo TOYODA	Ball and roller bearings from Japan.	Sole distributor since 1962
REXNORD	Bearings and transmission from USA.	Distributor since 2001
COOPER	Split roller bearings from UK.	Sole distributor since 1937
NCR	Industrial hose from Thailand.	Sole distributor since 2002
habasit rossi	Transmission and conveyor belting from Switzerland.	Distributor since 1970
NDC	On-line or at-line analysers from the USA.	Sole distributor since 1994
SAUTER	Building, HVAC and process control from Germany.	Sole distributor since 1980
REXNORD PRECISION. POWER. PERFORMANCE.	Chain, sprockets, bearings and related products from the Netherlands.	Distributor since 2010
ABB	Electric motors and smart sensors from Europe and Asia.	Distributor since 2020

Diesel engines and spares: Deutz Dieselpower (DDP)

Deutz diesel engines are designed for high-end, heavy-duty variable speed and high-load industrial applications, and their primary market is the mining industry. Most Deutz engines sold into Africa south of the equator – broadly the geographical area for which DDP has responsibility – are fitted to underground equipment manufactured in other parts of the world and imported by original equipment manufacturers (OEMs).

Therefore, DDP's principal activity is providing support for Deutz engines through service, spare parts, reconditioned engines, the sale of replacement engines to customers, and supplying new engines to the limited number of local OEMs in this region. The service business forms an integral part of DDP's activities, so a key strategy is to continue growing the engine population and thereby secure the aftermarket business. DDP achieves this by offering excellent support for Deutz engines wherever they are located.

REVIEW OF OPERATIONS continued

Despite the worldwide supply chain issues this year, DDP performed well in 2021, mainly due to the recovery in the mining industry. The first half of the year saw a strong performance in service business, while the new engine business took longer to recover. The second half saw a similar trend from the service business, combined with a strong recovery in new engine sales to the local mining OEMs, as demand for new mining equipment increased.

DDP continued to benefit from the robust activity in copper mining in central Africa, resulting in another solid performance from our Zambian operation. In addition, we have managed to grow the business from Zambia to the neighbouring countries, in particular the DRC. Overall, our export business, mainly to sub-Saharan Africa, performed reasonably well in 2021, although sales to Zimbabwe have slowed somewhat following a solid year in 2020.

The performance in the power generation market remains positive, mainly through sales of genset engines to local genset manufacturers and a moderate number of complete generating sets. In addition, we experienced an excellent fourth quarter due to the extensive loadshedding experienced throughout the country. We see this trend continuing in 2022.

DDP also experienced considerable growth in the diesel particulate filter business (HJS products) in 2021, as various industries increased their focus on reducing harmful exhaust emissions. As a result, retrofitting diesel particulate filter systems has become an important strategy in reducing diesel particulate and other toxic emissions from diesel-driven equipment operating in the field, especially those working in confined spaces.

In the year ahead, DDP will continue to diversify its business as much as possible. As the demand for emission reduction grows, we expect to see more companies include diesel particulate filters in their equipment specifications, which should result in strong demand for our HJS filter products. In addition, we continue to focus on, and grow our share in, the power generation segment and expect demand to remain strong in 2022.

PRINCIPAL BRANDS: DIESEL ENGINES AND SPARES

DEUTZ	Air and liquid-cooled engines from Germany 12 – 620kW.	Sole distributor since 1969
HJS Emission Technology	Exhaust after-treatment systems from Germany.	Distributor since 2018

Filtration: Filter and Hose Solutions (FHS)

FHS is one of the largest heavy-duty aftermarket filtration distributors in Africa. It is an authorised distributor of Donaldson, Filtrec, Mann + Hummel and other premier filtration brands. FHS delivers a complete range of fuel, lube, coolant, and air filters for diesel engines, as well as hydraulic and bulk filtration for the mining, agriculture, construction and manufacturing industries, together with value-added services, including but not limited to technical expertise, customisable service kits and strong logistics capabilities. In addition, FHS manufactures exhaust systems for heavy-duty and automotive applications, mainly in open cast mining, on-highway and military markets.

During 2020, with multiple challenges being faced by its traditional markets of mining and construction, FHS set out to grow the customer base through new markets, new products, and the development of new delineated routes to market. The shift from the traditional strategy has started to bear fruit within the industrial division and the traditional heavy duty-related business. In particular, a focus on developing and supporting SMEs has yielded excellent results.

The impact of Covid-19 created significant supply chain challenges during 2021, with the most considerable effect being the consistency of supply of aftermarket filtration products. FHS was able to leverage its buying power to take advantage of the global and local stock shortages. We grew our business with our stock reserves and greater stock availability compared to our competitors.

PRINCIPAL BRANDS: FILTRATION

Donaldson. Filtration Solutions	Heavy duty filtration from USA.	Distributor since 1994
FILTREC Technical Filtration	High-performance hydraulic filtration from Italy.	Sole distributor since 2003
MANN+HUMMEL	German-based global technology leader in filtration.	Distributor since 2012

Electrical power transmission: Powermite, Proof Engineering, Hudaco Power Transmissions, Varispeed and Three-D Agencies

The businesses in this portfolio have been brought together into a broader electrical cluster with a focus on working together to provide the market with a comprehensive electrical supply offering. The electrical portfolio includes:

- Powermite – solution provider for flexible electrical cables and a comprehensive range of associated equipment and components.
- Proof Engineering and Ampco – leading brand distributor and manufacturer of specialised mining and industrial connectors and lighting fixtures.
- Varispeed – solution provider of industrial automation and electric motor control solutions.
- Hudaco Power Transmissions (formerly Bauer Geared Motors) – provider of geared and electric motors, industrial bevel helical transmissions and total drive solutions.
- Three-D Agencies – a leading supplier of electric cable-related equipment and accessories.

The electrical portfolio delivered excellent results. The relocation and combination of the Powermite, Varispeed and Three-D businesses into one location in Johannesburg and in Cape Town has been successful. The expected synergies and growth of the businesses have both already started to materialise. The relocation and combination of the Durban branches will be implemented in 2022.

Powermite had an excellent year, achieving exponential growth in the mining sector, particularly in the underground coal mining segment. Successful project delivery and implementation in the material handling sector boosted results overall, with the prospect of securing similar opportunities for 2022. There will be additional focus during 2022 on new products in existing and new markets to grow market share and secure new business.

Proof Engineering, which mainly sells into the coal mining sector, continued to see lower growth rates in the local market in 2021 than expected, however the introduction of the HPM range of connectors and cable repair and jointing solutions is anticipated to generate some growth for 2022. The export market continues to show growth going into 2022. Our own Ampco range of industrial plugs and sockets, which is the market leader in South Africa, continued to meet a steady demand in both the local and export markets. Several product lines in both Proof and Ampco that were previously manufactured in-house are now outsourced, some locally and some from the East, at lower cost.

Varispeed, an electronic motor control solutions provider, achieved one of its best ever years from a turnover perspective during 2021. This is mainly attributable to substantial growth in the sustainable energy, wholesale, manufacturing, mining projects and OEM sectors, despite poor market conditions. African project growth opportunities remained constrained due to ongoing Covid-19 health concerns and currency unpredictability. Component shortages and other supply chain issues created great uncertainty around product availability, but Varispeed was still able to grow its market share and deliver a strong set of results. New initiatives included the introduction of a 1 000V air-cooled variable speed drive to target key clients in the mining industry and the installation of a small-works panel assembly facility in Johannesburg.

Hudaco Power Transmissions (formerly Bauer Geared Motors) changed its name so that it could extend its product base beyond just the Bauer brand and offer more comprehensive total drive solutions to customers across southern Africa. To this end, it added the Elecon, i.Mak and GSM brands to its range. The broader offering has helped secure larger and longer-term repeat business in the mining and utilities segments. Project and repairs business and the transport sector also contributed a fair portion of the growth. And the intention is to now expand the customer base across the manufacturing and water industries.

Three-D Agencies had a difficult year. However, there was meaningful volume growth across several product categories, which increased revenue compared to 2020 and 2019. Some of this was achieved off the back of growth of the two largest customers and the same trend is expected from them in 2022. In addition, Three-D will continue to look to expand its product range and footprint in South Africa. During the July riots, the Durban branch was looted but fortunately not destroyed, so it was up and running again fairly quickly. Effective and well managed supply chain mechanisms have ensured availability of inventory.

PRINCIPAL BRANDS: ELECTRICAL POWER TRANSMISSION

YASKAWA	Low and medium voltage variable speed drives, servos, motion controllers. PLCs and HMIs from Japan.	Distributor since 1992
SOLCON IGEL	Low and medium voltage soft starters from Israel.	Distributor since 1999
MAGNETEK	1 000V variable speed drives from America.	Distributor since 2021
MENNEKES®	Plugs and sockets from Germany.	Sole distributor since 1974
AMPCO	Own range of electrical plugs and sockets.	Since 1974

PRINCIPAL BRANDS: ELECTRICAL POWER TRANSMISSION (continued)

PROOF MINING SOLUTIONS	Own range of mining connectors and lighting systems.	Since 1974
TF Kable	Electrical cable from Poland.	Distributor since 1998
CONDUCTIX wampfler	Electrical feeder systems from Europe.	Distributor since 1970
UNI-T	Uni-T instruments and meters from China.	Sole distributor since 2005
BAUER	Geared motors from Germany.	Sole distributor since 1989

Hydraulics and pneumatics: Ernest Lowe, HERS, Dosco and GPM

Gear Pump Manufacturing (GPM) manufactures in Cape Town and distributes high-quality bearing and bushing hydraulic gear pumps for both export and local markets. It also has a sales arm in the USA and in the UK an assembly and sales facility, which serves the European market. 70% of production is exported globally. GPM experienced high demand locally and internationally, thus delivered strong sales and operating profit growth, despite production interruptions caused by Covid-19, the three-week NUMSA strike and ongoing Eskom loadshedding. USA sales increased substantially as the business succeeded in penetrating new markets, whilst UK sales were flat, mainly due to the impact of Covid-19 and Brexit.

Dosco is a leading re-manufacturer of hydraulic pumps and supplier of new hydraulic pumps, distributing the GPM, Kawasaki and Staffa brands. Operating in the mining space, where it was able to add new customers, it nevertheless had a disappointing year in 2021. There are opportunities to expand the geographic reach through strategic appointment of distributors and to extend the product range in 2022.

Ernest Lowe is a leader in the supply of hydraulic and pneumatic products and solutions into mainly the mining and manufacturing sectors of the economy. The business delivered reasonable results in 2021, reaping the rewards of the product diversification strategy that was implemented during 2020. Opportunities for 2022 lie in the mobile hydraulic, agricultural and manufacturing sectors, with newly acquired agencies, expansion of the field service offering and the opening of a new branch in Cape Town.

HERS, which supplies and services hydraulic products, as well as drivetrain components, had a challenging year in 2021, which required various structural and strategic changes. Stock levels were increased in the face of global shortages, thus enabling HERS to continue meeting customer expectations. A new field service offering has been established to add value for customers and the geographic reach has been extended through local distributors, while the product range is being expanded. The drivetrain division, which has been awarded Kessler Trained Service & Repair Centre status and is the only such centre in Africa, moved into a new state-of-the-art premises in Roodekop in November 2021, facilitating vastly improved work flow and efficiency.

As part of the rationalisation of certain synergistic elements within the Hudaco group, the hydraulic cylinder division of HERS has been relocated to the Ernest Lowe facility and the two operations are being integrated to achieve economies of scale and better utilisation of equipment, while the drivetrain division of HERS will remain separate. In addition, the back-office functions of Ernest Lowe, HERS and Dosco are in the process of integration, which will ultimately reduce the cost base.

PRINCIPAL BRANDS: HYDRAULICS AND PNEUMATICS

NORGREN	European pneumatic equipment.	Sole distributor since 1959
Kawasaki Powering your potential	Kawasaki axial piston pumps and motors, as well as Kawasaki Staffa radial piston motors.	Distributor since 2000
GPM GEAR PUMP MANUFACTURING	Hydraulic, grey iron, bearing and bushing gear pumps.	Manufacturer and distributor since 1985
Kessler Trained KESSLER+CO Service & Repair Center	Axles (including subassembly components of brakes, centre portions, planetary assemblies), transmissions and convertors.	Repairer since 2001 and official spares distributor and repairs agent in SADC since 2009 and holder of Kessler Trained Service & Repair Centre status since 2020, the only such centre in Africa.
SPICER DANA	Axles, transmissions and torque converters, including assembly of components.	Repairer since 2001 and official spares distributor and repair agent since 2019

Specialised steel: Ambro Steel group, Bosworth, Joseph Grieveson and The Dished End Company

The specialised steel businesses all had to contend with the impact of the three-week metal industry strike in October 2021, as well as large increases in the price of steel.

The Ambro Steel group comprises Ambro Steel, Sanderson Special Steels and Donsteel & Forgings and is a market leader in supplying special steels into the engineering sector. The addition of tool steel, together with various heat treatment services at their Johannesburg and Cape Town branches, including vacuum heat treatment, complements the solution provided to manufacturers of engineered parts. Despite shipping delays, large input price increases, longer manufacturing lead times and the strike, strategic management of stock and keeping abreast of market conditions enabled the business to deliver excellent results for the year. Automotive projects and entry into new markets boosted sales and sales into manufacturing and mining increased steadily as these sectors revived.

Bosworth is a leading supplier and manufacturer of conveyor pulleys, idlers, wear lining solutions and other fabricated components and operates predominantly in the mining and other bulk material handling industries.

Bosworth experienced a reasonable year, underpinned by its success in securing several large export mining projects that resulted in a significant year-on-year growth in order intake. These could unfortunately not all be completed during the 2021 financial year due to several power outages and the impact of the metal industries strike on its operations. As a result of inconsistent and erratic power supply in the area, Bosworth has committed to invest R5 million in solar power, to be installed in the first quarter of 2022, at its manufacturing plant in Alrode. In the last quarter of 2021, Bosworth appointed a new managing director and a new sales director, both with extensive industry experience. In 2022, manufacturing efficiency will be a high priority, as will expanding capacity of the idler manufacturing operation.

Joseph Grieveson is predominantly a jobbing foundry that manufactures ferrous and non-ferrous castings. Sales were slightly up on 2019 but 2021 was a very difficult year to maintain margins due to fluctuating input costs, the two-week political unrest in KZN (where this business is based), the metal industries strike, a week-long electricity outage due to a substation problem and the ongoing Eskom loadshedding. The focus in 2022 will be on stabilising and improving the margin and exploring export markets to bolster sales.

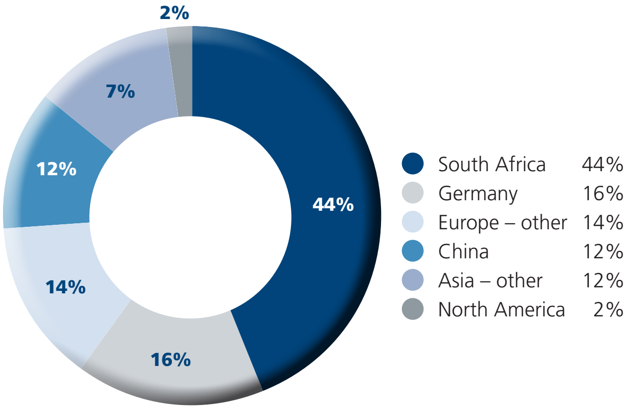
The Dished End Company specialises in manufacturing various dished ends, from 400mm to 5.5m in diameter and thicknesses ranging from 4mm to 50mm. It also offers the pressing and flanging of small conical sections and a range of single pressed weld caps. Despite steel plate shortages and the other challenges in the industry, the business maintained respectable growth compared to 2019. Moreover, indicators in the market show significant promise of growth for 2022.

PRINCIPAL BRANDS: SPECIALISED STEEL

JOSEPH GRIEVESON EST 1915	Ferrous and non-ferrous castings.	Manufacturer and distributor since 1915

ENGINEERING CONSUMABLES

SOURCE OF PRODUCTS



Black economic empowerment

The group is audited by an independent verification body. Hudaco Trading is rated as a level 4 B-BBEE contributor, which is very acceptable and applies to all the Hudaco Trading businesses, meaning that customers are able to claim 100% of their spend with us for purposes of their own scorecards. The next rating will be conducted in the second quarter of 2022.

While it is difficult to quantify, we are of the opinion that our B-BBEE standing has resulted in the following benefits:

- business won;
- customers retained; and
- attracting potential acquisitions – several of the acquisitions we have made were previously 100% owned by white shareholders. Our BEE status has become critical to our acquisitive success.

Two BEE trusts, which have identical trust deeds and beneficiaries, together own directly 15% of the shares in Hudaco Trading. The beneficiaries of these trusts are all black employees of Hudaco with at least three years' service. These trusts provide Hudaco's black employees with an economic interest in Hudaco and also enhance Hudaco's ownership component for the B-BBEE Codes. In February 2022, the trusts will distribute R9 million to approximately 1 800 black employees of Hudaco, with each beneficiary receiving R5 000.

Environmental impact

Hudaco is committed to contributing to an environment that is not harmful to health or wellbeing and that is protected for use by current and future generations. We therefore regard environmental requirements as an integral part of how we conduct our business and ensure that our businesses comply with all relevant legislation, applicable regulations and in particular the Constitution of South Africa, which states that every person has the right to an environment that is not harmful to their health or wellbeing.

We are pleased to report that we had no material environmental authorisations outstanding or rescinded from any environmental regulatory body, no external or internal social grievances received due to the environmental impact of operations, and no incidences of contamination from any operational activities during the reporting period.

Climate change

At Hudaco we are fully aware that climate change is one of the most defining challenges of our times and we remain committed to Hudaco being a responsible corporate citizen that plays an active role in the global response to climate change impact reduction, so we continue to review and shape its portfolio to support a low carbon economy. It is relevant that Hudaco Energy was started during 2021 as a green energy solution provider and product distributor to our southern Africa customer base. Throughout our operations we remain committed to the responsible production and distribution of high-quality branded products whilst supporting a transition to a greener, decarbonised environment through the application of greener energy sources at our owned facilities, the application of technology that reduces energy and water consumption and the reduction of waste generated from operations.

Environmental strategy

Hudaco's environmental strategy aims at both addressing environmental risk from its operations and contributing positively to environmental transformation and the global race to decarbonisation. We will do so by reducing Scope 1 and 2 carbon emissions through the evaluation and application of more efficient technologies and alternative energy sources in our operations. Although it is more difficult to reduce our indirect carbon emissions under Scope 3, we will collaborate with specific local and global suppliers to evaluate the potential of reducing our carbon footprint in the supply chain.

It focuses on the following areas:

- Protecting the environment by preventing pollution and limiting emissions.
- Reducing the energy intensity and usage of its operations and moving to renewable energy sources where possible. This will not only reduce its carbon footprint, but also reduce exposure to risk of electricity shortages and excessive price escalations, with related impact on competitiveness.
- Reducing water consumption. Although this is not significant due to the nature of our operations, we realise that water is a scarce resource and we need to preserve it.
- Reducing waste to landfill as it is a major source of pollution and impacts the availability of some raw materials used in our operations, the processing of which also has a direct negative impact on the environment.

Environmental policy

Hudaco continuously works towards greener operations through ensuring that all the group's businesses:

- implement, maintain and regularly review the ISO 14001:2015 environmental management system;
- comply with applicable environmental legislation from a national, provincial and municipal perspective;
- communicate openly to all employees the group's environmental policy and performance;
- conduct internal audits and inspections to monitor compliance with the environmental ISO 14001:2015 standard;
- investigate any environmental incidents to determine the causes and to take corrective action to prevent recurrences;
- identify and implement mitigating measures for environmental aspects and impacts;
- provide sufficient resources to mitigate identified aspects and impacts;
- identify and provide relevant environmental training and awareness; and
- establish, review and report internally and externally on environmental performance against objectives and targets.

Management approach and governance to support a more sustainable planet and society

Hudaco continuously takes a proactive approach to managing environmental liabilities and risks. Environmental regulatory compliance, environmental management systems and the continuous improvement thereof are key in the group's environmental risk management and prevention programme for all its operations. Our approach to environmental management is built on two key pillars:

- complying with environmental legislation: underpinned by ensuring that all our operations meet regularly to discuss environmental management policies and guidelines, timeously close out any deviations or non-compliance, continuously monitor performance of our operations to within guidelines and standards, and continuously train our employees to identify environmental risks; and
- reducing carbon footprint and waste: underpinned by setting ambitious improvement targets in all operations and ensuring improvement initiatives are tracked and monitored.

REVIEW OF OPERATIONS continued

The major elements of our management approach can be outlined as follows:

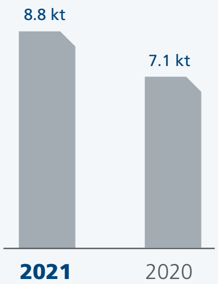
- The integrated QHSE management system covers the group's operations (manufacturing sites, distribution centres and commercial sites) particularly for ISO 14001, ISO 9001 and OHSAS 18001/ISO 45001 compliance.
- A QHSE framework to drive standardisation of policies, standards and guidelines and adoption of best practices across the group to strengthen our environmental risk assessment, management and assurance processes and our learning from incident investigation to prevent environmental incidents.
- Environmental, health and safety (EHS) risk registers are regularly updated through the use of the services of third-party legal experts in the field to establish risk registers, classified into various categories based on likelihood of occurrence and potential impact on the business and environment as a key input to driving improvement plans in the respective businesses, with progress tracked by QHSE teams at various levels.

Performance

Scope 1 – Direct emissions from fuel combustion (CO_2e kilotons)

23%

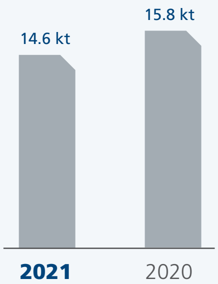
Increase from 2020



Scope 2 – Indirect emissions from generated and purchased electricity (CO_2e kilotons)

7%

Reduction from 2020



Scope 3 – Other indirect emissions from the value chain (CO_2e kilotons)

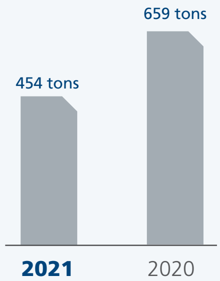
14%

Increase from 2020

Waste to landfill – (included under scope 3)

31%

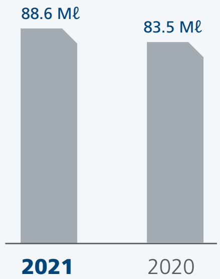
Reduction from 2020



Water consumption

6%

Increase from 2020



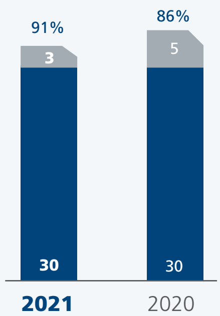
ISO 14001 certification

5%

Improvement from 2020

Not certified

Certified



Carbon emissions (Scope 1, 2 and 3)

During 2021 our operations generated 447.4 kilotons of CO_2 equivalent emissions ($ktCO_2e$) that represented a 13% increase compared to 2020. Scope 1 emissions (direct from fuel combustion) increased by 23% compared to 2020 mainly due to easing of Covid-19 travel restrictions that allowed more frequent calling on customers and suppliers when compared to 2020. With intermittent loadshedding during the year, we consumed 25% more diesel in running power backup generators at our operations. Scope 2 emissions (indirect from generation and purchase of electricity) generated 14.6 kilotons of CO_2e and decreased by 7% to 15.4MWh (55.2 thousand GJ) compared to 2020 as a result of various electricity reduction initiatives. These included converting conventional lighting in offices, warehouses and industrial operations to LEDs, energy management awareness programmes, installing variable speed drives to reduce start-up loads in parts of our industrial operations and converting to solar power where possible. Scope 3 emissions (indirect from the value chain) generated 423.9 kilotons of CO_2e an increase of 14% compared to 2020, mainly due to increased upstream distribution linked to increased stock levels across the group to mitigate the impact of the worldwide shortage of semiconductors and certain raw materials that had a knock-on impact on the availability of various products during 2020.

Waste to landfill (included under Scope 3)

Hudaco's approach to waste management is continuously evolving to meet changing legislation and industry practices. Significant improvements were made during 2020 to record and segregate recyclable waste and waste to landfill in our operations. Waste to landfill decreased by 31% compared to 2020, due mainly to an increase in the recycling of silica sand from our foundry operations. This sand is used in brick manufacturing in areas where our foundries are located and we have seen the impact of this initiative as the demand for bricks increased in these areas. Waste to landfill represented 6% of total waste generated, with 94% being recycled, compared to 20% of waste to landfill and 80% being recycled in 2020.

Initiatives undertaken by the group's businesses included the identification and management of waste streams as part of ISO 14001:2015, with waste collections sub-contracted to accredited recycling companies, including that of recyclable material such as plastic, cardboard and e-waste. Several projects were initiated to improve recycling of waste and reduce waste to landfill in some of the manufacturing operations.

Water consumption

In 2021 our water consumption intensity was 23.3m^3/head and increased by 6% from 2020, due mainly to increased operational activity. Within the group, water is predominantly used for sanitary purposes and, in a few select sites, for processing such as surface treatment and cooling, where water discharged back into the network is subject to treatment to reduce pollutant potential and subject to an ongoing monitoring plan.

Due to the nature of Hudaco's operations not being water usage intensive, the group has minimal impact on water demand and water quality in the areas where it operates and so water usage is considered not to be material by both internal and external parties. Hudaco's ambition is, nevertheless, to drive continuous reduction of water usage across the group as water is a scarce resource in the country due to frequent drought, ailing infrastructure and limited government spend on infrastructure upgrades.

Status of achievement of our environmental goals for 2021

During 2019 we defined six environmental goals for 2020 and decided to extend them into 2022 as we could only make a meaningful assessment of our performance against 2021 performance due to the impact of Covid-19 on 2020 activities. These goals and the extent to which they have been achieved are as follows:

- All businesses acquired before 30 June 2018 to achieve ISO 14001:2015 certification: Certification for two businesses acquired before 30 June 2018 were completed (Berntel and Three-D Agencies) with the remaining three (Brewtech, Don Steel and Eternity Technologies) postponed to 2022 due to management and location changes during the reporting period.
- All businesses to initiate the 3R (reduce, reuse and recycle) principles of waste management: 90% of our businesses successfully adopted these waste management principles during 2020, with further improvement initiatives being identified across operations to improve the accuracy of waste data recording as part of the ISO 14001:2015 waste management cycle.
- Carbon footprint baseline assessment: A baseline audit by a third-party climate change advisory firm was completed in 2021 and used to set a baseline for reporting and improvement. Relevant training and reporting structures were established successfully during 2021.
- Reduce energy consumption by 10%: A reduction of 7% was achieved compared to 2020 as a result of various electricity reduction initiatives that included converting conventional lighting in offices, warehouses and industrial operations to LEDs, energy management awareness programmes, installing variable speed drives to reduce start-up loads in parts of our industrial operations and converting to solar power where possible.
- Reduce waste to landfill by 10%: A reduction of 31% was recorded due to the increase in recycling of silica sand from our foundry operations, which is a significant portion of our waste to landfill. A project was initiated during 2020 with brick manufacturers in areas where our foundries are located to reuse the silica sand in the manufacturing of bricks. We have seen the impact in the reduction of total waste to landfill as the demand for bricks increased during 2021.
- Appoint a QHSE specialist, include EHS (environment, health and safety) in the scope and conduct regular audits: Fully integrated into the internal audit function that completed ten independent EHS audits across the group.

During 2022 we will continue to critically review our sustainability data, objectives and actions required to reduce our carbon footprint and how we can make a meaningful contribution to creating a greener and more sustainable planet, economy and society in which we operate. The results in the carbon footprint baseline assessment conducted in 2020 and 2021 enable us to set meaningful reduction objectives per business and will support us in formulating a carbon management and reduction action plan that will include the following elements:

- setting of emission goals per business against which Hudaco can measure improvements;
- increasing operational and process efficiencies and reducing the impact on the environment and operating costs;
- reviewing the use of technology in our operations to support long-term environmental objectives;
- implementing carbon footprint recording and management programmes; and
- building a database of non-financial data to support carbon footprint calculations and our sustainability reporting.

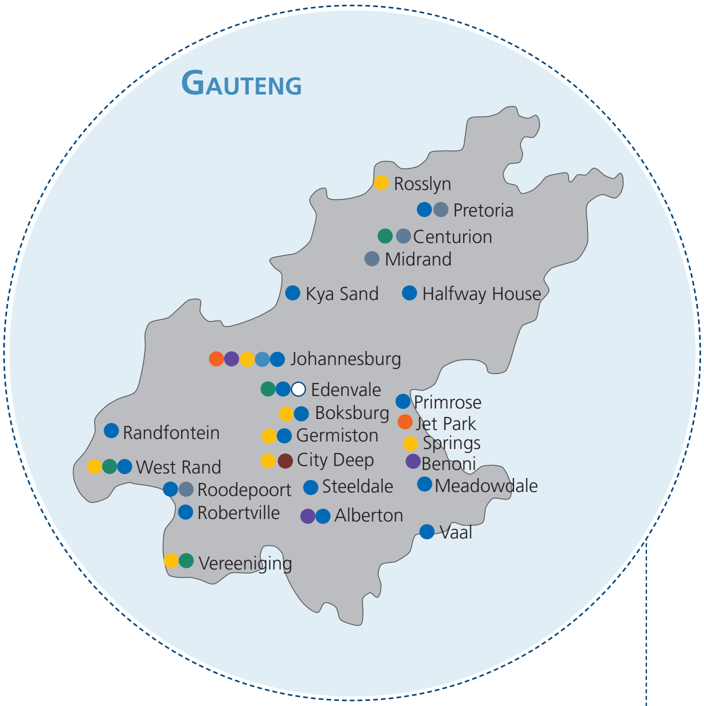
GEOGRAPHIC FOOTPRINT

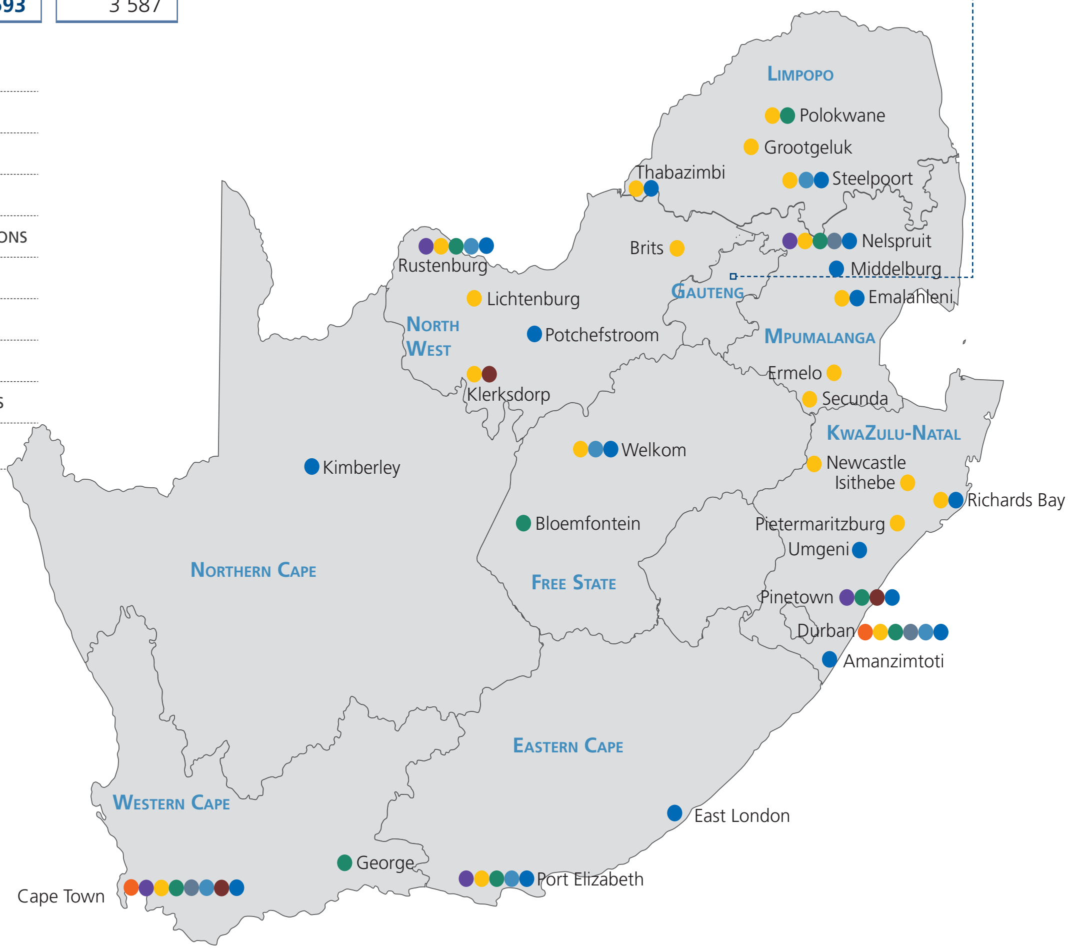
Location of businesses

	Number of permanent employees 2021	2020
Gauteng	**2 352**	2 334
Western Cape	**484**	468
KwaZulu-Natal	**416**	414
North West	**81**	84
Mpumalanga	**74**	92
Eastern Cape	**61**	69
Limpopo	**49**	50
Free State	**30**	35
Northern Cape	**8**	
Namibia	**12**	16
Kenya	**11**	11
UK	**7**	7
Zambia	**5**	4
USA	**3**	3
	3 593	3 587

KEY

- AUTOMOTIVE
- BATTERIES
- BEARINGS AND BELTING
- SECURITY AND COMMUNICATIONS
- DATA NETWORKING
- DIESEL ENGINES
- HEAD OFFICE
- POWER TOOLS AND FASTENERS
- OTHER ENGINEERING CONSUMABLES





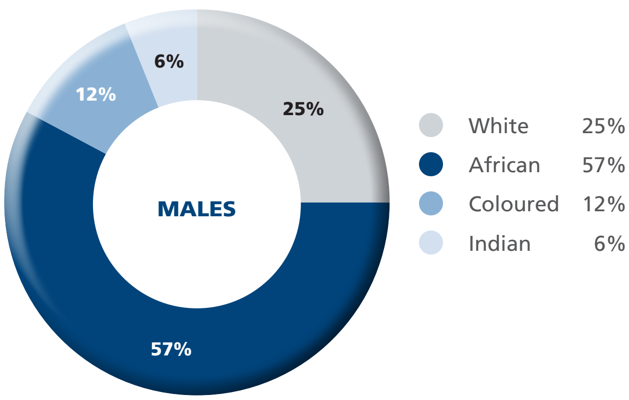
EMPLOYEE REPORT

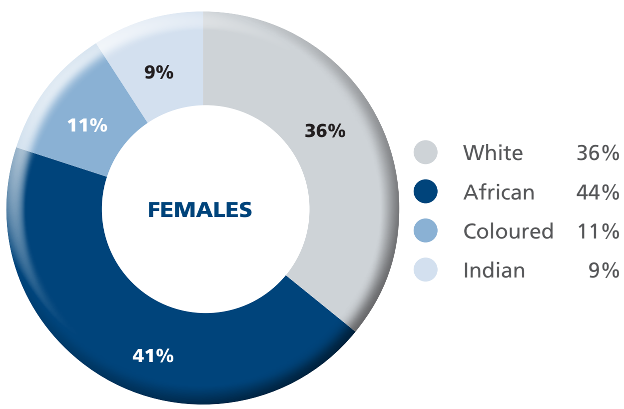
People are at the heart of our business and it is their skills, experience, commitment and application that create value for the group and drive its success. Many of the business-critical skills that we require are in short supply and we recognise the importance of attracting, developing, managing, rewarding and retaining the best people to deliver on our business goals. The way in which we invest in our human capital and express our duty of care will contribute to the growth and development of the group.

Our key focus areas include attracting and developing core skills, implementing sustainable leadership development and succession plan strategies, leveraging off technological innovation, achieving transformation and maintaining our B-BBEE rating. However, we also continue to manage other areas important to human capital success, including employee engagement, building cohesion and empowering teams, defining skills and competencies, health and safety, organised labour relations, performance management and salary benchmarking.

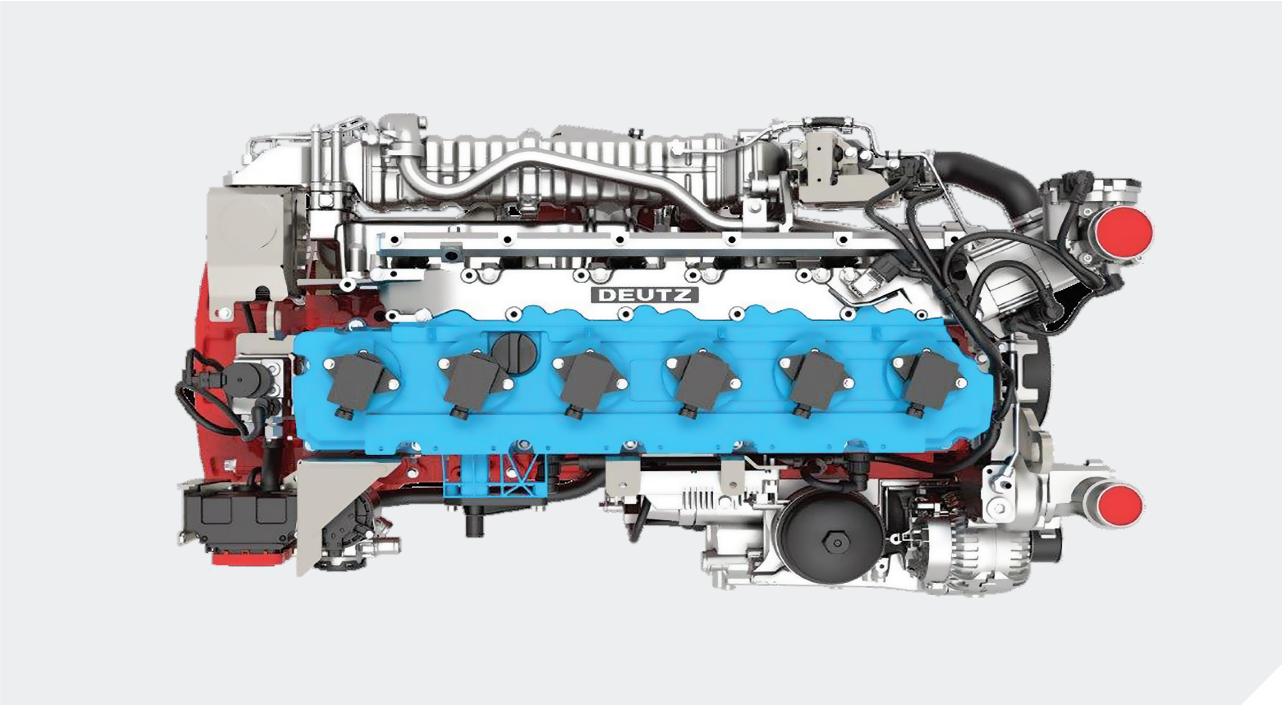
Workforce profile

	2021	2020
Total workforce	**3 768**	3 694
Less: Non-permanent employees	**175**	107
Total permanent workforce	**3 593**	3 587
Racial and gender profile		
White males	**667**	677
White females	**344**	362
African, Indian and Coloured males	**1 970**	1 985
African, Indian and Coloured females	**612**	563
Occupational level profile		
Top and senior management	**115**	102
Other management	**1 517**	1 497
Non-management	**1 961**	1 988
Management profile by gender		
Females	**474**	458
Males	**1 158**	1 141
Management profile by race		
White	**826**	837
African, Indian and Coloured	**806**	762
Non-management profile by gender		
Females	**482**	467
Males	**1 479**	1 521
Non-management profile by race		
White	**185**	202
African, Indian and Coloured	**1 776**	1 786
Disability profile by gender		
Females	**17**	5
Males	**20**	20
Disability profile by race		
White	**4**	6
African, Indian and Coloured	**33**	19





EMPLOYEE REPORT continued



Decentralised management

Hudaco has developed a decentralised management style that has proven successful over many years.

Placing decision-making responsibility into the hands of people at all levels of the organisation offers the following benefits to independently minded employees:

- delegating authority and responsibility empowers employees and allows them to respond quickly to customers' requirements and changing circumstances; and
- it instils self-discipline and encourages leadership, initiative and innovation.

We will continue to provide our full support to those of our employees, both current and future, who choose to invest in their careers, work hard and see their future within the Hudaco group.

It is an important function of group management to put in place remuneration structures to ensure decentralised management personnel keep a strong focus on the contribution they need to make to enable the group to meet group strategic objectives.

Covid-19

2020 was a year in which all our people were asked to make a whole range of sacrifices in the face of the Covid-19 pandemic. These sacrifices and the way in which Hudaco responded to the pandemic were dealt with in detail in the 2020 integrated report.

In 2021, the group identified those employees who were worse off overall in 2020 on account of the measures taken and sought to restore their shortfall, in most cases through supplementary contributions to retirement funds. In total, R11 million was awarded to staff members in 2021 through this initiative. Senior management at group level and within the individual businesses were not eligible for any of this benefit.

The health and safety of our employees has been of paramount importance. Our businesses continue to adhere to appropriate Covid-19 protocols throughout and most of our people are fully functional on site. While Covid-19 waves intensified, our businesses arranged for as many employees as possible to work from home until the waves subsided.

As soon as vaccinations became available in South Africa, Hudaco made arrangements to facilitate vaccination of as many staff members as possible. The steps taken are set out in the Review of Operations on page 30 of this integrated report. 30

To provide a working environment in which all employees can be as safe from Covid-19 as possible, from mid-January 2022, admission to Hudaco premises will only be granted to employees who have been fully vaccinated or who have had a negative Covid test within the prior seven days. The company will not contribute to the cost of Covid tests. No employee will be forced to be vaccinated and nobody will be compelled to divulge their vaccination status as it is their right to keep that confidential. Visitors to our premises will not be permitted beyond a designated area close to reception, unless they have been vaccinated.

While the headcount in the group reduced from 3 999 at 30 November 2019 to 3 694 at 30 November 2020, it has moved up again to 3 768 at 30 November 2021, with the increase in economic activity. We believe that our people overall are more productive now than prior to the arrival of Covid-19.

Talent management

Learning and development of people is a core responsibility of the executive teams in all our businesses as this empowers employees to perform their functions effectively and to enhance their skills, thereby providing a pipeline for promotions and for transfers between businesses. During 2021, 23 of our employees and 38 dependants furthered their studies with the assistance of the Hudaco BBBEE bursary programme, striving to attain qualifications for their own betterment as well as that of Hudaco and the country at large. The bursary programme has been part of the group's value proposition to employees since 2009.

As far as possible, we try to maximise retention of key talent by providing incentives in the form of performance bonuses, developing long-term career path opportunities for our staff within the broader group. We communicate to our staff the opportunities for lateral movement between our businesses and internal promotions within the group. We feel that the group is diverse enough to be able to accommodate individual career aspirations without having to lose talent to competitors. However, one of the consequences of investing in skills development in South Africa, especially in black professionals, is that as these employees develop and gain experience and skills, they become a prime target for headhunting by larger organisations who can offer more attractive packages. The alternative, ie not investing in staff development, would, however, be a far more serious threat to the continuity and sustainability of our business model.

Transformation

We acknowledge that management control is still a key area of opportunity to improve our BEE rating. Although we have continued to make meaningful progress, still too many of our senior management are white males. The need for developing future black, female and disabled management talent continues to receive significant priority.

Our strategy for transformation is still largely unchanged:

- Black representation in management is a core focus for all management appointments. All senior appointments in the group – the designated top 100 or so people – are monitored at the executive committee and board level to ensure that every endeavour is made to find qualified black candidates to fill vacant positions, while ensuring that the high standards to which we aspire are maintained.
- BEE has been incorporated into succession planning. The retirement process offers an opportunity to identify the date when positions will become vacant and allows time to develop black candidates at middle-management level and below, for these senior management posts.
- Hudaco also concentrates on a better gender balance across its workforce. Recruitment and development processes throughout the organisation focus on female as well as black recruits to ensure a balanced pipeline of talent.

Skills development and training

Successfully taking advantage of opportunities for growth, both acquisitive and organic, depends on the quality of our people. Given the shortage of technical and engineering skills in general in South Africa and particularly among the black population, we put special focus and resources on building these skills. We have identified the building of the following skill sets within Hudaco as being our key focus areas:

- The senior management team: We have identified members of the senior management team whom we believe have the qualities required for growth to executive level in due course. These people have been given expanded responsibilities and are being nurtured with a view to their being able to step into the breach as more senior managers reach retirement age. Many members of the senior management team have attended Master of Business Administration (MBA) and other master's degree courses at various universities. The experience gained has enhanced the marketability of the managers concerned so, unfortunately, some have been enticed away by other more lucrative opportunities.
- Technical expertise: Critical relationships in the field are with the technical and maintenance teams of our customers. They place the orders upon which we depend for our turnover. We need a constant supply of new sales staff with the right technical skills to be able to adapt to and service our customers' changing needs. Although we are essentially a group of distribution businesses, we run in-house learnerships where we can and technical traineeships where we cannot.

Under the auspices of the group transformation and human resources executive and with the assistance of the Wits Business School, which is internationally recognised, the group normally conducts a range of especially tailored development programmes for people at various levels of management. The aim of this programme has been to provide a steady flow of leadership talent for the group, with particular emphasis on developing black leadership. We have had success in bringing potential black leaders through the ranks and preparing them for future middle and senior management positions. As a result of Covid-19 and the resultant lockdown, no such courses were conducted in 2020 or 2021. The approach for junior management will be modified in future to focus more on training pertinent to their specific roles.

Customer interaction occurs primarily through our technical sales team. As they are the face of the business and the drivers of organic growth in revenue, we invest heavily in their training. New appointees are sent for training prior to being placed in the field. The board also supports training and skills development initiatives through bursary programmes, management training schemes (as described above), experiential trainee programmes, mentorships, apprenticeships, educational assistance and learnerships. Extensive in-house and external training is given in a wide range of practical and theoretical subjects to better equip employees with the skills required for senior positions. The extent of these training initiatives has been somewhat curtailed in 2020 and 2021 because of Covid-19, although the use of video conferencing did go some way to reducing the impact. The learnership programme content typically includes financial administration, human resources administration, inventory management, end-user computing and warehousing courses, as well as technical product training.

Four of our businesses (Deutz Dieselpower, Filter and Hose Solutions, Gear Pump Manufacturing and Specialised Battery Services) run SETA accredited apprenticeship programmes with 14 participants in 2021 being trained in various trades. An additional 173 abled learners and 25 learners with disabilities were recruited for learnership programmes run by the Maharishi Institute, ORT SA and Afrika Tikkun and they commenced their courses in 2021, for completion in 2022.

During the year under review, group expenditure on employee training amounted to approximately R7.2 million.

Hudaco also provides financial support to the Thuthuka Bursary Fund, which develops and trains black chartered accountants.

We also invest in developing product knowledge in our customers or the installers of the products that we distribute, which results in deep brand loyalty. As a policy, we do not charge or charge just a nominal fee for this training of the installers or our agents – we believe that, as we are in the business of distributing high-quality brands, the more the customers understand the value of the product, the more loyal they will be.

Previously, Hudaco conducted an engineering graduate development programme with the aim of addressing skills shortages in the technical side of our business. All of the approximately 20 participants each year were black. Every effort was made to absorb the graduates into our employ as they qualified. Because of the difficulty in absorbing so many within the engineering sphere, it was decided that the graduate development programme would be broadened to also include a range of disciplines such as finance, accounting, human resources, health and safety, sales and marketing and information technology. This new approach was implemented for the first time in 2021 through the recruitment of 11 junior managers for the graduate development programme. They completed a course in business administration with Siyanqoba Seminars to prepare them for the work environment and received on-the-job training at our businesses. Of the 11 graduate interns, seven were absorbed into permanent employment in the group from January 2022. A new cohort will begin during the course of 2022.

Employment equity and skills development committees exist at the group's various businesses to drive the various skills development initiatives.

Growing our own talent – succession planning

A formal performance management and succession policy is in place. We continued our executive development programme where we employ young black MBAs and give them a broad range of experience across the group over a period of three years, with a view to ultimately integrating them into the management teams of specific businesses as opportunities arise. In future, new recruits will be assigned to specific businesses with a view to longer-term roles rather than a range of shorter-term opportunities. We feel that this will achieve a deeper level of commitment on the part of both the business and the individual to the individual's future and progression path. No new appointments were made in 2021 but we expect that, as the economy emerges from the ravages of the Covid-19 pandemic, further opportunities will arise. We continued to focus on communicating our succession plans with senior management during the year and ensuring that our training and development efforts and employment equity plans are aligned.

Corporate ethics and governance

The cost of compliance in corporate South Africa is significant. The ongoing introduction of new legislation, new reporting standards, listings requirements, BEE requirements, environmental, social and governance (ESG) issues, etc seems to continue unabated. ESG is currently receiving the most intense focus around the world, and justifiably so.

While compliance with all these requirements is compulsory within the group, Hudaco's executives are sensitive to the practical considerations and concerns. We therefore try to ensure that, as far as possible, compliance is head office driven. Nevertheless, many essential aspects can only be dealt with at business unit level.

The Hudaco code of ethics is in line with King IV. The code applies to all employers and employees in the group. It is communicated as part of every new employee's induction, is available on the Hudaco website, is included in all relevant training programmes, and guides us in the determination of our corporate values. These values include: fairness, respect and dignity, tolerance of alternative views, protection from victimisation, encourage healthy relationships, mutual support and loyalty. Employees are not inhibited in any way regarding collective bargaining or union membership but levels of unionisation in our businesses are low.

To facilitate enforcement of our code of ethics, Hudaco has established a fraud and ethics hotline, which is managed by an external service provider. This hotline (0800 21 21 52) enables employees, or any other party, to communicate sensitive information securely, confidentially and anonymously if they suspect that a criminal act or any contravention of the code has been committed by another employee. Some of our suppliers run compliance programmes which are extended to us – for example, Deutz AG's global policies on anti-corruption, money laundering, emissions, labour safety and compliance with Germany's federal office of economics and export control legislation.

Potential exposure to bribery and corruption is mitigated through internal controls within our businesses, by taking strong action against transgressors, closely scrutinising sales reports, conducting regular stock counts, using undercover security personnel, reviews by group internal audit and encouraging honesty and professionalism in the day-to-day activities of the businesses.

After making regular enquiries, the board is not aware of any significant non-compliance with legislation, including anti-competitive behaviour, during the year.

Code of ethics

All Hudaco group businesses and their employees are to strive conscientiously to act with honesty and integrity in accordance with a high level of moral and ethical standards in their business and interpersonal dealings.

All employees in Hudaco group businesses will be assumed to commit themselves to know, understand and support these values. Some specific values are listed below:

- compliance with laws, rules and regulations;
- fairness, respect and dignity;
- tolerance of alternative views;
- mutual trust, honesty and respect for colleagues;
- support and loyalty;
- superior performance;
- providing a safe and healthy working environment for all employees;
- management of performance and recognition;
- customer satisfaction;
- proper communication and transparency;
- confidentiality;
- non-corruption;
- avoiding any conflicts of interest; and
- care for the environment.

Organised labour and employee rights

There are 11 trade unions that between them have 582 (2020: 744) employees of various Hudaco businesses as members. These employees are covered by collective bargaining agreements.

In addition to union representation, employee rights are protected through full compliance of all the businesses with relevant labour and employment-related legislation.

Copies of the Basic Conditions of Employment Act, Skills Development Act and the Employment Equity Act are displayed in all workplaces. Formal grievance procedures are in place through which employees can raise issues. There were no grievances relating to human rights during the year.

While certain countries from which Hudaco sources products have been identified as posing a potential risk to human rights, none of our businesses has specifically been identified as posing a risk for incidents of forced or compulsory labour, child labour or for undermining the right to exercise freedom of association.

All businesses are required to communicate to their suppliers a Business Partner Code of Conduct, approved by the group's social and ethics committee.

Remuneration

An important aspect of our management philosophy is to establish in our remuneration structures a clear link between performance of the group (delivering value to shareholders) and the performance of the underlying businesses (delivering value to customers). To achieve this, executive remuneration at the group level, as well as senior management within each business, is structured on three levels:

- Guaranteed pay and benefits: This level of remuneration applies to all employees within the group. In addition, employees are required to join a group negotiated medical aid scheme (unless they are below a certain earnings threshold or on a spouse's medical aid scheme) and a pension or provident fund if they are not on an industry fund. Employees earning below the compulsory threshold have an option to join Flexicare, the group's negotiated primary care offering.
- Formula-based short-term incentives: This level of remuneration applies to the top 100 or so senior managers in the group. For those employed in business units, this comprises two roughly equal annually measured performance criteria: RONTA, and growth in profits in the businesses under their control. The group chief executive and financial director are remunerated on primarily return on equity and growth in comparable headline earnings per share. A portion of their short-term incentive is based on the achievement of non-financial key objectives.
- Long-term share-based arrangements
  - Share appreciation rights scheme: This level of remuneration applies only to the top about 220 managers in the group. It comprises a reward for share price appreciation realised through share appreciation rights that vest between three and five years after award. It is designed to ensure that management takes a medium to long-term view when acting on matters which may affect business performance and share price.
  - Retention-based share matching scheme: To align better the interests of the executives with those of shareholders and to ensure that the executives have capital at risk in Hudaco, a share matching arrangement is in place for executives and certain senior managers. Participants are entitled to invest in Hudaco shares up to a maximum of 50% of their maximum potential short-term incentive-based remuneration. These shares are to be acquired on the open market. Provided the participant holds these shares and remains in the employ of Hudaco for the specified service period, which is normally three years, the company will match the value of the shares by acquiring shares on the open market for the benefit of the executive at a ratio determined by the remuneration committee. There are currently 15 participants on this scheme.

Further information on remuneration is set out in the Remuneration Report commencing on page 57. 57

Retirement funds

Employees who do not belong to an industry fund (ie unionised staff) contribute to the umbrella defined contribution pension and provident Superfunds administered by Old Mutual. Fund members receive risk benefits such as life cover, spouses and children pensions, funeral cover and disability cover, depending on the fund to which they belong. In the pension fund, the cost of the spouse and children's pension has increased so our advisors conducted an extensive consultation process early in 2021 to ascertain whether members wished to continue with this benefit or would prefer to have additional life cover instead. Overwhelmingly, members chose to retain the current benefit. There are some businesses acquired by the group whose employees remain on their pre-acquisition retirement funds.

Employees have a choice of underlying investment options. The range of options includes a passive investment option and the default option is a lifestage-based solution with a portfolio that has a higher weighting to equity-based investments but with a staggered switch to a more conservative portfolio, starting five years before retirement age. All members receive annual benefit statements and have access to an online portal at any time so that they can track their retirement savings, risk contributions and costs.

Employee safety

The safety of our people always comes first in everything we do, and, although there is still much to be done as we strive towards zero safety incidents in our operations, we have seen positive results over the past two years. These arise from our intensified focus on safety in the workplace and the ongoing deployment of our renewed QHSE (Quality, Occupational Health, Safety and Environmental) framework that drives standardisation of policies, processes, procedures and continuous improvement through the deployment of best practices.

Creating an inclusive and diverse work environment, a culture centered around innovation through people, not only makes our work environment safer but also creates a competitive advantage for our businesses.

We provided extensive support during the reporting period to our people by ensuring Covid-19 protocols to mitigate the spread of Covid-19 in the workplace were maintained across all our operations. We also maintained remote working arrangements for those employees who could work from home, even after the alert levels allowed for employees to return to work, and we interacted with them regularly to ensure they could deal with the associated challenges and stresses of these different working conditions.

EMPLOYEE REPORT continued

Safety and occupational health policies

We are committed to regularly reviewing our QHSE policy, management systems and performance in all our operations to ensure continued sustainable business practices and a safe working environment for our employees. Accordingly, we reviewed and improved our QHSE policy during 2021. This policy defines the commitment that Hudaco has made to maintaining and continuously improving safe and healthy working conditions, to fulfil its legal obligations and to engage employees in safety processes that are the cornerstone of its integrated QHSE management system. As part of these improvement efforts, several businesses have successfully transitioned their safety management system certification from OHSAS 18001 to ISO 45001 certification. The objective is to complete the transition in all the targeted businesses during 2022

Management approach and governance

Our approach to safety management is built on the following pillars:

- leadership engagement and accountability, which is underpinned by leaders being actively involved in safety audits, improvement initiatives and ensuring legal compliance;
- hazard prevention and control, which is underpinned by effective risk identification and management, deployment of the 5S workplace organisation system and the deployment of safe operating procedures to ensure a safe work environment;
- employee engagement, underpinned by continuous learning, on-the-job training and active workforce participation in safety improvement initiatives; and
- creation of a workplace safety culture, where safety is always the highest priority.

The major elements of our management approach can be outlined as follows:

- Our integrated QHSE management system covers the group's operations (manufacturing sites, distribution centres and commercial sites) particularly for ISO 9001, OHSAS 18001/ISO 45001 and ISO 14001 compliance.
- A new QHSE framework drives standardisation of policies, standards and guidelines and the adoption of best practices across the group to strengthen operational risk assessment, management and assurance processes and our learning through incident investigation to prevent injuries and avoid reoccurrences.
- Annual risk assessments are conducted by external legal experts in the field to establish environmental as well as health and safety (EHS) risk registers, classified into categories based on likelihood of occurrence and potential impact on the business as key inputs to driving improvement plans, with progress tracked by QHSE teams within the group.
- The Hudaco group risk and internal audit function conducts regular EHS internal audits and provides third line assurance on the management of QHSE risks, in terms of Hudaco's combined assurance framework, to the social and ethics and the audit and risk management committees of the Hudaco board. These audits help to fast-track standardisation, adoption of best practices, the deployment of the QHSE framework and the driving of continuous improvement. EHS audits will be conducted to determine whether the QHSE management systems in the group conform to the requirements of the international standards (ISO 9001:2015; ISO 14001:2015 and ISO 45001:2018), relevant laws and regulations, the group QHSE framework and to the risk mitigation actions detailed in the group QHSE risk register (including compliance obligations) and to ensure that the QHSE systems and processes have been effectively implemented and maintained in all businesses within the group.

Performance

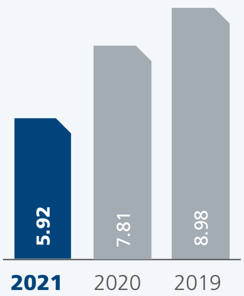
We have adopted standardised leading and lagging indicators as a common measurable baseline for safety improvement across the group:

- Leading indicator – Visual leadership engagement that measures the compliance of senior management conducting operational assessments to predefined minimum guidelines and requirements.
- Lagging indicators – the following two key performance indicators (KPIs) have been adopted (LTIFR – lost time injury frequency rate and AIFR – all incident frequency rate).
- During the reporting period we recorded 119 occupational injuries in the workplace requiring medical treatment and although the number of incidents increased by 61% we have seen a reduction in LTIFR (Lost Time Injury Frequency Rate) by 25%. The increase in the AIFR (All Incident Frequency Rate) is mainly attributable to increased industrial activity when compared to 2020, which was restricted by Covid-19 lockdown periods.

LTIFR = Lost time injury frequency rate: standardised to 1 million hours worked

25%

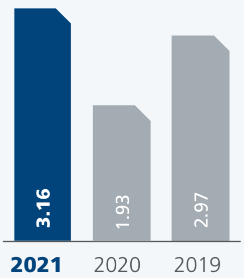
Reduction from 2020



AIFR = All incident frequency rate: standardised to 200 000 hours worked

61%

Increase from 2020



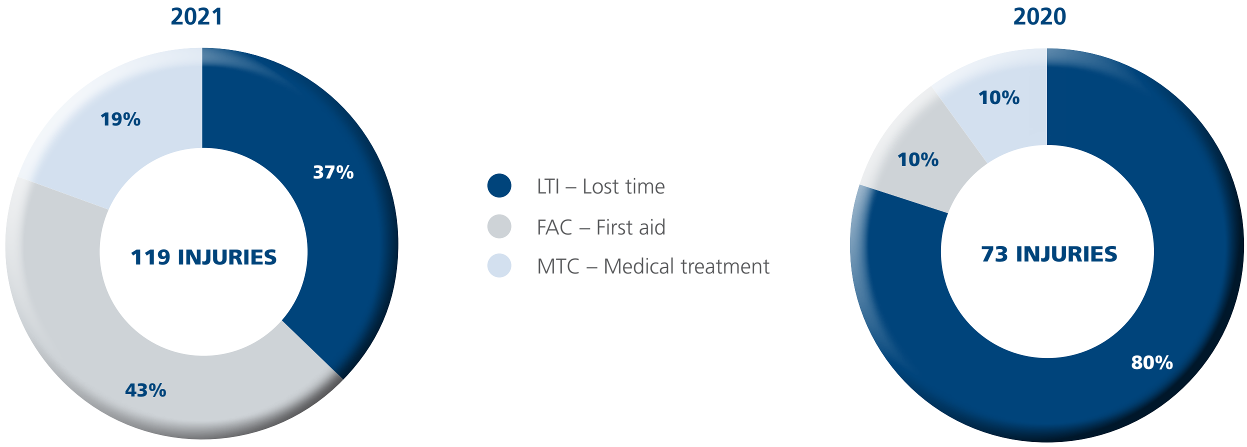
It is with deep sadness that we report the loss of Ernest Malaza, a driver at Ernest Lowe, who passed away during the reporting period in a fatal motor vehicle accident whilst towing another vehicle from their Steelpoort branch back to Boksburg, as well as five employees (Jack Mahlangu from Bearings International, Macy Libisi from FHS, Lezel James from Deutz Dieselpower, Mogamat Amardien from Gear Pump Manufacturers and James Burrow from Belting Supply Services) who succumbed to the Covid-19 virus. Our deepest condolences are extended to their families, friends and colleagues.

Key attributes/reasons for improvement in performance

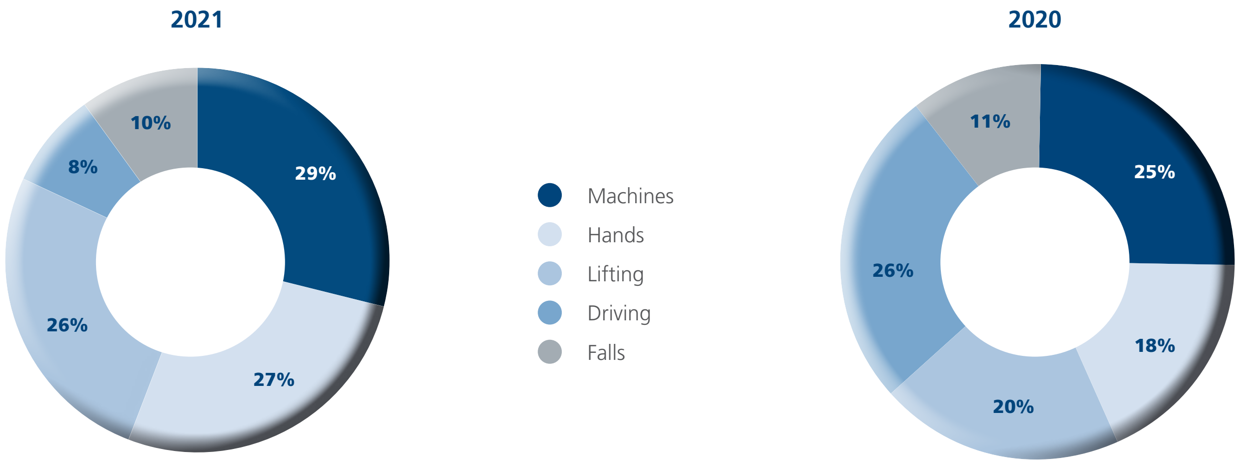
The improvement in our lost time injury frequency rate (LTIFR) was a pleasing 25% and largely due to greater visual leadership and accountability at all levels in the organisation, strengthening our culture towards safety in the workplace and various targeted safety initiatives at our various operations. These initiatives included 5S workplace organisation and planned task observations in medium to high risk operations and processes.

The significant increase in our all incident frequency rate (AIFR) was mainly due to increased industrial activity in comparison with 2020, a year in which activity was restricted due to Covid-19, as well as various changes made to our QHSE structures to strengthen the completeness and accuracy of our reporting.

Injury classification



Injuries based on the top five hazards



Key focus for the year ahead

The deployment of our QHSE framework remains a high priority, together with driving continuous improvement throughout the businesses. Training on hazard identification and their associated risks is an integral part of the QHSE framework and we will focus on further refinement of our risk framework to ensure a more proactive approach to safety in the workplace. Strengthening communication will also remain critical during 2022 to ensure a coordinated and standardised approach to the implementation of the safety strategy and framework across the group. This will include quarterly safety campaigns, regular safety alerts, enforcement of workplace standards and employee engagement forums to identify safety improvement initiatives.

EMPLOYEE REPORT continued

Employee health and wellness

We understand that a person's health and wellbeing include physical, emotional, social and psychological factors and all have a strong impact on how people engage with and contribute positively to the performance of the business, their families, communities, society and the environment.

Management approach and governance

Our approach to health and wellness management is built on two key pillars:

- reducing occupational exposure, which involves identifying, measuring and reducing harmful exposure, conducting surveys and providing risk-based guidelines in dealing with chronic illnesses; and
- improving employee wellness, which is achieved by assisting employees dealing with issues impacting their wellbeing and productivity in the workplace, including the provision of support in coping with TB and HIV/AIDS.

Improving occupational health and hygiene is critical in meeting our safety objectives, so we apply the same rigour to reducing and eliminating occupational health hazards as we do to eliminating workplace safety hazards and risks and providing employees with appropriate personal protective equipment wherever there is a risk of exposure levels exceeding safe limits.

Medical aid

Hudaco acknowledges the importance of belonging to a stable and sustainable medical aid scheme, which contributes towards a productive and healthy workforce. The overriding principle is that Hudaco wishes to facilitate that all employees have the opportunity to take up medical scheme cover, while recognising that some employees earn at a level such that private medical cover is prohibitively expensive and that they must, therefore, rely on the state to provide them with healthcare.

Membership of the company's preferred medical scheme (currently Discovery Health) is compulsory for all employees who earn above the compulsory threshold, unless proof is supplied of membership of another medical scheme as a dependant or, under certain circumstances, if employed in a business before it was acquired by Hudaco. From December 2021, the compulsory threshold was increased substantially to R20 000 per month, recognising the significant increases in other living costs with which our people have to contend. Members may select any medical aid plan offered by the preferred medical scheme. Employees earning below the compulsory threshold have three options: to join a Discovery medical aid plan; to join Discovery's primary care offering (which is through Auto & General's Flexicare medical insurance product); or to rely solely on state health facilities.

All employees who belong to the company's preferred medical scheme must also belong to the company's preferred gap insurance product (currently Cinagi). This insurance covers members who experience shortfalls on their hospital and oncology claims as a result of co-payments or tariff differences charged by medical professionals.

The company provides a subsidy by paying, for the employee and qualifying dependants (one spouse and up to three child dependants up to age 21), 50% of the premium for the gap insurance and the medical aid plan selected by the member or Flexicare, limited to the level of the Classic Priority plan. The company does not subsidise fees for Discovery Vitality, membership of which is optional. Where a member selects a plan higher than Classic Priority, the company will contribute 50% of the premium for Classic Priority and the member will be responsible for the balance of the premium, including any fees for Discovery Vitality. Members whose remuneration is based on total cost-to-company (senior management) do not benefit from this subsidy.

There were, on average, 1 198 employees on the medical scheme during the year to November 2021. Thirty two employees are currently on Flexicare while 843 employees have chosen to be members of Vitality. Annual contributions (excluding Vitality contributions) totalled R76.2 million, of which R31.5 million was covered by the Hudaco subsidy, which was limited to 50% of Classic Priority. Top senior executives are remunerated on total cost-to-company and were not included in the subsidy amount. Gap insurance cost a further R2.6 million.

Employee wellness

Under normal circumstances, with the support of Alexander Forbes Health, Hudaco runs about 25 employee wellness events at our locations in Gauteng, Durban and Cape Town. The offering to employees, irrespective of whether they are covered by medical aid or not and at no cost to themselves, typically includes:

- health risk assessment: height, weight, blood pressure, cholesterol, glucose and BMI;
- eye screening by a mobile optometrist;
- HIV voluntary testing and counselling;
- questionnaire on lifestyle habits; and
- immediate feedback of the results including information on risk factors, healthy eating and exercise habits.

Due to Covid-19 and the associated risks, no employee wellness events were held in 2020 or 2021. We plan to resume the programme, or at the very least certain elements thereof, in 2022. All businesses that participate in the wellness programme receive a report indicating certain risk factors within the organisation. To provide a perspective on the level of involvement, we repeat the figures for the 2019 programme: In total, 1 121 Hudaco employees of whom 646 were not on medical aid, took advantage of the opportunity and had a health risk assessment, while 754 employees checked their HIV status. Altogether, five employees tested positive for HIV, representing 0.7% of the employees tested. They received counselling and were referred to the most appropriate channel to seek medical treatment.

Major risk factors identified consistently across the group were body mass index (BMI) and elevated blood pressure. In total, 33% of Hudaco employees tested were overweight. 56% had a waist circumference outside of the normal range. Without intervention, this could lead to the development of high blood pressure, high cholesterol and diabetes. Altogether, 41% of employees tested had elevated blood pressure, which showed a significant increase from 26% in the year before. One-on-one health education was available to employees to encourage an active lifestyle that includes physical activity and healthy eating with more emphasis on avoiding foods high in sugar, fat and salt.

The wellness days provide the opportunity for employees who are not on medical aid, and who would otherwise not take the time to be tested for these potentially life-threatening conditions, to have their assessments done on-site and free of charge. The relevant employees are given the appropriate advice to address their conditions. Some Hudaco businesses provide additional support.

Filter and Hose Solutions sponsors two doctor visits per annum (which includes medication) for their employees or their family members who are not on a medical aid. Under normal circumstances, once a month, DDP runs a mobile clinic, staffed by a qualified nurse, offering medical advice to employees not covered by medical aid.

Covid-19 continued to have a fundamental impact on measures required to maintain employee wellness during 2021. Our businesses continued to adhere to appropriate Covid-19 protocols throughout as the health and safety of our employees has been of paramount importance. For the year to 30 November 2021, 357 employees of the group reported having contracted Covid-19. Tragically, five of these cases proved fatal.

We are very pleased that our people have, in the main, embraced our vaccination policy and are proud that 76% of our staff have been fully vaccinated and a further 12% partially vaccinated thus far. Currently, we consider two Pfizer doses or one Johnson & Johnson dose as fully vaccinated.

Enterprise development and socio-economic development

Hudaco favours suppliers that have good BEE scorecard ratings and uses SMMEs (small, medium and micro-enterprises) wherever possible, working closely with them to improve their service delivery.

Hudaco spent R11.7 million on various enterprise and supplier development initiatives during its 2021 financial year. Some of these included the following:

- Offering interest-free loans to qualifying black-owned businesses;
- Deutz Dieselpower continued its system of early payments to level 4 B-BBEE contributors and supported the services of a black woman optometrist;
- Ambro Steel provides facilities for a black woman optometrist on their premises. Hudaco assisted her with the purchase of a sophisticated piece of equipment that is geared towards providing eye care to the poor through keeping costs low;
- Abes Technoseal subsidised canteen facilities, owned by a black woman, at their premises; and supported an SMME with rent-free premises, telephone line, internet usage and utilities. They also process early payments to a level 2 B-BBEE contributor;
- FHS and Dosco support a recycling initiative with black-owned SMMEs;
- Rutherford supports and subsidises a black woman owned canteen;
- MiRO supplied VOIP equipment to Invincible Outsourcing, a revenue generating partner of the Maharishi Institute for the benefit of black youth education;
- Deltec supported a level 1 sustainable energy business; and
- Hudaco head office continued supporting a car wash and a restaurant in Tembisa.

Each year the board sets aside a specific amount for socio-economic development. Through financial and non-financial contributions, Hudaco is involved with a number of specific projects aimed at improving the lives of previously disadvantaged communities.

These funds are, in the main, managed and distributed by Hudaco's head office on behalf of business units. In 2021, Hudaco donated approximately R2.5 million to a variety of socio-economic development initiatives.

In partnership with The Almond Tree and ORT SA, Hudaco maintained a tradition of honouring Nelson Mandela Day. Because of the Covid-19 pandemic, it was again not appropriate this year for employees to visit these organisations, participate in their activities and interact with their beneficiaries as we would in a normal year. Instead, Hudaco sponsored furniture for additional housing for the children at The Almond Tree and funded a Back-A-Buddy "one hand feeds another" initiative by ORT SA.

Hudaco executive development programme

Hudaco conducts an executive development programme with a view to exposing black employees to different areas of the group's business and fast-tracking them to fill senior management positions within the group. Unfortunately, we have lost participants to more lucrative opportunities in the market. Another completed the programme and has accepted a senior position at one of the Hudaco businesses, while two more are still on the programme. The participants are all engineers and hold MBA qualifications. In future this programme will be restructured to provide for a more intense experience with a long-term horizon, ideally at a single business, rather than shorter stints across businesses.

BEE trusts

The beneficiaries of the Hudaco Trading BEE ownership trusts are all black South African employees of Hudaco Trading with more than three years' service. This means that black employees have 15% effective ownership in Hudaco Trading, the group's main operating company. The trustees have resolved that, in February 2022, the trusts will distribute R9 million to approximately 1 800 beneficiaries, with each beneficiary receiving R5 000.

Staff education programme

Hudaco Trading empowers current black employees, their spouses and their children by granting tertiary education and bursaries to eligible applicants. Beneficiaries may study towards any career of their choice and, on completion of their studies, are under no obligation to work for Hudaco.

In 2021, 61 students were granted bursaries, of whom 32 were women. Of these, 15 completed their qualifications. For the 2022 academic year, 59 students have been identified for bursaries, of whom 38 are women. Hudaco spent R2.5 million on these bursaries in 2021.

Bursary students

Johanna Mautjane
Mother of Hazel Tsotetsi

EMPLOYEE AT DEUTZ DIESELPOWER

I joined Deutz Diesel Power in 2008 as a credit controller in a very pleasant environment and under a management team that is caring. I like my job and I am so grateful to be within the Hudaco group. It was a relief for me as parent when my daughter Hazel Tsotetsi received funding from the Hudaco bursary programme to study towards a National Diploma in Marketing Management. The cherry on top was when she was offered a graduate opportunity to work within Hudaco group at Abes Technoseal on a marketing internship. This really meant a lot. Hazel says: "The Hudaco bursary fund and graduate programme have given me the confidence to further explore the field of marketing as now I have a qualification and work experience, all thanks to best company in the world, Hudaco. This company changed my whole life and I will forever be grateful. This was indeed a life changing opportunity and from the bottom of my heart I thank you!"

Companies like Hudaco are rare to find and because of you I am a proud mother of a professional.

Thanks so much. This programme is appreciated. I am hoping that one day she will become a permanent employee, and that she studies further and becomes one of the top managers.

Keep up the good work, Halalaaa.

Thoko Precious Majombozi
Employee at Partquip

BA COMMUNICATION SCIENCE

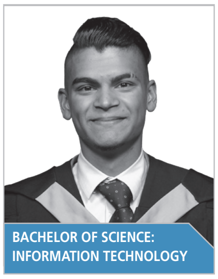
I would like to take this opportunity to express my sincerest gratitude that I was selected to be a recipient of a Hudaco bursary to study BA Communication Science at UNISA, a three year course, from 2018 to 2021.

When the bursary programme was announced at Partquip, my husband had just passed away during that year in 2015. So when I was afforded the opportunity to study, it really was a precious gift as it helped to pull me out of the pit of sadness as I concentrated on my studies. Without the Hudaco bursary, I would never have started studying again as my priority was my children, because I was the sole breadwinner.

I live in a poor area where there are many gaps that need to be filled as we do not have a library. With my qualifications, I hope that soon I will be able to work with other organisations in the community to assist in any way possible to encourage people to study further or to do something that will be of benefit for all. For example, I have a small vegetable patch in my yard and I have managed to persuade some of my neighbours to also start gardening.

Thank you again for the opportunity. People who speak isiXhosa say: "Ningadinwa nangomso, nikwenze nakwabanye" which means "Do not grow weary, go further and do it for others".

Kabir Singh
Son of Amsha Singh, an employee at Bearings International



BACHELOR OF SCIENCE: INFORMATION TECHNOLOGY

I am sincerely grateful to Hudaco for awarding me a bursary from 2020 to 2021. Being a Hudaco bursar filled me with determination, hunger, and joy. I had never been so proud in my life.

Unfortunately, we were then faced with a pandemic which changed all our lives, from losing people dear to us to many people worldwide being impacted. I progressed and completed my second year of studies through the roller coaster of a year, with seven distinctions out of eight modules.

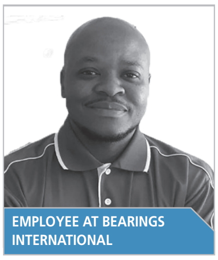
In 2021 after re-applying and being awarded, I was delighted and grateful once more as this enabled me to finalise my studies towards a Bachelor of Science in Information Technology at Eduvos. I successfully graduated with four distinctions out of seven modules.

Hudaco provided me with the greatest opportunity, which I took with open hands. It has been a difficult two years but my confidence was still highly ignited and I remained driven. This gift ensured that I kept my drive to thrive.

To Hudaco, I am forever grateful for the opportunity presented to me as it enabled me to develop, grow, and obtain a degree, which is now my proudest moment!

"Education is the passport to the future, for tomorrow belongs to those who prepare for it today." – Malcolm X

Vincent Martin
Father of Sue-Beida Martin



EMPLOYEE AT BEARINGS INTERNATIONAL

Allow me to pass my word of gratitude to the Hudaco team who spent time going through the applications and selecting candidates who work hard to get a qualification via this massive opportunity that changes lives.

I'm out of words! I can't even express my joy at what Hudaco did for the Martin family. I'm humbled, thankful and filled with joy! A big thank you to Hudaco for laying a good foundation for my angel, Sue-Beida for the past three years. She has now completed her undergraduate degree at North-West University, specialising in financial accounting. This was a golden gift to her and now the sky is the limit for her. Without this contribution, it would not have been possible for her to start her career and make her dreams a reality.

As a family we thank Hudaco once again for making it happen. THANK YOU! THANK YOU Hudaco!!!

Neria Sefoka
Employee at FHS

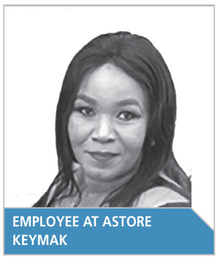
BCOMPT ACCOUNTING SCIENCE

I have been an employee at Filter and Hose Solutions since 2014 and would like to thank Hudaco for its generous bursary gift. I was very happy and appreciative to learn that I was selected as a recipient of a Hudaco bursary from 2017 to 2021.

The bursary allowed me to fulfill my dream of becoming an accountant as I have now completed my Bcompt degree in Accounting Science. It was not easy being a student, mother, wife and employee working in an accounting environment where you are faced with month-end deadline reporting but through the grace and mercy of God I have made it through. Today I can confirm that my future is promising as I have registered for a programme in taxation. Without the Hudaco bursary, I would not have been able to fulfill my dream.

Thank you once more and I hope that one day I will be able to help others to achieve their goals just as you have helped me.

Ethel M. Nhlengethwa
Mother of Nokuphila Nhlengethwa



EMPLOYEE AT ASTORE KEYMAK

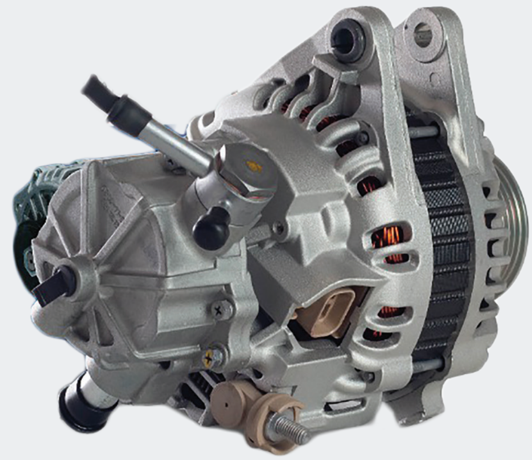
I would like to take this opportunity to show my gratitude to what this bursary has done for my daughter Nokuphila Nhlengethwa and for me. My daughter's dream of becoming what she always wanted is close to being realised, and it is all because Hudaco saw what she was capable of achieving. She has obtained an honours degree in Psychology at Varsity College.

You have made her life experience so adventurous and exciting in such a way that she finds education exciting rather than a struggle. Her future plans are to find her dream job which will help her to improve her living conditions and to be financially stable.

Thank you so much once again.

REMUNERATION REPORT

The terms of reference of the remuneration committee align its activities with the principles contained in King IV. The structure of Hudaco's remuneration report and the level of detail provided regarding the remuneration of executives are also in compliance with King IV.



The report comprises three sections:

- A background statement by the chairman of the committee;
- The remuneration policy; and
- Implementation of the remuneration policy.

SECTION 1: BACKGROUND STATEMENT

Remuneration in context of the group and the workforce

Over many years, the group has refined its remuneration policy and practices in support of its aim to be a thriving, growing company which is highly dependent for its success on the quality and motivation of its people. The group believes that its remuneration practices are very much in line with the King IV remuneration governance principles, and that these principles underpin the achievement of its business objectives, its ethical culture and the fair reward of its employees.

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Employee compensation is the single largest component of the group's operating expenses. During the 2021 financial year, employees received approximately 59% of the total wealth created by the group. (See the value-added statement on page 29 of this integrated report.) The table below provides further context to the significance to Hudaco of employee remuneration:

	2021	2020
Total number of employees	**3 768**	3 694
Total compensation to employees (Rm)	**1 335**	1 182
Total compensation as a % of revenue	**18**	19

For the general body of employees, the group's remuneration policies aim to attract and retain high-calibre people and reward them fairly for their skills and performance and to provide a happy and challenging work environment. All of Hudaco's employees have the opportunity to receive short-term bonus awards.

At executive director, executive committee and top senior management level – consisting of approximately 15 employees – the remuneration policy is designed to more sharply:

- reflect group and relevant business unit performance; and
- incentivise these employees to act in the best long-term interest of shareholders via performance measures that stress earnings growth and the returns earned by the businesses for which they are responsible. These measures are described in more detail further on in this report and include malus and clawback provisions.

The compensation of most of the group's unionised employees (582 people) is determined collectively or based on sector norms. Hudaco endeavours to maintain positive day-to-day working relationships with unionised employees and to balance their right to industrial action with the right of the group to conduct its activities.

Internal and external factors that influence remuneration

In discharging its duties the committee considers various factors, including general economic and business conditions, past and expected performance of the group and the business unit concerned, the inflation outlook, the employment market conditions and trends and, importantly, the pay gap that exists in the group and the business sector generally.

Where considered necessary, the committee seeks the advice of experts regarding these factors, particularly concerning conditions of employment, fair pay and trends.

For many years now, the group's response to the pay gap issue has been to grant higher average salary increases to lower paid employees than to their more senior colleagues who participate in the executive pay schemes. The remuneration committee monitors progress in managing the pay gap in the group.

REMUNERATION REPORT continued

During 2021 the committee obtained assurance on outliers on both sides of the salary increase scale with a view to ensuring that no prejudice or favouritism took place in the process. The committee also received confirmation that there are no instances of non-compliance with minimum wage requirements.

Most recent results of voting

At the annual general meeting held on 18 March 2021, Hudaco presented both the remuneration policy and the implementation report as two separate non-binding votes to shareholders for approval. The group's remuneration policy received the support of 83.43% of shareholders who voted, which was very similar to the support received in 2020. The implementation report received 83.03% approval, considerably up on the 61.56% received the year before, which indicates that the concerns expressed by shareholders in 2020 were adequately addressed.

Key areas of focus and key decisions

During the year the committee focused on:

- providing general salary increase guidelines;
- conducting performance appraisals for the executive directors, the other executive committee members and six of the other most senior executives in the group (senior executives);
- reviewing the guaranteed remuneration packages of the senior executives;
- approval of incentive bonus payments to senior executives for the previous year's performance, including any amounts subject to clawback on under-performance;
- approval of the short-term and long-term performance criteria for the year ahead for the senior executives;
- confirmation of share matching opportunities in terms of the share matching scheme;
- allocation of share appreciation rights;
- reviewing service agreements of the senior executives with special reference to restraint of trade clauses, severance packages (if any) and notice periods;
- proposing non-executive directors' fees;
- approving that awards be made to those members of the general staff who were worse off on account of pay reductions imposed in 2020 because of the Covid-19 pandemic, particularly in relation to retirement contributions;
- considering the effectiveness of the intrinsic value incentive that was trialled during 2021; and
- reviewing the remuneration report for publication in the 2021 integrated report in the context of the King IV principles on remuneration and the JSE Listings Requirements.

In making decisions, the general principles followed by the committee include:

- the use of discretion by the committee to override policy should be avoided, unless in exceptional circumstances and appropriately disclosed;
- there should be no change to performance measures when the outcome is already evident;
- that remuneration generally should support the sustainability of the business, be fair and reasonable, externally competitive and internally equitable and that variable remuneration should be contingent on, and correlate with, performance and value creation that, by and large, is within the control of executives.

The principles applied were largely gleaned from the Guide to the Application of the King IV Principle 14: Governance of Remuneration, issued by the South African Reward Association and the Institute of Directors Southern Africa.

Other factors which inform the general thinking of the committee, particularly as regards the leadership cohort, are:

- The management team – The board and the committee are very much of the view that Hudaco has a highly competent and effective leadership team and that this was once again clearly demonstrated:
  - by the way the businesses in the group responded to the supply chain challenges that confronted the group during the year; and
  - in the sterling results produced in the 2021 financial year.
- The entrepreneurial culture of the group – The board and the committee are of the view that the entrepreneurial spirit that has long infused the culture of the group and been key to its success and an important element in its decentralised business model should be nurtured and encouraged. In this regard, the board and the committee are conscious of the characteristics of the entrepreneurial type of person: namely that they are highly effective people who "make things happen"; they are mobile – many of them have built and run businesses themselves; are confident in their own abilities; are much sought after as managers; and they tend to be highly responsive to financial incentives and having "skin in the game".

General salary increases

In June 2021 the committee approved average annual salary increases of 7% for the general body of employees and 5% to 6% for senior executives, except where independent benchmarking indicated a different increase was appropriate. This differential is a further step forward in addressing the pay gap. Khokhela Remuneration Advisors were engaged to benchmark the remuneration of the senior executives against the market and found that, after the 2021 increase, the packages of Hudaco's executives were appropriately positioned. The committee normally undertakes such benchmarking every second year and this was due to have been done in 2020. In the context of the pandemic, no increases were granted in 2020 so the exercise was held over until 2021.

Short-term incentives

The short-term bonuses for the senior executives are largely formula-driven on criteria set at the beginning of the financial year. With the impact of Covid-19 and the associated lockdown on the 2020 results, it was clear that any targets set with 2020 as a base would be too easily achieved. Accordingly, short-term incentives for executive directors were set with the 2019 results as a base.

In the event, the group performed extremely well in 2021, with earnings and returns exceeding those of 2019 by a significant margin and strong cash generation enabling almost R300 million to be returned to shareholders in the form of dividends and share repurchases and R150 million of long-term debt to be repaid.

The 2021 performance resulted in significant value creation within the group and in this context, the committee was satisfied that the bonuses paid were well justified.

Long-term incentives

Performance-based share appreciation bonus scheme

The performance criteria for the long-term share appreciation bonus scheme are measured on return on equity and increase in comparable earnings per share over three, four and five years. Approximately 230 people participate in the scheme, with the performance criteria applying to 15 senior executives.

Retention-based share matching scheme

The committee views this scheme as an important component of remuneration in the context of Hudaco. The scheme was put in place some seven years ago with the support of shareholders as a retention incentive. It involves the 15 most senior executives being encouraged to invest their own money in Hudaco shares on the basis that, after three years, the number of shares purchased, and held unencumbered, by the participant over the period is matched in the matching ratio with shares acquired in the market (so as not to dilute existing shareholders). The committee views the scheme as more than just a retention incentive. It encourages the leaders of the group to have "skin in the game" via a direct financial commitment which aligns their interests directly with those of other shareholders. In terms of the scheme rules, the matching ratio is at the discretion of the committee. Since the value of the matched shares is fully taxed as a fringe benefit, on an after-tax basis, the benefit is not as attractive as it seems and in the current economic environment interest in investing under the scheme has waned to some extent. Furthermore, the loss of business heads through emigration and for other opportunities remains a constant threat. This is a trend which the business can ill afford at this juncture, especially amongst the senior executive corps, which has proved itself yet again to be highly competent and effective in steering the group through challenging times. Taking all of this into account, the committee felt it appropriate to set the matching ratio for the 2022 financial year to 1:1 on an after-tax basis, which equates to approximately 1.8:1 pre-tax. This is half of the exceptional ratio applied in 2020 of 2:1 post-tax.

The implementation section of this remuneration report sets out in the required detail the remuneration of the three executive directors, including the chief executive and the chief financial officer, and the five next most senior executives responsible for the businesses in the group.

Future areas of focus

The remuneration committee is committed to continued improvement and forward-looking principles. Specifically:

- Hudaco will offer to engage with the shareholders as necessary in the event of any significant dissenting votes on either its remuneration policy or implementation report.
- The principle of fair and responsible remuneration, and the pay gap in particular, will be considered again during 2022.
- Considering in more detail the effectiveness of the intrinsic value creation incentive (further referred to in the policy section), the trial of which will be continued for a further year and the merits of including this as a permanent component of the performance-based pay of the executive directors.

Remuneration consultants

In order to ensure remuneration is fair and market-related, all elements of remuneration are subject to regular benchmarking exercises. Every two years the committee engages remuneration consultants to benchmark remuneration of executives against an appropriate peer group and to provide input on recent trends. This was done in June 2021 by Khokhela Remuneration Advisors, whom the committee satisfied itself were independent and objective.

A benchmarking exercise on non-executive directors' fees was conducted by Khokhela Remuneration Advisors in January 2019, the results of which were taken into account in the fees approved at the 2019 annual general meeting. An inflationary adjustment of 5.5% was approved for 2020 and, in line with the freeze on increases throughout the group, no increase was granted for 2021. In 2022, it was decided to propose an increase in these fees of 6.5%, to partially compensate for their not having been increased in 2020. A greater increase has been proposed for the social and ethics committee in recognition of the expansion of key aspects falling withing its ambit.

Achievement of stated objectives

Hudaco is strongly of the view that pay, working conditions and, at senior executive level, well considered performance measures linked to variable pay, are strong drivers of behaviour and performance.

The committee remains confident that Hudaco's remuneration policy remains well aligned to its strategy and the interests of its stakeholders and has contributed to Hudaco's growth and resilience in a challenging economic climate. Accordingly, we are satisfied that the remuneration objectives for the 2021 financial year were achieved.

MR Thompson
Chairman of the remuneration committee

17 February 2022

SECTION 2: THE REMUNERATION POLICY

Hudaco has an integrated approach to remuneration strategy, in which remuneration components are aligned to strategic direction and financial returns. The group's remuneration philosophy is to ensure that employees are rewarded appropriately for their contribution to the execution of the strategy of Hudaco.

The remuneration policy had been designed to continue to attract, engage, retain and motivate the right diverse talent required to deliver sustainable growth and good returns. The policy recognises and rewards individual responsibility, performance and behaviour in the achievement of Hudaco's goals. The policy is applicable to all group employees but participation in short and long-term incentive schemes is dependent on an individual's role and level within the group.

The remuneration policy and the implementation thereof are focused on achieving a fair and sustainable balance between fixed guaranteed remuneration, short-term incentives and long-term incentives, having regard for the person's responsibilities.

Some of the principles adopted by Hudaco to drive fair and responsible remuneration include:

- equal pay for work of equal value, specifically addressing any income disparities based on gender or race;
- all employees of Hudaco having the opportunity to receive short-term bonus awards;
- annual salary increases on base salary being granted based on market conditions;
- up-skilling of low paid employees;
- consideration being given to minimum wage legislative requirements; and
- all permanent employees having the opportunity to participate in benefits such as retirement funding, risk benefits and medical aid.

Hudaco is mindful of the wage gap within the group, and therefore ensures that the percentage increases in base salary awarded to lower paid employees are generally greater than those awarded to the executive and senior management tier.

Determination of performance incentives

Hudaco has various formal and informal frameworks for performance management that are directly linked to increases of fixed guaranteed remuneration and annual short-term incentive bonuses. Performance management and assessment sessions take place regularly throughout the group, where business performance, personal achievement of key performance indicators and delivery on key strategic imperatives are discussed.

Overview of remuneration

Hudaco's employees are critical to the achievement of the group's strategic objectives. Many of the business-critical skills that we require are in short supply and Hudaco recognises the importance of attracting, developing and retaining the best people to deliver on the group's business goals.

Employee remuneration, particularly fixed guaranteed remuneration, is a significant component of the group's total operating cost. Remuneration is structured to be competitive and relevant in the sectors in which the group operates. Variable remuneration, which pertains primarily to more senior tiers, has the advantage of serving as an automatic cost reduction mechanism when returns are under pressure.

General employees' remuneration

The total remuneration mix for the general body of employees consists of guaranteed pay and benefits (fixed guaranteed remuneration) as well as a short-term bonus award.

Fixed guaranteed remuneration is monitored and benchmarked on a regular basis. Remuneration levels take into account industries, sectors and geographies from which skills are acquired or to which skills are likely to be lost, the general market and the market in which each business operates. It is designed to meet each business' industry and operational needs as well as strategic objectives. The structure for unionised employees is driven by collective bargaining and sectoral determinations. General adjustments to guaranteed pay are effective from 1 July each year. In unionised environments, collective bargaining arrangements may come into operation at other agreed times. Annual increase parameters are set using guidance from group budgeting processes, market movements, individual performance, the performance of the business and any other relevant factors. Increases above inflation depend on the factors set out above.

Hudaco pays short-term bonuses aligned to best practice and in some cases this may include a guaranteed bonus equal to one month's salary. However, in the majority of cases bonuses depend on the performance of the individual and the business in which they are employed.

Employees at the level just below senior managers also qualify for the long-term incentive scheme.

Other benefits include pension and provident fund membership, medical aid membership and medical expense gap cover, death and disability insurance, funeral cover and in some cases travel allowances or the use of company-owned vehicles. Hudaco considers the provision of these benefits to be socially responsible employment practice.

Executive and senior management remuneration

Executives are responsible for leading others and taking significant decisions about the short and long-term operation of the business, its assets, funders and employees. They require specific skills and experience and are held to a higher level of accountability. Hudaco's remuneration policy is formulated to attract and retain high-calibre executives and motivate them to develop and implement the group's strategy to optimise long-term shareholder value. It also seeks to align the entrepreneurial ethos and long-term interests of the executive directors and senior management with those of the shareholders, while not diluting the equity stake of existing shareholders. Senior management remuneration policy places a significant portion of total remuneration "at risk" whilst not encouraging behaviour contrary to the company's approach to risk management and ethical conduct.

The remuneration policy is structured around the following key principles

Total rewards	Incentive-based rewards	Incentive plans, performance measures and targets	The design and implementation of long-term incentive schemes
Set at levels that are responsible and competitive within the relevant market.	Capped and earned through the achievement of demanding growth and return targets consistent with shareholder interests over the short, medium and long-term. They include an element of potential clawback.	Structured to operate soundly throughout the business cycle.	Prudent and do not expose shareholders to dilution or unreasonable financial risk. While they are defined as equity-settled, it is policy not to issue new shares but to rather acquire shares in the market. Malus provisions apply, whereby awards may be forfeited under certain circumstances.

The group's general philosophy for executive remuneration is that the performance-based pay of executive directors and senior managers should form a significant portion of their expected total compensation. There should also be an appropriate balance between rewarding operational performance (through annual incentive bonuses) and rewarding long-term sustainable performance (through share-based incentives).

The total remuneration mix consists of guaranteed pay and benefits (fixed guaranteed remuneration) and short and long-term incentives. The ratios within the remuneration mix differ depending on seniority levels and responsibilities.

The group's remuneration structure for senior management, including the executive directors, has three elements:

- fixed guaranteed remuneration on a cost-to-company basis;
- short-term performance-related remuneration, based on annual results and the achievement of non-financial objectives; and
- long-term (three to five years) remuneration linked to share price appreciation and therefore long-term earnings performance.

In order to ensure remuneration is market-related, all elements of remuneration are subject to regular benchmarking exercises.

The remuneration policy starting point is for fixed guaranteed remuneration to be close to the median of comparable positions as a general guideline. The committee then exercises discretion to place individuals above or below the median.

Generally, similar types of benefits are offered to all permanent employees, but defensible differentiation is applied having regard for the size and complexity of the position, the need to attract and retain certain skills and individual performance.

The committee believes that the remuneration policy aligns senior management's interests with those of the stakeholders by promoting and measuring performance that drives long-term sustained shareholder wealth.

Fixed guaranteed remuneration

Past and expected future performance of each executive as well as inflation and benchmarking against salary trends are used as a basis for remuneration reviews. Other benefits funded from the total cost-to-company fixed remuneration package include a provident fund with group life and disability insurance, funeral cover, medical aid membership, medical expense gap cover and travel allowances or, in some cases, the use of a company-owned vehicle. Providing these benefits is considered to be market competitive.

Short-term performance-based remuneration

All executives and senior managers are eligible to receive a performance-related annual bonus. The bonus is non-contractual and not pensionable. The remuneration committee reviews bonuses annually and determines the level of each bonus based on performance criteria set at the beginning of the performance period. All bonuses in the group are subject to approval at least one level above the person's direct manager.

Short-term performance-related remuneration for the chief executive and the financial director is currently based primarily on a pre-determined return on equity range, which is capped, and the achievement of comparable earnings per share growth. For 2022, no ROE bonus will be paid if ROE is below 14% and the primary target is 17%. As a stretch target, a cap will be reached at ROE of 23%. While the payment for comparable earnings per share growth is not capped, it is subject to partial clawback and increases more steeply once this growth exceeds 15%.

A portion of the executive directors' possible performance-related earnings is subject to the achievement of non-financial objectives, determined from time to time but at longest annually, up to a maximum of 25% of fixed guaranteed remuneration.

For top senior managers, performance-based remuneration is linked to a combination of the achievement of appropriate returns on net tangible operating assets (capped) and annual growth in operating profit (uncapped) in the businesses under their direction. A portion of top senior managers' potential performance-related earnings is subject to the achievement of non-financial objectives, determined from time to time but at longest annually, up to a maximum of 14% of fixed guaranteed remuneration.

In 2020 the committee introduced an additional incentive on a trial basis, offered to the three executive directors, of 10% of their fixed guaranteed remuneration, directly linked to increasing the intrinsic value of the shares. The impact of the Covid-19 pandemic on the 2020 results meant that this incentive was not triggered, as there was no increase in the intrinsic value of the shares. The committee reintroduced this incentive again for the 2021 financial year, based on the calculated intrinsic value of the shares as at 30 November 2019. The concept behind the incentive is that, using a simple point-in-time valuation methodology, the value of the shares as at 30 November 2019 was determined and, using the same methodology and capitalisation multiple, the value of the shares would be determined as at 30 November 2021. Covid-19 rendered 2020 unsuitable to use as a base year.

The three executive directors would be entitled to receive the full 10% of their guaranteed remuneration if the intrinsic value of the shares so calculated increased by R20 per share or more, with a pro-rata entitlement to bonus for lesser (but positive) increases after accounting for the cost of the incentive and a partial clawback if value were to decline in the following year to below the required level for the bonus. The committee had the discretion to make any adjustments to the 2021 valuation that it deemed necessary to ensure a fair comparison, but none was warranted. This incentive will be on offer again in 2022 with the intrinsic value increase (or decrease) measured off the value at 30 November 2021 and the target appropriate for one year, as opposed to the two years (2019 to 2021) previously.

Where considered appropriate (which is rare), the committee may pay discretionary bonuses based on an assessment of personal performance. As a retention and "skin in the game" strategic alignment strategy, top senior managers are encouraged to invest a portion of their maximum potential bonuses in Hudaco shares. Refer to the section headed "Retention-based share matching rights".

Long-term remuneration

Long-term performance-related remuneration is linked to the appreciation of the Hudaco share price. There are two long-term schemes: share appreciation bonus rights as a long-term performance incentive and a share matching scheme for retention and executive "skin in the game".

If a participant's employment terminates due to resignation or dismissal before the vesting date, all unvested share appreciation rights and share matching rights are forfeited.

Performance-based share appreciation rights

Share appreciation bonus rights are awarded every year. Participants in the scheme are paid a bonus, settled in Hudaco shares (which Hudaco acquires on the open market for that purpose) and equal to the appreciation in the market value (calculated on a 10-day VWAP) of a pre-determined number of Hudaco shares following each of the third, fourth and fifth years after the award. Participants may elect to defer the right to the bonus for up to four years after vesting. The number of rights awarded to directors and top senior managers is based on their level of seniority and fixed guaranteed remuneration. The performance requirement for grants awarded since 2017 to vest, which applies only to executives and top senior management (approximately 15 people), is set by the committee and comprises two elements:

- Portion is dependent on the achievement of a pre-determined average return on equity from the date of award to the vesting date (between 13% and 17% for the 2021 award); and
- Portion is dependent on the achievement of a cumulative increase in comparable earnings per share of CPI plus currently 3% per annum between the date of the award and the vesting date. For grants that were awarded in better economic conditions the requirement is higher at CPI plus 5%.

The remuneration committee determines an appropriate performance level and split between the two elements for each award based on conditions prevailing at the time it is made and the requirement is not changed thereafter.

In several instances, executive directors have not derived any financial benefits from share appreciation awards as a result of performance factors not being met or the market price being below award price, or both.

Share appreciation rights are awarded to executive directors, other executives, senior managers and the level of employees directly below the senior managers (approximately 230 people).

Retention-based share matching rights

In order to serve as a retention strategy, to align better the interests of the executives with those of shareholders and to ensure that the executives have capital at risk in Hudaco, a share matching arrangement exists for executives and top senior managers (15 of the most senior people). Participants are permitted to invest in Hudaco shares up to a maximum of 50% of their maximum potential pre-tax short-term incentive-based remuneration. These shares are to be acquired on the open market. Provided the participant holds these shares and remains in the employ of Hudaco for the matching period (normally three years), the company will match the number of shares at the matching ratio by acquiring shares on the open market for the benefit of the participant, at the end of the matching period. The remuneration committee determines the matching ratio at the time the invitation to invest is extended to the executives. The committee wishes to encourage executives to invest more of their own personal wealth in the company, thereby increasing their "skin in the game", further aligning their interests with those of the shareholders and binding them more tightly to the company in a difficult economic climate, in which their experience is extremely important. In the circumstances, the committee decided to invite executives to invest up to 50% of their maximum potential bonus in the scheme at a post-tax matching ratio of 1:1, which approximates 1.8:1 before tax. The rationale is further explained in the background statement, specifically on page 57.

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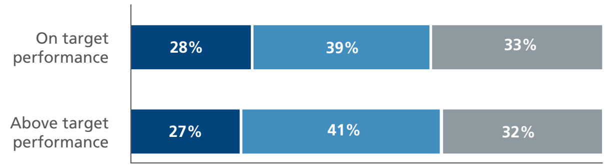
Because performance requirements of the share appreciation rights scheme described above do not apply to participants other than executives and top senior management, that scheme serves as a retention scheme for those other participants.

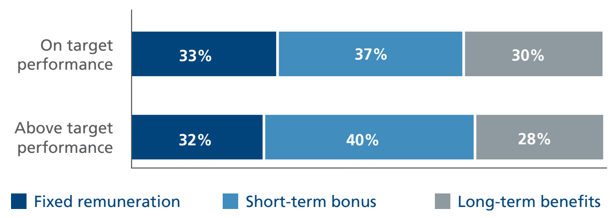
Comprehensive remuneration of the chief executive and group financial director

The breakdown of the potential comprehensive remuneration of the chief executive and group financial director can be depicted graphically as follows:

Chief executive



Group financial director



Service contracts of executives

Executives are appointed for an unspecified open-ended period subject to Hudaco's standard terms and conditions of employment, which provide for retirement at age 65. For all executives the notice period is at least three months. No contractual payments are due to any of the executives on termination of employment. If there is a change of control of the company, share appreciation and share matching rights vest, but there are no other contractual payments due.

Graham Dunford and Barry Fieldgate have restraint of trade agreements that apply for three years after termination of employment. These were put in place at the time Hudaco acquired the businesses they had owned. No other executive has a restraint of trade agreement.

Non-executive directors' remuneration

Non-executive directors are appointed to the Hudaco Industries Limited board based on their specific skills and their ability to contribute competence, insight and experience appropriate to assisting the group to achieve its objectives. Non-executive directors are remunerated for their membership of the board of Hudaco and board committees. They understand their duties and responsibilities and what is expected from them as non-executive directors.

The non-executive directors are paid a base fee and are required to forfeit a specific penalty for non-attendance of a meeting.

Non-executive directors do not participate in any of Hudaco's long or short-term incentive arrangements.

The board recommends the fees payable to the chairman and non-executive directors for approval by the shareholders. Proposals for fees are prepared by management, for consideration by the remuneration committee and the board. Consideration has been given to the significant responsibility placed on non-executive directors due to the progressively burdensome legal and regulatory requirements and the commensurate risks assumed. Benchmarking information of companies of similar size and complexity are factors considered when reviewing the annual fees. An independent benchmarking exercise was conducted in January 2019 by Khokhela Remuneration Advisors and the fees were set at or close to the 50th percentile. The fees proposed and approved at the 2020 annual general meeting were increased by 5.5%. In line with the decision not to increase salaries in the group in 2020, the non-executive director fees for the period April 2021 to March 2022 were not increased so it is proposed that the fees for the period April 2022 to March 2023 be increased by 6.5%. A greater increase is proposed for the social and ethics committee to reflect the increasing emphasis being placed on matters that fall within its orbit.

Non-binding advisory vote

In line with King IV, Hudaco will table its remuneration policy and implementation report for two separate non-binding advisory votes at the upcoming annual general meeting. If 25% or more of the shareholders vote against either resolution at the annual general meeting, the board will invite the identifiable dissenting shareholders to engage with the remuneration committee on their concerns.

SECTION 3: IMPLEMENTATION OF THE REMUNERATION POLICY

The group had no prescribed officers for the financial year. Prescribed officers are persons, not being directors, who either alone or with others exercise executive control and management over the whole or a significant portion of the business of the company.

During the year under review, no executive director's employment or office was terminated and no payments were made in this regard. No ex gratia payment was made to any director or other executive.

There was no deviation from the remuneration policy and the committee is satisfied that the remuneration policy achieved its objectives in the 2021 financial year.

Fair and responsible remuneration

Hudaco continues to work on ensuring that there is fair and responsible remuneration within the group. The principle of equal pay for work of equal value and the elimination of any gender-based pay gap is a priority. The fixed guaranteed remuneration of the executive directors and members of senior management was benchmarked by Khokhela Remuneration Advisors in June 2021 against companies with similar size, complexity and geographical spread. These executives received increases of between 5% and 6%, except where independent benchmarking indicated a different increase was appropriate. Increases for the general body of staff were authorised at an average of 7%.

In 2021, 854 370 (2020:1 469 675) share appreciation rights were awarded to a total of 214 people. For the share appreciation rights awarded to approximately 15 top senior managers, including the executive directors, to vest, performance conditions must be met. Rights awarded to the other 201 participants do not have performance conditions.

We will continue to work on addressing the pay gap and taking reasonable steps to mitigate it.

Executive directors' remuneration for the year ended 30 November 2021

Graham Dunford – *Group chief executive*

R000	Fixed remuneration	Retirement fund contributions	Other benefits	Short-term incentive bonus	Total before share-based payments	Value of long-term incentives awarded during the year	Total remuneration
2021	**5 679**	**760**	**234**	**12 753**	**19 426**	**20 235**	**39 661**
2020	5 178	602	192	4 887	10 859	7 469	18 328

Fixed guaranteed remuneration and benefits

Graham's total fixed cost-to-company remuneration increased by 5.0% on 1 July 2021 from R6 430 000 to R6 750 000. His position was externally benchmarked by Khokhela Remuneration Advisors in June 2021 against companies with a similar size, complexity and geographical spread.

Annual short-term incentive bonus

The following short-term incentive performance criteria and weightings, as determined by the remuneration committee, were used to calculate Graham's annual bonus of R12 753 565 (2020: R4 886 800). In addition, a bonus of 37.75% has been earned in terms of the formula but is required to be held back until the following year and is subject to clawback if performance criteria are not met.

2021 measure		Measure achieved 2021	Maximum bonus % available	Bonus % achieved
Measurement	**Target**			
Return on equity	Minimum – 13%	20%	54%	48.19%
	Primary – 17%			
	Stretch – 23%			
Increase in ceps	Primary – 10% v 2019	30%	73%	73%
	Stretched		uncapped but subject to clawback	37.75%
Increase in intrinsic value (experimental)	R20 per share	>R20	10%	10%
Personal non-financial objectives			25%	20%
Total percentage of guaranteed fixed remuneration			162% + ceps stretch	188.94%

Performance-based share appreciation bonus scheme

In line with long-term incentive benchmarks for executive directors, on 9 July 2021 Graham was awarded 135 000 share appreciation bonus rights to be measured off a 10-day VWAP base of R124.91 per share. Subject to the performance criteria, one-third of the allocation will vest three years from the allocation date with another third vesting at the end of year four and the balance at the end of year five.

On 24 July 2021 Graham exercised 44 480 rights awarded in 2014 at a base price of R92.04, shortly before they reached final exercise date. These rights were exercised at a 10-day VWAP of R130.86, resulting in a gain, settled by the delivery of 13 195 Hudaco shares acquired by the company on the open market at R1 808 123. He forfeited 45 019 rights because the performance factors were not met.

Graham has the following rights in terms of the share appreciation bonus scheme:

	Outstanding rights beginning of year	Strike price R	Granted during the year	Taken up during the year	Forfeited during the year	Outstanding rights end of year	Date granted	Number of tranches	Date benefit to be determined	Prospects of meeting performance requirements	Estimated value at end of year R000
2021											
	1 022 793		**135 000**	**44 480**	**45 019**	**1 068 294**					
	10 666	**109.26**			**10 666**		**27-Jul-12**	**3**	**Jul 15 – Jul 21**	**Nil**	**Nil**
	18 667	**90.80**			**9 333**	**9 334**	**12-Jul-13**	**3**	**Jul 16 – Jul 22**	**Minimal**	**Nil**
	208 500	**92.04**		**44 480**	**25 020**	**139 000**	**25-Jul-14**	**3**	**Jul 17 – Jul 23**	**Partial**	**3 002**
	90 000	**125.24**				**90 000**	**10-Jul-15**	**3**	**Jul 18 – Jul 24**	**Partial**	**415**
	115 860	**102.93**				**115 860**	**20-Jul-16**	**3**	**Jul 19 – Jul 25**	**Partial**	**3 333**
	105 000	**125.10**				**105 000**	**24-Jul-17**	**3**	**Jul 20 – Jul 26**	**Partial**	**988**
	102 000	**149.51**				**102 000**	**23-Jul-18**	**3**	**Jul 21 – Jul 27**	**Partial**	**Nil**
	137 100	**117.27**				**137 100**	**26-Jul-19**	**3**	**Jul 22 – Jul 28**	**Minimal**	**1 920**
	235 000	**68.37**				**235 000**	**27-Jul-20**	**3**	**Jul 23 – Jul 29**	**Very good**	**16 715**
		124.91	**135 000**			**135 000**	**09-Jul-21**	**3**	**Jul 24 – Jul 30**	**Too soon**	**1 773**
2020											
	807 793		235 000		20 000	1 022 793					
	21 333	109.26			10 667	10 666	27-Jul-12	3	Jul 15 – Jul 21	Nil	Nil
	28 000	90.80			9 333	18 667	12-Jul-13	3	Jul 16 – Jul 22	Nil	Nil
	208 500	92.04				208 500	25-Jul-14	3	Jul 17 – Jul 23	Partial	Nil
	90 000	125.24				90 000	10-Jul-15	3	Jul 18 – Jul 24	Partial	Nil
	115 860	102.93				115 860	20-Jul-16	3	Jul 19 – Jul 25	Partial	Nil
	105 000	125.10				105 000	24-Jul-17	3	Jul 20 – Jul 26	Minimal	Nil
	102 000	149.51				102 000	23-Jul-18	3	Jul 21 – Jul 27	Minimal	Nil
	137 100	117.27				137 100	26-Jul-19	3	Jul 22 – Jul 28	Minimal	Nil
		68.37	235 000			235 000	27-Jul-20	3	Jul 23 – Jul 29	Too soon	Nil

Retention-based share matching scheme

In terms of Hudaco's retention-based share matching scheme, Graham was entitled to make a three-year investment to the value of up to 50% of his 2021 potential maximum short-term incentive bonus in Hudaco shares. Graham elected to make the maximum commitment of 50%, amounting to R4 886 800. To achieve this, on 22 February 2021 when the market price was R95.55 per share, Graham committed to the scheme 51 143 shares, which will be matched at a ratio of 2:1 post-tax so he received 3.636 rights for each share.

15 054 shares acquired by Graham in 2018 and held for three years in terms of the share matching scheme were released from their lock-up period and in April 2021 the company purchased for Graham a matching 15 054 shares in the open market at a weighted average price of R98.33 per share, the consideration totalling R1 480 240. On 8 February 2022 Graham exercised the rights granted to him in 2019, so the company purchased for him a further 34 591 shares, in the open market at a weighted average price of R159.21 per share and a total consideration of R5 507 195.

Based on his potential maximum short-term bonus, he is entitled to commit to the scheme further shares up to a maximum value of R5 130 000 by 5 April 2022. These shares will be matched in 2025 at a ratio of 1:1 post-tax, which approximates 1.8:1 before tax, as set out in the background statement, specifically on page 57. On 7 February 2022, Graham committed 34 209 shares for this purpose, being the maximum permitted.

Graham Dunford holds rights to matching shares in terms of the share matching scheme as follows:

				Year invested			
Rights	**At 30 November 2021**	2021	At 30 November 2020	2020	2019	2018	2017
Balance at beginning of year	**98 527**		64 163		34 591	15 054	14 518
Granted during year	**185 974**	185 974	48 882	48 882			
Matured during year	**(15 054)**	(15 054)	(14 518)				(14 518)
Balance at end of year	**269 447**	170 920	98 527	48 882	34 591	15 054	

REMUNERATION REPORT continued

Clifford Amoils – *Group financial director*

R000	Fixed remuneration	Retirement fund contributions	Other benefits	Short-term incentive bonus	Total before share-based payments	Value of long-term incentives awarded during the year	Total remuneration
2021	**3 295**	**509**	**202**	**6 537**	**10 543**	**9 558**	**20 101**
2020	3 010	398	180	2 431	6 019	3 490	9 509

Fixed guaranteed remuneration and benefits

Clifford's total fixed cost-to-company remuneration increased by 5.4% on 1 July 2021 from R3 890 000 to R4 100 000. His position was externally benchmarked by Khokhela Remuneration Advisors in June 2021 against companies with a similar size, complexity and geographical spread.

Annual short-term incentive bonus

The following short-term incentive performance criteria and weightings, as determined by the remuneration committee, were used to calculate Clifford's annual bonus which amounted to R6 537 110 (2020: R2 431 250). In addition, a bonus of 37.75% has been earned in terms of the formula but is required to be held back until the following year and is subject to clawback if performance criteria are not met.

2021 measure		Measure achieved 2021	Maximum bonus % available	Bonus % achieved
Measurement	**Target**			
Return on equity	Minimum – 13%	20%	44%	38.19%
	Primary – 17%			
	Stretch – 23%			
Increase in ceps	Primary – 10% v 2019	30%	56%	56.00%
	Stretched		uncapped but subject to clawback	37.75%
Increase in intrinsic value (experimental)	R20 per share	>R20	10%	10%
Personal non-financial objectives			25%	17.50%
Total percentage of guaranteed fixed remuneration			135% + ceps stretch	159.44%

Performance-based share appreciation bonus scheme

In line with long-term incentive benchmarks for executive directors, on 9 July 2021 Clifford was awarded 51 000 share appreciation bonus rights to be measured off a 10-day VWAP base of R124.91. Subject to the performance criteria, 19 125 of the allocation will vest at the end of each of three and four years from the allocation date with the balance vesting at the end of year five.

On 24 July 2021 Clifford exercised 15 808 rights awarded in 2014 at a base price of R92.04. These rights were exercised at a 10-day VWAP of R130.86, resulting in a gain, settled by the delivery of 4 689 Hudaco shares acquired by the company on the open market at R642 440. He forfeited 27 892 rights because the performance factors were not met.

Clifford has the following rights in terms of the share appreciation bonus scheme:

	Outstanding rights beginning of year	Strike price R	Granted during the year	Taken up during the year	Forfeited during the year	Outstanding rights end of year	Date granted	Number of tranches	Date benefit to be determined	Prospects of meeting performance requirements	Estimated value at end of year R000
2021											
	452 460		**51 000**	**15 808**	**27 892**	**459 760**					
	10 000	**109.26**			**10 000**		**27-Jul-12**	**3**	**Jul 15 – Jul 21**	**Nil**	**Nil**
	18 000	**90.80**			**9 000**	**9 000**	**12-Jul-13**	**3**	**Jul 16 – Jul 22**	**Minimal**	**Nil**
	74 100	**92.04**		**15 808**	**8 892**	**49 400**	**25-Jul-14**	**3**	**Jul 17 – Jul 23**	**Partial**	**1 067**
	45 600	**125.24**				**45 600**	**10-Jul-15**	**3**	**Jul 18 – Jul 24**	**Partial**	**210**
	54 960	**102.93**				**54 960**	**20-Jul-16**	**3**	**Jul 19 – Jul 25**	**Partial**	**1 581**
	49 000	**125.10**				**49 000**	**24-Jul-17**	**3**	**Jul 20 – Jul 26**	**Partial**	**461**
	43 000	**149.51**				**43 000**	**23-Jul-18**	**3**	**Jul 21 – Feb 27**	**Partial**	**Nil**
	58 200	**117.27**				**58 200**	**26-Jul-19**	**3**	**Jul 22 – Feb 27**	**Minimal**	**815**
	99 600	**68.37**				**99 600**	**27-Jul-20**	**3**	**Jul 23 – Feb 27**	**Very good**	**7 084**
		124.91	**51 000**			**51 000**	**09-Jul-21**	**3**	**Jul 24 – Feb 27**	**Too soon**	**670**
2020											
	380 860		99 600		28 000	452 460					
	9 000	81.05			9 000		13-Jul-11	3	Jul 14 – Jul 20		
	20 000	109.26			10 000	10 000	27-Jul-12	3	Jul 15 – Jul 21	Nil	Nil
	27 000	90.80			9 000	18 000	12-Jul-13	3	Jul 16 – Jul 22	Nil	Nil
	74 100	92.04				74 100	25-Jul-14	3	Jul 17 – Jul 23	Partial	Nil
	45 600	125.24				45 600	10-Jul-15	3	Jul 18 – Jul 24	Partial	Nil
	54 960	102.93				54 960	20-Jul-16	3	Jul 19 – Jul 25	Partial	Nil
	49 000	125.10				49 000	24-Jul-17	3	Jul 20 – Jul 26	Minimal	Nil
	43 000	149.51				43 000	23-Jul-18	3	Jul 21 – Feb 27	Minimal	Nil
	58 200	117.27				58 200	26-Jul-19	3	Jul 22 – Feb 27	Minimal	Nil
		68.37	99 600			99 600	27-Jul-20	3	Jul 23 – Feb 27	Too soon	Nil

Retention-based share matching scheme

In terms of Hudaco's retention-based share matching scheme, Clifford was entitled to make a three-year investment to the value of up to 50% of his 2021 potential maximum short-term incentive bonus in Hudaco shares. Clifford elected to make the maximum commitment of 50%, amounting to R2 431 250. To achieve this, on 22 February 2021 when the market price was R95.55 per share, Clifford committed to the scheme 25 444 shares, which will be matched at a ratio of 2:1 post-tax so he received 3.636 rights for each share.

8 280 shares acquired by Clifford in 2018 and held for three years in terms of the share matching scheme were released from their lock-up period and in April 2021 the company purchased for Clifford a matching 8 280 shares in the open market at a weighted average price of R98.33 per share, the consideration totalling R814 162. On 8 February 2022 Clifford exercised the rights granted to him in 2019, so the company purchased for him a further 17 192 shares, in the open market at a weighted average price of R159.14 per share and at a total consideration of R2 736 011.

Based on his potential maximum short-term bonus, he is entitled to commit to the scheme further shares up to a maximum value of R2 562 500 by 5 April 2022. These shares will be matched in 2025 at a ratio of 1:1 post-tax, which approximates 1.8:1 before tax, as set out in the background statement, specifically on page 57. On 7 February 2022, Clifford committed 17 088 shares for this purpose, being the maximum permitted.

Clifford Amoils holds rights to matching shares in terms of the share matching scheme as follows:

				Year invested			
Rights	**At 30 November 2021**	2021	At 30 November 2020	2020	2019	2018	2017
Balance at beginning of year	**49 791**		34 062		17 192	8 280	8 590
Granted during year	**92 523**	92 523	24 319	24 319			
Matured during year	**(8 280)**	(8 280)	(8 590)				(8 590)
Balance at end of year	**134 034**	84 243	49 791	24 319	17 192	8 280	

Louis Meiring – *Executive director: Electrical transmission businesses, security and communication businesses and hydraulics businesses*

R000	Fixed remuneration	Retirement fund contributions	Other benefits	Short-term incentive bonus	Total before share-based payments	Value of long-term incentives awarded during the year	Total remuneration
2021	**3 157**	**490**	**223**	**4 000**	**7 870**	**9 328**	**17 198**
2020	2 848	378	194	2 312	5 732	3 937	9 669

Fixed remuneration

Louis' total fixed cost-to-company remuneration increased by 8.2% on 1 July 2021 from R3 700 000 to R4 000 000. His position was externally benchmarked by Khokhela Remuneration Advisors in June 2021 against companies with a similar size, complexity and geographical spread.

Annual short-term incentive bonus

The following short-term incentive performance criteria and weightings, as determined by the remuneration committee, were used to calculate Louis' annual bonus which amounted to R4 000 000 (2020: R2 312 500):

2021 measure		Measure achieved 2021	Maximum bonus % available	Bonus % achieved
Measurement	**Target**			
Return on net tangible operating assets	Varies by business	17.65%	34%	19.01%
Operating profit	Primary – Varies by business		56%	31%
	Stretched		uncapped but subject to clawback	0%
Company performance				25%
Increase in intrinsic value (experimental)	R20 per share	>R20	10%	10%
Personal non-financial objectives			25%	15%
Total percentage of guaranteed fixed remuneration			150% + profit stretch	100.01%

Performance-based share appreciation bonus scheme

In line with long-term incentive benchmarks for executive directors, on 9 July 2021 Louis was awarded 56 000 share appreciation bonus rights to be measured off a 10-day VWAP base of R124.91 per share. Subject to the performance criteria, one-third of the allocation will vest three years from the allocation date with another third vesting at the end of year four and the balance at the end of year five.

Louis did not have any share appreciation bonus rights that had vested during 2021.

Louis Meiring has the following rights in terms of the share appreciation bonus scheme:

	Outstanding rights beginning of year	Strike price R	Granted during the year	Taken up during the year	Forfeited during the year	Outstanding rights end of year	Date granted	Number of tranches	Date benefit to be determined	Prospects of meeting performance requirements	Estimated value at end of year R000
2021											
	198 000		**56 000**			**254 000**					
	56 000	**117.27**				**56 000**	**26-Jul-19**	**3**	**Jul 22 – Jul 28**	**Nil**	**784**
	142 000	**68.37**				**142 000**	**27-Jul-20**	**3**	**Jul 23 – Jul 29**	**Minimal**	**10 100**
		124.91	**56 000**			**56 000**	**09-Jul-21**	**3**	**Jul 24 – Jul 30**	**Partial**	**735**
2020											
	56 000		142 000			198 000					
	56 000	117.27				56 000	26-Jul-19	3	Jul 22 – Jul 28	Minimal	Nil
		68.37	142 000			142 000	27-Jul-20	3	Jul 23 – Jul 29	Too soon	Nil

Retention-based share matching scheme

In terms of Hudaco's retention-based share matching scheme, Louis was entitled to make a three-year investment to the value of up to 50% of his 2021 potential maximum short-term incentive bonus in Hudaco shares. Louis elected to make the maximum commitment of 50%, amounting to R2 312 500. To achieve this, on 11 March 2021 Louis purchased 23 921 Hudaco shares on the open market at R96.67 per share. These will be matched at a ratio of 2:1 post-tax so he received 3.636 rights for each share.

Louis did not have any share matching rights that vested during 2021.

Based on his potential maximum short-term bonus, he is entitled to commit to the scheme further shares up to a maximum value of R2 500 00 by 5 April 2022. These shares will be matched in 2025 at a ratio of 1:1 post-tax, which approximates 1.8:1 before tax, as set out in the background statement, specifically on page 57. On 7 February 2022, Louis committed 16 671 shares for this purpose, being the maximum permitted.

Louis Meiring holds rights to matching shares in terms of the share matching scheme as follows:

Rights	At 30 November 2021	2021	At 30 November 2020	Year invested 2020	2019	2018	2017
Balance at beginning of year	**37 879**		16 827		16 827		
Granted during year	**86 977**	86 977	21 052	21 052			
Balance at end of year	**124 856**	86 977	37 879	21 052	16 827		

Senior executives' remuneration for the year ended 30 November 2021

David Allman – *Portfolio executive: Abes Technoseal, Specialised Battery Systems, Deltec and Eternity Technologies*

R000	Fixed remuneration	Retirement fund contributions	Other benefits	Short-term incentive bonus	Total before share-based payments	Value of long-term incentives awarded during the year	Total remuneration
2021	**2 439**	**373**	**178**	**2 000**	**4 990**	**3 022**	**8 012**
2020	2 229	291	142	1 112	3 774	1 121	4 895

Fixed remuneration

David's total fixed cost-to-company remuneration increased by 5.3% on 1 July 2021 from R2 850 000 to R3 000 000. His position was externally benchmarked by Khokhela Remuneration Advisors in June 2021 against companies with a similar size, complexity and geographical spread.

Annual short-term incentive bonus

The following short-term incentive performance criteria and weightings, as determined by the remuneration committee, were used to calculate David's annual bonus which amounted to R2 000 000 (2020: R1 111 500).

2021 measure		Measure achieved 2021	Maximum bonus % available	Bonus % achieved
Measurement	**Target**			
Return on net tangible operating assets	Varies by business	46%	32%	25.9%
Operating profit	Primary – Varies by business		32%	16%
	Stretched		uncapped but subject to clawback	0%
Personal non-financial objectives			14%	12.0%
Company performance				12.4%
Total percentage of deemed guaranteed fixed remuneration			86%	66.7%

Performance-based share appreciation bonus scheme

David was not awarded any share appreciation bonus rights during the year because they would vest after the date on which David reaches the group's normal retirement age.

David did not exercise any share appreciation bonus rights during 2021. He forfeited 14 480 rights because the performance requirements were not met in full.

David has the following rights in terms of the share appreciation bonus scheme:

	Outstanding rights beginning of year	Strike price R	Granted during the year	Taken up during the year	Forfeited during the year	Outstanding rights end of year	Date granted	Number of tranches	Date benefit to be determined	Prospects of meeting performance requirements	Estimated value at end of year R000
2021											
	209 480				**14 480**	**195 000**					
	3 000	**109.26**			**3 000**		**27-Jul-12**	**3**	**Jul 15 – Jul 21**	**Nil**	**Nil**
	10 000	**90.80**			**5 000**	**5 000**	**12-Jul-13**	**3**	**Jul 16 – Jul 22**	**Minimal**	**Nil**
	42 480	**92.04**			**6 480**	**36 000**	**25-Jul-14**	**3**	**Jul 17 – Jul 23**	**Partial**	**612**
	24 900	**125.24**				**24 900**	**10-Jul-15**	**3**	**Jul 18 – May 24**	**Partial**	**115**
	32 100	**102.93**				**32 100**	**20-Jul-16**	**3**	**Jul 19 – May 24**	**Partial**	**923**
	28 000	**125.10**				**28 000**	**24-Jul-17**	**3**	**Jul 20 – May 24**	**Partial**	**263**
	25 000	**149.51**				**25 000**	**23-Jul-18**	**3**	**Jul 21 – May 24**	**Partial**	**Nil**
	24 000	**117.27**				**24 000**	**26-Jul-19**	**2**	**Jul 22 – May 24**	**Minimal**	**504**
	20 000	**68.37**				**20 000**	**27-Jul-20**	**1**	**Jul 23 – May 24**	**Very good**	**4 268**
2020											
	197 480		20 000		8 000	209 480					
	6 000	109.26			3 000	3 000	27-Jul-12	3	Jul 15 – Jul 21	Nil	Nil
	15 000	90.80			5 000	10 000	12-Jul-13	3	Jul 16 – Jul 22	Nil	Nil
	42 480	92.04				42 480	25-Jul-14	3	Jul 17 – Jul 23	Partial	Nil
	24 900	125.24				24 900	10-Jul-15	3	Jul 18 – May 24	Partial	Nil
	32 100	102.93				32 100	20-Jul-16	3	Jul 19 – May 24	Partial	Nil
	28 000	125.10				28 000	24-Jul-17	3	Jul 20 – May 24	Minimal	Nil
	25 000	149.51				25 000	23-Jul-18	3	Jul 21 – May 24	Minimal	Nil
	24 000	117.27				24 000	26-Jul-19	2	Jul 22 – May 24	Minimal	Nil
		68.37	20 000			20 000	27-Jul-20	1	Jul 23 – May 24	Too soon	Nil

Retention-based share matching scheme

In terms of Hudaco's retention-based share matching scheme, David was entitled to make a further investment to the value of up to R864 500 in Hudaco shares. David elected to commit R855 973.

To achieve this, on 22 February 2021, at an open market price of R95.91 per share, David committed to the scheme 8 925 Hudaco shares, which will be matched at a ratio of 2:1 post-tax so he received 3.636 rights for each share.

3 537 shares acquired by David in 2018 and held for three years in terms of the share matching scheme were released from their lock-up period in March 2021 and the company purchased for David a matching 3 537 Hudaco shares in the open market at R98.12 per share, the consideration totalling R347 054.

He is not entitled to commit any further shares to the scheme as he is too close to retirement age.

David Allman holds rights to matching shares in terms of the share matching scheme as follows:

				Year invested			
Rights	**At 30 November 2021**	2021	At 30 November 2020	2020	2019	2018	2017
Balance at beginning of year	**20 107**		14 327		7 790	3 537	3 000
Granted during year	**32 451**	32 451	8 780	8 780			
Matured during the year	**(3 537)**	(3 537)	(3 000)				(3 000)
Balance at end of year	**49 021**	28 914	20 107	8 780	7 790	3 537	

REMUNERATION REPORT continued

Barry Fieldgate – *Portfolio executive: Deutz Dieselpower, MiRO, SS Telecoms, Filter and Hose Solutions, Ambro Steel, Sanderson Special Steels and The Dished End Company*

R000	Fixed remuneration	Retirement fund contributions	Other benefits	Short-term incentive bonus	Total before share-based payments	Value of long-term incentives awarded during the year	Total remuneration
2021	**2 631**	**397**	**105**	**3 000**	**6 133**	**4 898**	**11 031**
2020	2 484	312	28	1 190	4 014	1 873	5 887

Fixed guaranteed remuneration and benefits

Barry's total fixed cost-to-company remuneration increased by 4.9% on 1 July 2021 from R3 050 000 to R3 200 000. His position was externally benchmarked by Khokhela Remuneration Advisors in June 2021 against companies with a similar size, complexity and geographical spread.

Annual short-term incentive bonus

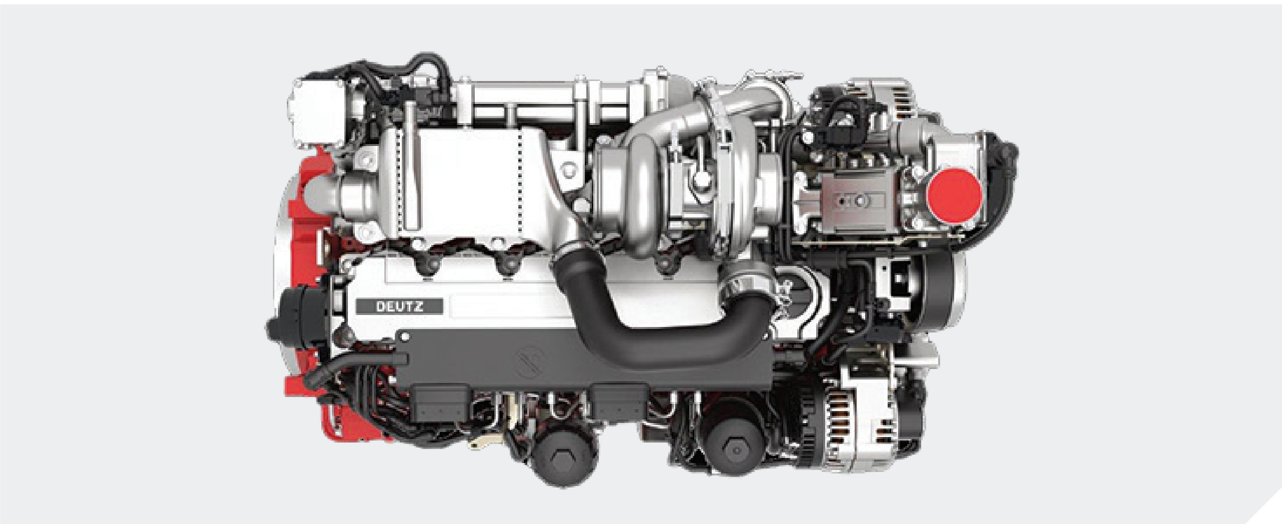
The following short-term incentive performance criteria and weightings, as determined by the remuneration committee, were used to calculate Barry's annual bonus which was R3 000 000 (2020: R1 189 500). In addition, a bonus of 15% has been earned in terms of the formula but is required to be held back until the following year and is subject to clawback if performance criteria are not met.

2021 measure		Measure achieved 2021	Maximum bonus % available	Bonus % achieved
Measurement	**Target**			
Return on net tangible operating assets	Varies by business	43%	32%	32%
Operating profit	Primary – Varies by business		32%	32%
	Stretched		uncapped but subject to clawback	15%
Personal non-financial objectives			14%	12%
Total percentage of guaranteed fixed remuneration			78% + profit stretch	91%

Performance-based share appreciation bonus scheme

In line with long-term incentive benchmarks for executive directors, on 9 July 2021 Barry was awarded 32 000 share appreciation bonus rights to be measured off a 10-day VWAP base of R124.91. Subject to the performance criteria, 12 000 of the allocation will vest at the end of each of three and four years from the allocation date with the balance vesting at the end of year five.

On 12 July 2021 Barry exercised 19 700 rights awarded in 2014 and 11 600 awarded in 2016 at a base price of R92.04 and R102.93, respectively. These rights were exercised at a 10-day VWAP of R125.24, resulting in a gain, settled by the delivery of 7 288 Hudaco shares acquired by the company on the open market at R951 243. He exercised a further 10 736 rights awarded in 2014 on 2 August 2021. These rights were exercised at a 10-day VWAP of R133.87, resulting in a gain, settled by the delivery of 3 354 Hudaco shares acquired by the company on the open market at R434 967. He forfeited 27 366 rights because the performance factors were not met.



Barry has the following rights in the share appreciation bonus scheme:

	Outstanding rights beginning of year	Strike price R	Granted during the year	Taken up during the year	Forfeited during the year	Outstanding rights end of year	Date granted	Number of tranches	Date benefit to be determined	Prospects of meeting performance requirements	Estimated value at end of year R000
2021											
	291 067		**32 000**	**42 036**	**14 759**	**266 272**					
	2 667	**109.26**			**2 667**	**0**	**27-Jul-12**	**3**	**Jul 15 – Jul 21**	**Nil**	**Nil**
	10 000	**90.80**			**5 000**	**5 000**	**12-Jul-13**	**3**	**Jul 16 – Jul 22**	**Minimal**	**Nil**
	59 100	**92.04**		**30 436**	**7 092**	**21 572**	**25-Jul-14**	**3**	**Jul 17 – Jul 23**	**Partial**	**851**
	30 000	**125.24**				**30 000**	**10-Jul-15**	**3**	**Jul 18 – Jul 24**	**Partial**	**138**
	34 800	**102.93**		**11 600**		**23 200**	**20-Jul-16**	**3**	**Jul 19 – Jul 25**	**Partial**	**1 001**
	30 000	**125.10**				**30 000**	**24-Jul-17**	**3**	**Jul 20 – Jul 26**	**Partial**	**282**
	27 000	**149.51**				**27 000**	**23-Jul-18**	**3**	**Jul 21 – Feb 27**	**Partial**	**Nil**
	35 000	**117.27**				**35 000**	**26-Jul-19**	**3**	**Jul 21 – Feb 27**	**Minimal**	**490**
	62 500	**68.37**				**62 500**	**27-Jul-20**	**3**	**Jul 21 – Feb 27**	**Very good**	**4 446**
		124.91	**32 000**			**32 000**	**09-Jul-21**	**3**	**Jul 21 – Feb 27**	**Too soon**	**420**
2020											
	236 233		62 500		7 666	291 067					
	5 333	109.26			2 666	2 667	27-Jul-12	3	Jul 15 – Jul 21	Nil	Nil
	15 000	90.80			5 000	10 000	12-Jul-13	3	Jul 16 – Jul 22	Nil	Nil
	59 100	92.04				59 100	25-Jul-14	3	Jul 17 – Jul 23	Partial	Nil
	30 000	125.24				30 000	10-Jul-15	3	Jul 18 – Jul 24	Partial	Nil
	34 800	102.93				34 800	20-Jul-16	3	Jul 19 – Jul 25	Partial	Nil
	30 000	125.10				30 000	24-Jul-17	3	Jul 20 – Jul 26	Minimal	Nil
	27 000	149.51				27 000	23-Jul-18	3	Jul 21 – Feb 27	Minimal	Nil
	35 000	117.27				35 000	26-Jul-19	3	Jul 22 – Feb 27	Minimal	Nil
		68.37	62 500			62 500	27-Jul-20	3	Jul 23 – Feb 27	Too soon	Nil

Retention-based share matching scheme

In terms of Hudaco's retention-based share matching scheme, Barry was entitled to make a three-year investment to the value of up to 50% of his 2021 potential maximum short-term incentive bonus in Hudaco shares. Barry elected to make the maximum commitment of 50%, amounting to R1 189 500. To achieve this, on 5 March 2021 Barry committed 12 246 Hudaco shares at the open market price of R97.13 per share, which will be matched at a ratio of 2:1 post-tax so he received 3.636 rights for each share.

3 834 shares acquired by Barry in 2018 and held for three years in terms of the share matching scheme were released from their lock-up period and in April 2021 the company purchased for Barry a matching 3 834 Hudaco shares in the open market at R98.33 per share, the consideration totalling R376 992.

Based on his maximum potential short-term bonus, he is entitled to commit to the scheme further shares up to a maximum value of R1 189 500 by 3 April 2021.

Barry Fieldgate holds rights to matching shares in terms of the share matching scheme as follows:

				Year invested			
Rights	**At 30 November 2021**	2021	At 30 November 2020	2020	2019	2018	2017
Balance at beginning of year	**24 037**		15 622		8 421	3 834	3 367
Granted during year	**44 526**	44 526	11 782	11 782			
Matured during year	**(3 834)**	(3 834)	(3 367)				(3 367)
Balance at end of year	**64 729**	40 692	24 037	11 782	8 421	3 834	

Carl Rogers – *Portfolio executive: Partquip, A-Line Wheels and Ironman 4X4*

R000	Fixed remuneration	Retirement fund contributions	Other benefits	Short-term incentive bonus	Total before share-based payments	Value of long-term incentives awarded during the year	Total remuneration
2021	**2 462**	**388**	**237**	**2 500**	**5 587**	**1 531**	**7 118**
2020	1 020	168	99	1 112	2 399	887	3 286

Fixed guaranteed remuneration and benefits

Carl's total fixed cost-to-company remuneration increased by 5.3% on 1 July 2021 from R2 850 000 to R3 000 000. His position was externally benchmarked by Khokhela Remuneration Advisors in June 2021 against companies with a similar size, complexity and geographical spread.

Annual short-term incentive bonus

The following short-term incentive performance criteria and weightings, as determined by the remuneration committee, were used to calculate Carl's annual bonus which was R2 500 000 (2020: R1 111 500). In addition, a bonus of 6.88% has been earned in terms of the formula but is required to be held back until the following year and is subject to clawback if performance criteria are not met.

2021 measure		Measure achieved 2021	Maximum bonus % available	Bonus % achieved
Measurement	**Target**			
Return on net tangible operating assets	Varies by business	114%	32%	32%
Operating profit	Primary – Varies by business		32%	32.00%
	Stretched		uncapped but subject to clawback	6.88%
Personal non-financial objectives			14%	12%
Total percentage of deemed guaranteed fixed remuneration			78% + profit stretch	83%

Performance-based share appreciation bonus scheme

In line with long-term incentive benchmarks for top senior management, on 9 July 2021 Carl was awarded 33 500 share appreciation bonus rights to be measured off a 10-day VWAP base of R124.91. Subject to the performance criteria, one-third of the allocation will vest three years from the allocation date with another third vesting at the end of year four and the balance at the end of year five.

On 30 July 2021 Carl exercised 3 868 rights awarded in 2015, 8 108 rights awarded in 2016 and 2 404 awarded in 2017 at base prices of R125.24, R102.93 and R125.10, respectively. These rights were exercised at a 10-day VWAP of R134.53, resulting in a gain, settled by the delivery of 2 339 Hudaco shares acquired by the company on the open market at R312 173.

Carl has the following rights in the share appreciation bonus scheme:

	Outstanding rights beginning of year	Strike price R	Granted during the year	Taken up during the year	Forfeited during the year	Outstanding rights end of year	Date granted	Number of tranches	Date benefit to be determined	Prospects of meeting performance requirements	Estimated value at end of year R000
2021											
	133 900		**33 500**	**14 380**		**153 020**					
	10 000	**125.24**		**3 868**		**6 132**	**10-Jul-15**	**3**	**Jul 18 – Jul 24**	**Nil**	**46**
	12 000	**102.93**		**8 108**		**3 892**	**20-Jul-16**	**3**	**Jul 19 – Jul 25**	**Minimal**	**345**
	12 000	**125.1**		**2 404**		**9 596**	**24-Jul-17**	**3**	**Jul 20 – Jul 26**	**Partial**	**113**
	18 500	**149.51**				**18 500**	**23-Jul-18**	**3**	**Jul 21 – Jul 27**	**Partial**	**Nil**
	23 000	**117.27**				**23 000**	**26-Jul-19**	**3**	**Jul 22 – Jun 28**	**Partial**	**322**
	58 400	**68.37**				**58 400**	**27-Jul-20**	**3**	**Jul 23 – Jun 28**	**Partial**	**4 154**
		124.91	**33 500**			**33 500**	**09-Jul-21**	**3**	**Jul 24 – Jun 28**	**Partial**	**440**
2020											
	75 500		58 400			133 900					
	10 000	125.24				10 000	10-Jul-15	3	Jul 18 – Jul 24	Partial	Nil
	12 000	102.93				12 000	20-Jul-16	3	Jul 19 – Jul 25	Partial	Nil
	12 000	125.1				12 000	24-Jul-17	3	Jul 20 – Jul 26	Minimal	Nil
	18 500	149.51				18 500	23-Jul-18	3	Jul 21 – Jul 27	Minimal	Nil
	23 000	117.27				23 000	26-Jul-19	3	Jul 22 – Jun 28	Minimal	Nil
		68.37	58 400			58 400	27-Jul-20	3	Jul 23 – Jun 28	Too soon	Nil

Retention-based share matching scheme

In terms of Hudaco's retention-based share matching scheme, Carl was entitled to make a three-year investment to the value of up to 50% of his 2021 potential maximum short-term incentive bonus in Hudaco shares. Carl elected to commit R146 068. To achieve this, on 12 March 2021 when the market price was R97.77 per share, Carl committed to the scheme 1 494 shares, which will be matched at a ratio of 2:1 post-tax so he received 3.636 rights for each share.

893 rights acquired by Carl in 2018 and held for three years in terms of the share matching scheme were released from their lock-up period and in April 2021 the company purchased for Carl a matching 893 Hudaco shares in the open market at R98.33 per share, the consideration totalling R87 807.

Based on his maximum potential short-term bonus, Carl is entitled to commit to Hudaco's retention-based share matching scheme further shares up to a maximum value of R1 170 000 by 5 April 2022. These shares will be matched in 2025 at a ratio of 1:1 post-tax, which approximates 1.8:1 before tax, as set out in the background statement, specifically on page 57.

Carl Rogers holds rights to matching shares in terms of the share matching scheme as follows:

				Year invested			
Rights	**At 30 November 2021**	2021	At 30 November 2020	2020	2019	2018	2017
Balance at beginning of year	**3 743**		3 015		1 090	893	1 032
Granted during year	**5 432**	5 432	1 760	1 760			
Matured during year	**(893)**	(893)	(1 032)				(1 032)
Balance at end of year	**8 282**	4 539	3 743	1 760	1 090	893	

Ernie Smith – *Portfolio executive: Astore Keymak, Bearings International, Belting Supply Services, Brewtech Engineering, Bosworth and executive: QHSE and projects*

R000	Fixed remuneration	Retirement fund contributions	Other benefits	Short-term incentive bonus	Total before share-based payments	Value of long-term incentives awarded during the year	Total remuneration
2021	**2 491**	**397**	**155**	**3 000**	**6 043**	**2 731**	**8 774**
2020	1 529	205	106	1 112	2 952	1 448	4 400

Fixed guaranteed remuneration and benefits

Ernie's total fixed cost-to-company remuneration increased by 12.3% on 1 July 2021 from R2 850 000 to R3 200 000. His position was externally benchmarked by Khokhela Remuneration Advisors in June 2021 against companies with a similar size, complexity and geographical spread. The increase was higher than normal because he had assumed additional responsibilities.

Annual short-term incentive bonus

The following short-term incentive performance criteria and weightings, as determined by the remuneration committee, were used to calculate Ernie's annual bonus, which was R3 000 000 (2020: R1 111 500). In addition, a bonus of 0.83% has been earned in terms of the formula but is required to be held back until the following year and is subject to clawback if performance criteria are not met.

2021 measure		Measure achieved 2021	Maximum bonus % available	Bonus % achieved
Measurement	**Target**			
Return on net tangible operating assets	Varies by business	18%	32%	30.8%
Operating profit	Primary – Varies by business		32%	32%
	Stretched		uncapped but subject to clawback	0.8%
Personal non-financial objectives			14%	14%
Award for contributions in other areas of the group				16%
Total percentage of deemed guaranteed fixed remuneration			78% + profit stretch	93.6%

Performance-based share appreciation bonus scheme

In line with long-term incentive benchmarks for top senior management, on 9 July 2021 Ernie was awarded 36 000 share appreciation bonus rights to be measured off a 10-day VWAP base of R124.91. Subject to the performance criteria, one-third of the allocation will vest three years from the allocation date with another third vesting at the end of year four and the balance at the end of year five.

Ernie did not exercise any share appreciation rights during 2021.

Ernie has the following rights in the share appreciation bonus scheme:

	Out-standing rights beginning of year	Strike price R	Granted during the year	Taken up during the year	Forfeited during the year	Out-standing rights end of year	Date granted	Number of tranches	Date benefit to be determined	Prospects of meeting performance requirements	Estimated value at end of year R000
2021											
	127 500		**36 000**			**163 500**					
	17 000	**149.51**				**17 000**	**23-Jul-18**	**3**	**Jul 21 – Jul 27**	**Nil**	**Nil**
	23 000	**117.27**				**23 000**	**26-Jul-19**	**3**	**Jul 22 – Jul 28**	**Minimal**	**322**
	87 500	**68.37**				**87 500**	**27-Jul-20**	**3**	**Jul 23 – Jul 29**	**Partial**	**6 224**
		124.91	**36 000**			**36 000**	**09-Jul-21**	**3**	**Jul 24 – Jul 30**	**Partial**	**472**
2020											
	40 000		87 500			127 500					
	17 000	149.51				17 000	23-Jul-18	3	Jul 21 – Jul 27	Too soon	Nil
	23 000	117.27				23 000	26-Jul-19	3	Jul 22 – Jul 28	Too soon	Nil
		68.37	87 500			87 500	27-Jul-20	3	Jul 23 – Jul 29	Too soon	Nil

Retention-based share matching scheme

In terms of Hudaco's retention-based share matching scheme, Ernie was entitled to make a three-year investment to the value of up to 50% of his 2021 potential maximum short-term incentive bonus in Hudaco shares. Ernie elected to commit R488 736 to the scheme. To achieve this, on 30 March 2021 Ernie purchased 5 000 Hudaco shares on the open market at R97.75 per share. These will be matched at a ratio of 2:1 post-tax so he received 3.636 rights for each share.

Ernie did not have any share matching rights that vested during 2021.

Based on his potential maximum short-term bonus, he is entitled to commit to the scheme further shares up to a maximum value of R1 248 000 by 5 April 2022. These shares will be matched in 2025 at a ratio of 1:1 post-tax, which approximates 1.8:1 before tax, as set out in the background statement, specifically on page 57.

Ernie Smith holds rights to matching shares in terms of the share matching scheme as follows:

				Year invested			
Rights	**At 30 November 2021**	2021	At 30 November 2020	2020	2019	2018	2017
Balance at beginning of year	**10 855**		5 855		5 855		
Granted during year	**18 180**	18 180	5 000	5 000			
Balance at end of year	**29 035**	18 180	10 855	5 000	5 855		

Chris Pillay – *Portfolio executive: Rutherford and FTS-Boltworld*

R000	Fixed remuneration	Retirement fund contributions	Other benefits	Short-term incentive bonus	Total before share-based payments	Value of long-term incentives awarded during the year	Total remuneration
2021	**2 245**	**342**	**106**	**3 370**	**6 063**	**1 854**	**7 917**

Fixed guaranteed remuneration and benefits

Chris joined the group at the beginning of January 2021. His total fixed cost-to-company remuneration increased by 5.3% on 1 July 2021 from R2 850 000 to R3 000 000. His position was externally benchmarked by Khokhela Remuneration Advisors in June 2021 against companies with a similar size, complexity and geographical spread.

Annual short-term incentive bonus

The following short-term incentive performance criteria and weightings, as determined by the remuneration committee, were used to calculate Chris's annual bonus, which was R3 370 263. In addition, a bonus of 43.4% (47.4% pro-rated for eleven months) has been earned in terms of the formula but is required to be held back until the following year and is subject to clawback if performance criteria are not met.

2021 measure		Measure achieved 2021	Maximum bonus % available	Bonus % achieved
Measurement	**Target**			
Return on net tangible operating assets	Varies by business	59%	32%	31.2%
Operating profit	Primary – Varies by business		32%	32%
	Stretched		uncapped but subject to clawback	47.4%
Personal non-financial objectives			14%	12%
Pro-rated for 11 months			-6.5%	-10.2%
Total percentage of deemed guaranteed fixed remuneration			71.5% + profit stretch	112.35%

Performance-based share appreciation bonus scheme

In line with long-term incentive benchmarks for top senior management, on 9 July 2021 Chris was awarded 33 500 share appreciation bonus rights to be measured off a 10-day VWAP base of R124.91. Subject to the performance criteria, one-third of the allocation will vest three years from the allocation date with another third vesting at the end of year four and the balance at the end of year five.

Chris did not have any share appreciation rights that had vested during 2021.

Chris has the following rights in the share appreciation bonus scheme:

	Outstanding rights beginning of year	Strike price R	Granted during the year	Taken up during the year	Forfeited during the year	Outstanding rights end of year	Date granted	Number of tranches	Date benefit to be determined	Prospects of meeting performance requirements	Estimated value at end of year R000
2021											
			33 500			**33 500**					
		124.91	**33 500**			**33 500**	**09-Jul-21**	**3**	**Jul 24 – Jul 30**	**Too soon**	**Nil**

Retention-based share matching scheme

In terms of Hudaco's retention-based share matching scheme, Chris was entitled to make a three-year investment to the value of up to 50% of his 2021 potential maximum short-term incentive bonus in Hudaco shares. Chris elected to commit R244 952 to the scheme. To achieve this, on 29 March 2021 Chris purchased 2 500 Hudaco shares on the open market at R97.98 per share. These will be matched at a ratio of 2:1 post-tax so he received 3.636 rights for each share.

Chris did not have any share matching rights that vested during 2021.

Based on his potential maximum short-term bonus, he is entitled to commit to the scheme further shares up to a maximum value of R1 170 000 by 5 April 2022. These shares will be matched in 2025 at a ratio of 1:1 post-tax, which approximates 1.8:1 before tax, as set out in the background statement, specifically on page 57.

Chris Pillay holds rights to matching shares in terms of the share matching scheme as follows:

				Year invested			
Rights	**At 30 November 2021**	2021	At 30 November 2020	2020	2019	2018	2017
Balance at beginning of year			n/a				
Granted during year	**9 090**	9 090	n/a				
Balance at end of year	**9 090**	9 090	n/a				

Non-executive directors' remuneration

Non-executive directors' remuneration for the period ended 30 November 2021

R000 (excluding VAT)	2021	2020
SJ Connelly	**1 134**	1 020
N Mandindi	**691**	621
D Naidoo	**343***	998
MR Thompson	**695**	625
Total	**2 863**	3 264

* *D Naidoo's authorised fees for the year totalled R807 000 but she was paid only R343 250 because in prior years she had been paid more than was due to her. This arose from an incorrect interpretation of the fees for the lead independent director role in an administrative error, which has now been rectified in full.*

Proposed non-executive directors' fees for 2022/2023

At Hudaco's annual general meeting to be held on 17 March 2022, shareholders will be requested to approve the non-executive directors' fees for the period 1 April 2022 until 31 March 2023 as set out below. These proposed fees are up 6.5% from those of the past two years, except for the social and ethics committee fees, which have been increased by more to reflect the increasing emphasis being placed around the world on matters that fall within its ambit. An independent benchmarking exercise was last conducted by Khokhela Remuneration Advisors in January 2019. It is intended to repeat the benchmarking exercise in January 2023.

	Proposed 2022/23	
R000 (excluding VAT)	**Base fee**	**Penalty for non-attendance**
Board		
Chairman of the board	1 208*	22
Lead independent non-executive	440	21
Board member	323	16
Audit and risk management committee		
Chairman of the committee	281	22
Committee member	156	16
Remuneration committee		
Chairman of the committee	197	22
Committee member	90	15
Nomination committee		
Chairman of the committee	*	16
Committee member	65	11
Social and ethics committee		
Chairman of the committee	183	22
Committee member	82	14

* *All inclusive fee.*

The penalty incurred for non-attendance as chairman of a meeting would be paid to the member who stood in as chairman at that meeting. The fee for additional meetings would be: chairman – R33 000 and member – R23 000.

CORPORATE GOVERNANCE

Hudaco is committed to maintaining a high standard of corporate governance and to creating value for stakeholders in a balanced, ethical and sustainable manner. The board seeks to ensure that good governance is practiced at all levels in the group and that it is an integral part of Hudaco's operations.

Each member of the board is committed to continue to individually and collectively cultivate and exhibit in their conduct the following characteristics: integrity, competence, responsibility, accountability, fairness and transparency.

Hudaco's values support the approach adopted in King IV of wider stakeholder inclusivity and enhanced corporate citizenship, which underpin Hudaco's reporting and engagement approach to a wider group of stakeholders. Doing business is about creating shared value and meeting responsibilities to contribute to economic development and give back to communities and the environment for the benefit of the wider stakeholder group.

The board is the focal point of the group's corporate governance system and remains ultimately accountable and responsible for its performance and affairs.

A corporate culture of compliance with applicable laws, regulations, internal policies and procedures has been established within the group. Responsible corporate citizenship and accountability for stewardship of assets have played a key role in securing sustainable returns and serve to provide stakeholders with the assurance that the group's businesses are managed appropriately.

The board members are further accountable for the ethical and effective leadership of Hudaco and are required to conduct themselves in accordance with the highest ethical standards and with honesty and integrity.

Application of and compliance with King IV

The board conducts a continuous process of self-assessment against the relevant principles as well as the related recommended practices of the King IV Report on Corporate Governance for South Africa (King IV). The board is satisfied that the Hudaco group is in substantive alignment with the principles and is overseeing the adoption of relevant practices. The board is fully committed to the four outcomes: an ethical culture, good performance, effective control and legitimacy.

A report on Hudaco's application of and compliance with the King IV principles is set out on the Hudaco website.

Our governance framework and structure

The board performs its governance responsibilities within a framework of policies and controls, with which it manages the group's economic, environmental and social performance and provides for effective risk assessment. The board remains committed to a governance philosophy that advocates high standards of leadership, ethics, integrity, accountability and responsibility. The board's responsibilities are outlined in its charter, which the board reviews and adopts annually.

The board charter, which is aligned with the recommendations of King IV, the Companies Act, the JSE Listings Requirements and Hudaco's Memorandum of Incorporation, details the responsibilities and duties of the board.

Board committees facilitate the discharge of board responsibilities and provide in-depth focus in specific areas. The board reviews each committee's terms of reference at least once a year. Terms of reference set out the role, responsibilities, delegated authority with respect to decision-making, the tenure, when and how the committee should be reporting to the board, access to resources and information, composition and procedures of each committee as well as arrangement for evaluating performance.

The committees report to the board through their respective chairmen and the minutes are available to every board member.

The diagram that follows sets out the Hudaco group's governance structure, reflecting the Hudaco board as having ultimate oversight:

Compliance management

The board is ultimately responsible for the governance of compliance with applicable laws and adopted, non-binding rules, codes and standards and has approved a corporate compliance policy that articulates and gives effect to the board's direction on compliance, and identifies which non-binding rules, codes and standards the board has adopted. The policy also sets out Hudaco's principles of business conduct.

Various other policies exist within the Hudaco group requiring compliance with applicable legislation and rules. The group secretary, together with various financial, human resources, internal audit and treasury functions, assists operations in ensuring that legislation is complied with at all times by educating members of management and staff regarding legislative requirements.

Compliance reports are presented to the audit and risk management committee as well as the social and ethics committee. The board monitors compliance with:

- **The JSE Listings Requirements:** Hudaco, as a listed company, is subject to and remains compliant with, the JSE Listings Requirements in line with the advice of Hudaco's sponsor, Nedbank Corporate and Investment Banking.
- **King IV:** The board is satisfied that the Hudaco group substantially complies with the principles and spirit of King IV.
- **Companies Act:** The Companies Act aims to promote good corporate governance and transparency in South African businesses. The audit and risk management committee as well as the social and ethics committee ensure compliance with all the relevant governance provisions of the Act.
- **Other legislation:** A board-approved compliance framework is implemented by Hudaco and its operating businesses in line with an annual compliance plan.

During the period under review Hudaco maintained a focus on relevant aspects of legislation, particularly compliance with the POPI Act and the Competition Act. The annual compliance certificate confirming Hudaco's compliance with the JSE Listings Requirements has been completed and submitted to the JSE. Neither Hudaco nor any of its directors or officers were subject to any material regulatory penalties, sanctions or fines for contraventions of, or non-compliance with, statutory obligations.

Focus areas for 2022 include the continued application of King IV practices, refreshing knowledge of risks pertaining to the Competitions Act and ongoing training of employees on legislative compliance in identified areas and the review and updating of existing policies and procedures.

Board of directors

Board composition

Hudaco has a unitary board structure, comprising seven directors. Three are independent non-executive directors, one a non-executive director and the remaining three are executive directors. A short *curriculum vitae* of each of the directors appears on pages 20 and 21 of the integrated report. Hudaco does not have or allow shadow directors.

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No individual has unfettered powers of decision-making and there is a clear division of responsibilities at board level to ensure an appropriate balance of power and authority.

The board functions effectively and efficiently and is considered to be of an appropriate size and balance for the group, taking into account, among other considerations, the need to have a sufficient number of directors to structure the board committees appropriately, regulatory requirements and the need to address the board's succession plans. A majority of the board members are non-executive directors, most of whom are independent.

Non-executive directors bring diverse perspectives to board deliberations and they are encouraged to constructively challenge the views of executive directors and management.

The board understands that sound governance practices are fundamental to earning the trust of stakeholders, which is critical to sustaining performance and preserving shareholder value. The board members' collective experience and expertise provide for a balanced mix of attributes to fulfil its duties and responsibilities.

The breadth of experience on the board includes mechanical and electrical engineering, finance and accountancy, banking and treasury, public sector, investment property, property development and overall business – with some directors having executive experience.

The roles of the chairman and the chief executive are separate and there is a lead independent non-executive director. The board is led by Stephen Connelly, a non-executive chairman. The chief executive is Graham Dunford. As the chairman is not considered independent for the reason set out under "Independent non-executive directors" below, Daisy Naidoo acts as lead independent director.

The chairman's role is to set the ethical tone for the board and to ensure that the board remains efficient, focused and operates as a unit. The chairman provides overall leadership to the board without limiting the principle of collective responsibility for board decisions. He also ensures appropriate communication with shareholders and facilitates constructive relations between the executive and non-executive directors.

The lead independent director's role is to provide leadership and advice to the board, without detracting from the authority of the chairman, when the chairman has a conflict of interest. A formal mandate had been adopted for the lead independent director which details the following functions:

- to lead in the absence of the chairman;
- to serve as a sounding board for the chairman;
- to act as an intermediary between the chairman and other members of the board where appropriate;
- to strengthen the independence of the board;
- to deal with shareholders' concerns where contact through normal channels has failed to resolve concerns, or where such contact is inappropriate; and
- to chair discussions and decision-making by the board on matters where the chairman has a conflict of interest.

The chief executive's principal role is to provide leadership to the executive team in running the group's businesses.

The group financial director is Clifford Amoils. The audit and risk management committee is satisfied that he has the appropriate expertise and experience for this position.

The board defines the group's levels of authority, reserving specific powers for the board while delegating others to management. The collective responsibility of management vests in the chief executive, who regularly reports to the board on the group's objectives and strategy. The board considers and approves on an annual basis a delegation of authority framework and is satisfied that this framework has contributed to role clarity and the effective exercise of authority and responsibilities during the reporting period.

Independent non-executive directors

The board annually evaluates the independence of board members. Independence is determined against the criteria set out in King IV, which states that a non-executive director may be categorised as independent when the board concludes that there is no interest, position, association or relationship which, when judged from the perspective of a reasonable and informed third party, is likely to influence unduly or cause bias in decision-making in the best interest of the organisation.

Stephen Connelly is not considered independent as he owns 274 139 Hudaco shares, the value of which is considered to be significant to his personal wealth.

King IV further provides that any term beyond nine years for an independent non-executive should be subject to a particularly rigorous review by the board, not only of their performance but also the factors that may impair their independence. The assessment should show that the independent director's independence of character and judgement is in no way affected or impaired by the length of service. In this respect the board assessed and concluded that Daisy Naidoo continues to be independent in both character and judgement, notwithstanding that by the time of the annual general meeting in March 2022, she would have served 11 years on the board. A new firm of external auditors has been appointed for the 2022 audit and the board considers it in the best interests of the company that she continues as chairman of the audit and risk management committee while the auditor transition takes place.

Both the other non-executive directors are considered independent.

The role of the board and board procedures

The board directs the group towards, and facilitates the achievement of, Hudaco's strategic and operational objectives. It is accountable for the development and execution of the group's strategy, operating performance and financial results. Its primary responsibilities include: determining the group's purpose and values, providing strategic direction to the group, appointing the chief executive, identifying key risk areas and key performance indicators of Hudaco's businesses, monitoring the performance of the group against agreed objectives, deciding on significant financial matters and reviewing the performance of executive management against defined objectives and, where applicable, industry standards.

A range of non-financial information is also provided to the board to enable it to consider qualitative performance factors that involve broader stakeholder interests. There is a formal schedule of material matters especially reserved for the board's approval.

The board, which meets at least quarterly, retains full and effective control over all the operations. Additional board meetings, apart from those planned, are convened as circumstances dictate. The number of meetings held during the year under review (including meetings of board-appointed committees) and the attendance of each director are set out on the ensuing pages.

The board has unrestricted access to all company information, records, documents and resources to enable it to properly discharge its responsibilities. Management is tasked with ensuring that board members are provided with all relevant information and facts to enable the board to reach objective and informed decisions.

Board meetings are scheduled well in advance and board documentation is provided timeously. Tabling documents at board meetings is the exception rather than the rule. The board agenda and meeting structure assist the board in focusing on corporate governance, its legal and fiduciary duties, group strategy and performance monitoring, thus ensuring that the board's time and energy is appropriately applied.

Directors are kept informed of key developments affecting the group between board meetings. Non-executive directors have access to management and may meet separately with management without the attendance of executive directors.

In terms of the Companies Act, if a director has a personal financial interest in respect of a matter to be considered at a meeting of the board or knows that a related person has a personal financial interest, the director is obliged to disclose the interest and its general nature, recuse themselves and not take part in the consideration of the matter.

The board is aware of the other commitments of its directors and is satisfied that all directors allocate sufficient time to enable them to discharge their responsibilities effectively. The group secretary maintains a register of directors' interests, which is tabled at the board quarterly and any changes are submitted to the board as they occur.

CORPORATE GOVERNANCE continued

Board charter

The board has adopted a written charter to assist it to conduct its business in accordance with the principles of good corporate governance and legislation. This charter is reviewed annually and sets out the specific responsibilities to be collectively discharged by the board members as well as the individual roles expected of board members.

The purpose of the board charter is to ensure that all the directors are aware of their powers, duties and responsibilities when acting on behalf of the company. The board charter is subject to the provisions of the Companies Act, JSE Listings Requirements, the company's Memorandum of Incorporation and all other applicable legislation. The salient features thereof are:

- role and function of the board;
- detailed responsibilities;
- discharge of duties;
- board composition; and
- establishment of committees.

During the period under review, material issues discussed by the board were determined by assessing the external environment, the needs and expectation of Hudaco's key stakeholders and other significant topics and/or events. For 2021, the dominant issue continued to be the impact of the Covid-19 pandemic on the business and the company's response thereto. In addition, the key strategic focus remained the management of the relationship between margins, inventories and costs in a particularly difficult economic environment. The implementation of the POPI Act also received attention.

Key focus areas for 2022 include:

- managing through international supply chain challenges;
- further improving margins;
- containing the expense ratio as input costs rise;
- developing more black African managers within the group;
- improving performance of security and communication businesses; and
- finding a significant value adding acquisition.

The board is satisfied that it fulfilled its responsibilities in accordance with its charter for the reporting period.

Board meeting attendance 2021

	Jan	Mar	Jun	Oct
CV Amoils	✓	✓	✓	✓
SJ Connelly	✓	✓	✓	✓
GR Dunford	✓	✓	✓	✓
N Mandindi	✓	✓	✓	✓
LFJ Meiring	✓	✓	✓	✓
D Naidoo	✓	✓	✓	✓
MR Thompson	✓	✓	✓	✓

Board appointments

A third of the directors retire by rotation annually. If eligible, available and recommended for re-election by the nomination committee, their names are submitted for re-election at the annual general meeting accompanied by an appropriate *curriculum vitae* set out in the integrated report. Shareholders also approve the initial appointment of each new director at the first annual general meeting of shareholders following that director's appointment.

In terms of the Memorandum of Incorporation (MOI), every director must retire by rotation at least once in three years. A resolution is to be proposed at the forthcoming annual general meeting to change the MOI to provide that only the non-executive directors must retire by rotation in future. Executive directors are employed by the company and subject to open ended employment contracts, which is inconsistent with the requirement for executive directors to retire by rotation. It is considered preferable (and is the more frequently adopted practice), in order to mitigate the risk to the company, for the non-executive directors to assess the fitness of the executive directors to continue in employment and in office.

The nomination committee assists the board with the recruitment, assessment and nomination of new directors, subject to the whole board approving these appointments. Board members are also invited to interview any potential appointees. In general, the attributes of prospective directors include individuals with the capacity to think strategically and contribute to the company's ongoing evolution of strategy, ability to work collaboratively and integrity that is above reproach. The nomination committee also considers appropriate diversity in its assessment, including but not limited to race and gender diversity.

A formal and transparent procedure applies to all board appointments, which are subject to confirmation by the shareholders at the annual general meeting. A formal policy has been adopted in this respect by the board.

Prior to appointment, potential board appointees are subject to a fit and proper test as required by the JSE Listings Requirements.

In reviewing board composition, Hudaco's nomination committee is committed to considering the benefits of all aspects of diversity, specifically focusing on the promotion of the diversity attributes of gender, race, culture, age, field of knowledge, skills and experience, in order to discharge its duties and responsibilities effectively.

The nomination committee discusses and agrees annually all measurable objectives for achieving diversity on the board and recommends them to the board for adoption. In respect of gender diversity, the board aims to ensure that at least 25% of the board of Hudaco Industries is made up of women and that at least 30% of the board should comprise black people. At the date of this report, the board comprised 28.6% black women.

Succession planning

The board's successful evolution is dependent on careful succession planning. The nomination committee is responsible for the board's succession plans and so it ensures that as directors retire, candidates with sufficient skills and experience have been identified to ensure that the board's competence and balance is either maintained or enhanced, taking into account the group's current and future needs.

The board further oversees that key management functions in Hudaco are headed by individuals with the necessary competence and authority and that they are adequately resourced. There is succession planning in place for the chief executive as well as the executive management and other key positions, to provide continuity of leadership. Succession plans are reviewed periodically and provide for both succession in emergency situations as well as succession over the longer term.

Board committees

Board-appointed committees have been established to assist the board in discharging its responsibilities. The membership and principal functions of the standing committees appear on the ensuing pages. Specific responsibilities have been delegated to the board committees and they operate under written terms of reference approved by the board. Each committee's terms of reference is reviewed annually by the board. Board committees are free to take independent outside professional advice as and when deemed necessary and a formal policy is in place. The group secretary provides secretarial services for the committees, except the remuneration committee.

Notwithstanding the establishment of various board committees, the board reserves for itself a range of key matters to ensure that it retains proper direction and control of the company.

There is transparency and full disclosure from board committees to the board. The committee chairpersons report formally to the board on the proceedings after each meeting and attend the annual general meeting to respond to any questions from shareholders regarding the committees' areas of responsibility. Directors have full access to all board committee documentation and committee chairpersons provide the board with oral reports on recent committee activities.

The board is of the opinion that all the board committees have effectively discharged their responsibilities, as contained in their respective terms of reference.

Evaluation

Formal board and committee assessments are conducted every second year in the form of written responses and/or a one-on-one interview conducted by the chairman with each member of the board. Every alternate year, the board considers its progress against agreed outcomes of the prior evaluation process, if any.

The evaluation of the chairman is conducted by the board.

Formal board and committee assessments were conducted during December 2021 by way of an online questionnaire comprising 74 questions. The questionnaire was compiled and the process was managed by Acorim Proprietary Limited. The following areas were assessed:

- board composition and performance;
- the board's response to Covid-19;
- board meetings and procedures;
- board strategy;
- risk and compliance governance;
- technology and information governance; and
- each of the board committees.

The questionnaire also afforded opportunity for comments on overall performance.

The board members reviewed the summary of the combined results which, in general, pointed to an efficient and effective board. Overall board appraisal scored 3.44 out of 4. However the following areas received an average score of between 2.29 and 2.43 out of 4:

- regular training and continuous professional development; and
- POPIA compliance reporting.

At its meeting held on 3 February 2022, the board agreed that POPIA reports should be provided to the social and ethics committee going forward in line with this committee's delegated compliance mandate.

With respect to continuous professional development, directors were encouraged to bring any training requirements to the board's attention as and when they arise. In addition, it was agreed that, as soon as regulations relating to Covid-19 allow, the board will revive its previous practice of having two board meetings a year at the offices of different businesses within the group to provide the non-executive directors with more insight into these businesses as well as to give management of these businesses more opportunity to interact with the board.

REMUNERATION COMMITTEE

The members of the committee for the year under review were: Mark Thompson (chairman), Stephen Connelly and Nyami Mandindi. All the members are non-executive directors and only Stephen Connelly is not considered independent.

The chief executive and the group financial director attend the meetings by invitation, subject to recusal at appropriate times. The committee meets twice a year, unless additional meetings are required.

The committee operates under a board-approved mandate and the terms of reference were reviewed in 2021. The committee does not assume the functions of management, which remain the responsibility of the executive directors and other members of senior management.

Remuneration committee meeting attendance 2021

	Jan	Jun
MR Thompson	✓	✓
SJ Connelly	✓	✓
N Mandindi	✓	✓

The remuneration report can be found on pages 57 to 80 of this report.

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NOMINATION COMMITTEE

The members for the period under review were Stephen Connelly (chairman), Mark Thompson and Daisy Naidoo. All the members, with the exception of Stephen Connelly, are independent non-executives.

The chief executive and the group financial director attend the meetings by invitation, subject to recusal at appropriate times.

The committee functions under written terms of reference and meets at least twice a year, unless otherwise required. It is chaired by the chairman of Hudaco Industries, as required by the JSE Listings Requirements.

The committee assists the board in ensuring that:

- the board has the appropriate composition to execute its duties effectively. Aspects that are considered regarding board composition include whether the candidates would enable the company to:
  - maintain a mixture of business skills and experience relevant to the company and balance the requirements of transformation, diversity, continuity and succession planning; and
  - comply with corporate governance requirements in respect of matters such as the balance between executive, non-executive and independent non-executive directors on the board;
- each potential director meets the appropriate fit and proper test;
- directors are appointed through a formal and transparent process;

- induction and ongoing training and development of directors takes place; and
- formal succession plans for the board, chief executive and senior management are in place.

The committee also provides assurance to the Hudaco board that the independent non-executive directors offering themselves for election as members of the Hudaco audit and risk management committee, collectively:

- are independent non-executive directors as contemplated in King IV and the JSE Listings Requirements;
- are suitably qualified and experienced for audit committee membership;
- have an understanding of integrated reporting (including financial reporting), internal financial controls, external and internal audit processes, risk management, sustainability issues and the governance process (including information technology governance) within the company;
- possess skills which are appropriate to the company's size and circumstances, as well as industry;
- understand International Financial Reporting Standards and other financial and sustainability reporting standards, regulations and guidelines applicable to the company; and
- adequately keep up to date with the key developments affecting their required skills set.

Board and committee assessments are conducted every second year in the form of written responses and/or a one-on-one interview conducted by the chairman with each member of the board. The chairman's assessment is conducted by the board, while the chief executive's assessment is conducted first by the nomination committee and then the board.

Nomination committee meeting attendance 2021

	Jan	Jun
SJ Connelly	✓	✓
D Naidoo	✓	✓
MR Thompson	✓	✓

During the period under review, the nomination committee assisted the board with board and committee evaluation and addressing the findings thereof. Members reviewed succession planning for the executive directors and key management positions and made recommendations for future non-executive director appointments. In January 2021 the committee expanded its diversity policy to include culture, age, skills and experience diversity in addition to race and gender.

Focus areas for 2022 include ensuring that appropriate succession plans are in place for senior management and members of the board.

The board is satisfied that the nomination committee had fulfilled its responsibilities in accordance with its terms of reference for the reporting period.

AUDIT AND RISK MANAGEMENT COMMITTEE

The members of the committee during the 2021 financial year were Daisy Naidoo (chairman), Nyami Mandindi and Mark Thompson.

The audit and risk management committee comprises independent non-executive directors only, as required by the Companies Act.

All the members have the requisite financial and/or commercial skills and experience to contribute to the committee's deliberations.

Meetings are held at least three times a year and the chairman of the board, all three executive directors, the head of group risk and internal audit and representatives from the external auditors attend committee meetings by invitation. The committee functions under written terms of reference which were most recently reviewed in October 2021. The committee is satisfied that it had fulfilled its responsibilities in accordance with its terms of reference for the reporting period.

From an audit oversight perspective, the committee is primarily responsible for:

- considering and monitoring the independence of the external auditors and the appropriate rotation of the lead audit partner and to make recommendations to the board on the appointment and dismissal of the external auditor;
- requesting from the external audit firm the information detailed in the JSE Listings Requirements in its assessment of the suitability for appointment of the current or a prospective audit firm and designated individual partner both when they are appointed for the first time and thereafter annually for every reappointment;
- ensuring that the appointment of the external auditor is presented and included as a resolution at the annual general meeting of the company;
- overseeing the effectiveness of the group's internal control systems, ensuring that they are designed in response to identified key business and control risks, and have been effective throughout the year;
- ensuring that the company has established appropriate financial reporting procedures and that these procedures are operating;
- reviewing the scope and effectiveness of the external and internal audit functions;
- ensuring that adequate accounting records have been maintained;
- monitoring proposed changes in accounting policy;
- considering the accounting and taxation implications of major transactions;
- reviewing and reporting on compliance with IFRS, King IV and the JSE Listings Requirements;
- testing that the group's going concern assertion remains appropriate;
- reviewing the quality of the interim and annual financial statements before submission to the board;
- considering the appropriateness of the expertise and experience of the financial director on an annual basis;
- evaluating the independence of the internal audit function; and
- evaluating the activities and the effectiveness of the internal audit function.

The Companies Act imposes further duties and responsibilities upon the committee including the following:

- nominate for appointment a registered auditor who is independent of the company;
- determine the fees to be paid to the auditor and the auditor's terms of engagement;
- ensure that the appointment of the auditor complies with the Companies Act and any other legislation relating to the appointment of auditors;
- determine the nature and extent of any non-audit services which the auditor may provide to the company;
- pre-approve any contract with the auditor for the provision of non-audit services to the company;
- prepare a report, to be included in the annual financial statements for that year:
  – describing how the committee carried out its functions;
  – stating whether the committee was satisfied that the auditor was independent of the company; and
  – commenting in any way the committee considers appropriate on the financial statements, the accounting practices and the internal financial control of the company; and
- receive and deal appropriately with any complaints relating to the accounting practices and internal audit of the company, the content or auditing of the financial statements, the internal financial controls of the company or any other related matter.

In response to these requirements and its terms of reference, the committee reports that it has discharged all of its obligations. Specifically:

- Last year we reported that the audit committee had decided to effect mandatory audit firm rotation and select an appropriate external audit firm for the 2022 financial year. In this context, a comprehensive process, involving the consideration of several firms, was undertaken to select a firm to succeed BDO as auditor.
- Following this process, and after considering, in terms of paragraph 22.15(h) of the JSE Listings Requirements, their suitability for appointment, the audit committee nominated the audit firm Deloitte and audit partner Petrus van Zijl for appointment by the shareholders at the forthcoming annual general meeting as the auditor for the 2022 financial year. The committee is satisfied that the firm and the individual auditor are independent of the company and are accredited as auditors by the JSE. Notwithstanding the above, BDO remained the external auditor for the 2021 financial year.
- Any non-audit-related services to be performed by the external auditors require the approval of the audit committee on a case-by-case basis. The overarching criterion for approval being that the independence of the external auditors should not be impaired through the provision of services under consideration. It was agreed that there will be a rebuttable presumption that non-audit fees totalling up to 25% of the budgeted annual audit fees will not alone impair the independence of the auditors. During the period under review, no non-audit-related services were rendered by BDO.
- Budgeted audit fees for the financial year ended 30 November 2021 were approved and the scope of the proposed audit work was agreed.
- The committee confirmed the independence of the internal audit function and satisfied itself that internal audit is functioning effectively.
- The internal and external auditors have unrestricted access to this committee. Members of the committee are also afforded the opportunity to meet with the head of internal audit and the external auditors without management being present.
- The committee reviewed the interim and annual financial statements and approved them for submission to the board. This review included a consideration of the estimates, judgements and assumptions set out in note 2 to the financial statements.
- The committee considered and noted the key audit matter as determined by BDO as described in the independent auditor's report.
- Except for a request by CIPC to include a report of the social and ethics committee within the financial statements themselves rather than elsewhere in the integrated report, no complaints have been received relating to the accounting practices and internal audit of the company or to the content or auditing of the company's financial statements or its internal financial controls, or to any related matter.
- In terms of paragraph 3.84(g) of the JSE Listings Requirements, the committee has satisfied itself that: (i) the expertise and experience of the financial director are appropriate; (ii) Hudaco has established appropriate financial reporting procedures and that these procedures are operating adequately, after considering the group's structure, to ensure that the committee had access to all the financial information; (iii) the members had, in the assessment of the suitability for appointment of Deloitte and audit partner Petrus van Zijl, considered the information detailed in paragraph 22.15(h) of the JSE Listings Requirements and had also consulted Deloitte thereon; (iv) the appointment of Deloitte is presented and included as a resolution at the forthcoming annual general meeting of the company to be held in March 2022.

The committee further oversees that a combined assurance model is applied which enables an effective internal control environment, supports the integrity of information used for internal decision-making and supports the integrity of related external reports. Through formal reports in committee papers and the attendance of all key executives involved with assurance, the committee is provided with a thorough review of the group's assurance activities. These reports include the principles of combined assurance through reports from management and internal and external audit. Attendees at committee meetings include the chairman of the company, all executive directors, the head of group risk and internal audit, the internal audit manager and external audit representatives. During the year, the combined assurance model was reviewed and the committee was satisfied that the financial risks and financial reporting risks were appropriately reflected therein.

From a risk management perspective, the committee's main responsibilities include overseeing the group's risk management programme. The responsibility for identifying, evaluating and managing risk resides with management. The risk management process involves a formalised system to identify and assess risk, both at strategic and operational levels. The process includes the evaluation of the mitigating controls and other assurances in identifying and assessing the risks.

Risks are continually being identified and mitigated in terms of a process that involves allocating responsibility, developing action plans and monitoring compliance with these action plans. Every employee has a role to play in this endeavour and in achieving the group's goals and objectives.

During the year under review, the committee discharged all of its duties in respect of risk management. Specifically it:

- ensured that appropriate systems were in place to identify and monitor risks affecting the group;
- evaluated the adequacy of the effectiveness of the risk management process;

- reviewed and assessed issues such as compliance with legislation and corporate governance matters, the impact that significant litigation could have on the group, the adequacy of the insurance cover as well as the effectiveness of controls over areas of risk;
- provided board level oversight of the management of sustainability issues; and
- ensured that technology and information governance continued to form an integral part of the company's risk management processes.

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The major risks faced by the group are described on pages 18 and 19 of this integrated report.

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In addition, the committee has overseen the introduction of processes in all the businesses to support the chief executive and financial director such that they are in a position to sign the responsibility statement now required by the JSE and dealt with more fully on page 93.

Focus areas for 2022 include overseeing a smooth transition from BDO to Deloitte of the external audit function, following mandatory audit firm rotation and optimising risk management at operational level, with particular emphasis on enhancing procedures pertaining to health and safety and environmental aspects.

Audit and risk management committee meeting attendance 2021

	Jan	Jun	Oct
D Naidoo	✓	✓	✓
N Mandindi	✓	✓	✓
MR Thompson	✓	✓	✓

Financial control and risk management

The committee recognises the board's responsibility to report a balanced and accurate assessment of the group's financial results and financial position in terms of International Financial Reporting Standards, its business, operations and prospects.

Hudaco has an established system of controls and procedures to ensure the accuracy and integrity of the accounting records and to effectively monitor the group's businesses and their performance. The system encompasses a wide range of checks and balances, as well as interactive controls. These include:

- decentralised and self-accounting operational and financial management;
- an approval framework with defined authority limits;
- a detailed budgeting system;
- the preparation of forecasts, which are regularly reviewed and updated;
- monthly reporting of income and financial position, together with written reports highlighting areas of particular risk or opportunity;
- a centralised treasury, which incorporates foreign currency and cash management functions;
- regular reporting on treasury, legal, pension, medical aid and insurance matters;
- regular meetings of the boards of the individual operating businesses; and
- risk registers at operating and group level, which are monitored on a regular basis.

Chief executive's and financial director's responsibility statement

The committee noted the responsibility statement, as required by paragraph 3.84(k) of the JSE Listings Requirements, submitted by the chief executive and the financial director. The evaluation of controls by the chief executive and the financial director included:

- identification and classification of risks, including the determination of materiality;
- testing the design and determining the implementation of controls to address high-risk areas;
- utilising internal audit to test the operating effectiveness of controls and to address the high-risk areas on an annual basis; and
- obtaining control assessments and attestations from the chief executive and chief financial officer of each decentralised business on the operating effectiveness of controls in their business.

The committee noted a number of deficiencies, none of which represents a material threat to the group, remedial action taken or to be taken, as well as applicable timeframes. These deficiencies were most prevalent in general IT controls. They did not result in any material breakdowns in internal control, including financial controls, business risk management and maintenance of effective internal control systems. Having received input from the internal auditors, external auditors and executive directors, and having considered the reports presented to it throughout the year, the audit committee supports the conclusion in the responsibility statement submitted by the chief executive and the financial director.

Internal control framework

Hudaco has adopted specific levels of authority and the required approvals necessary for all major decisions at both group and divisional levels. Through this framework, operational and financial responsibility is formally and clearly delegated to the chief executive, the group financial director and the executives of the principal operating businesses. This is designed to maintain an appropriate control environment within the constraints of board-approved strategies and budgets, while providing the necessary local autonomy for day-to-day operations.

Internal audit

A group risk and internal audit department, which functions under a written charter, provides the role and functions as envisaged in the Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors. The department's work is designed to ensure that all aspects of each business, including internal control procedures, are subject to professional risk assessment on a regular basis. These controls and procedures provide reasonable assurance that assets are safeguarded from material loss or unauthorised use and that the financial records may be relied on for preparing the financial statements and maintaining accountability for assets and liabilities.

This department has complied with its brief, which is to conduct a formal review of the effectiveness of all the group's systems of internal control over a three-year cycle, with major systems in all businesses reviewed annually.

The department reports any material findings and matters of significance to the audit and risk management committee on a regular basis. The reports highlight whether actual or potential risks to businesses are being appropriately managed and controlled.

Progress in addressing any previously unsatisfactory finding is monitored until proper resolution of the problem area has been reported.

The annual audit plan, which is pre-approved by the audit and risk management committee, is determined through an assessment and understanding of risks.

The scope of the internal audit and external audit are coordinated to provide efficient and effective assurance to the group's audit and risk management committee.

Risk

The committee and the board assess the risks in the group's business environment with a view to eliminating or reducing them in the context of the group's strategies, operations and risk appetite. The board has confirmed its acceptance of the group's risk management processes and is satisfied that all risks are appropriately governed. The major risks faced by the group are described on pages 18 and 19 of this integrated report. The group's annual internal audit plan incorporates the outcomes of the risk management process. The group risk and internal audit department provides a risk identification facilitation role, but, to maintain their independence, the internal audit team members do not participate in this process. Management is responsible for managing risks on a daily and operational basis.

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The board is responsible for determining the group's risk appetite and tolerance levels. These have been defined and approved. The group risk map, examined by the board at each meeting, includes a risk tolerance line to highlight whether any residual risks fall beyond the risk tolerance level.

An operational risk management committee, chaired by the group financial director and comprising, *inter alia*, all the managing directors of the various businesses, facilitates the group's risk management programme. This committee meets twice a year prior to the audit and risk management committee and provides valuable insight into the status of risk practices within the group.

Litigation and legal

In the normal course of business, Hudaco is subject to various proceedings, actions and claims. These matters are subject to risks and uncertainties that cannot be reliably predicted.

Technology and information governance

Protecting electronic assets is increasingly complex as networks, systems and electronic data expand. Depending on the internet for communication attracts additional risk. Ensuring proper system security, data integrity and business continuity is the responsibility of the board, but is overseen by the executive committee and the audit and risk management committee. IT systems at Hudaco are decentralised, with each business determining the most appropriate system for its own operations. This reduces the group's exposure to any one IT system failure.

The board is of the opinion that the systems of internal control over information technology are adequate and effective and is not aware of any material breakdown thereof during the year.

An IT governance committee assists the board in ensuring the effective and efficient management of IT resources to facilitate the achievement of Hudaco's objectives. The IT governance committee functions under a written IT governance charter. Its purpose is to define and deliver the overall IT strategy approved by the group's executive committee and the audit and risk management committee. It is responsible for the development and functionality of IT governance at businesses, IT strategy at functional level, monitoring compliance and measuring progress against plans.

Through the delivery of the IT goals, the IT governance committee is responsible for the primary focus areas of IT governance at Hudaco:

- value for money in operational IT spend;
- effective selection and control of IT capital projects;
- recovery from business interruption;
- security of information;
- physical security of IT assets;
- risk from intellectual property infringement (unauthorised or under-licensed software); and
- risk from failure to keep the Hudaco IT systems up to date.

The nature of Hudaco's business has intrinsic key risk mitigation characteristics in that:

- the decentralised structure means that the risk is spread over about 25 different systems. A failure in any one system could be material but would not threaten the entire group. The other side of the coin is that it introduces other risks, such as multiple places where threats could be introduced, but these risks can be, and are being, managed;
- Hudaco's businesses generally do not require custom written software and use off-the-shelf packages, which means the risks involved in software development are not present. These risks include major cost overruns, software loss without adequate up-to-date versions available for restoration and loss of key skills. To the extent that customisation is done for the group, it is report writing and data mining;
- Hudaco generally does not embark on very expensive IT projects, which contain the risk of fraud and/or mismanagement; and
- overall IT spend is not very high considering the size of the group.

The IT governance committee, chaired by the group financial director, currently comprises the chief executives of all Hudaco's businesses as well as IT professionals from the larger businesses within Hudaco. The committee's charter is fully aligned with King IV requirements.

Focus areas for 2022 include the following:

- continuing to align IT strategies with business strategies at individual businesses;
- reducing the number of separate IT facilities in line with the combination of certain businesses into clusters for back-office purposes;
- auditing business compliance with specified minimum IT standards, policies and procedures;
- enhancing IT risk identification and maintenance of IT risk registers at individual businesses;
- further developing group-wide IT policies and minimum requirements; and
- building collaboration between IT teams at businesses.

SOCIAL AND ETHICS COMMITTEE

As a responsible corporate citizen, Hudaco is committed to ethical leadership and the demonstration of sound corporate governance practices, underpinned by the group's values.

Composition and terms of engagement

The members of the committee during the 2021 financial year were Nyami Mandindi (chairman), Louis Meiring and Daisy Naidoo.

The chairman and one other member of the committee are independent non-executive directors, while the remaining member is an executive director. The committee meets twice a year and reports to the board. Meetings are also attended by the group financial director (Clifford Amoils), group secretary, transformation and human resources executive (Phylla Jele), the executive responsible for health and safety and environmental issues (Ernie Smith) and the group SHEQ manager (Firdaws Ismail). Furthermore, the committee is entitled to invite other executives and senior managers of Hudaco to attend meetings as required to fulfil its mandate.

Hudaco's social and ethics committee monitors and oversees Hudaco's activities in relation to:

- social and economic development, including the principles of the UN Global Compact, broad-based black economic empowerment, employment equity and the OECD's recommendations on corruption;
- good corporate citizenship, including the promotion of equality, prevention of unfair discrimination, corporate social responsibility, ethical behaviour and managing environmental impact;
- health and safety in the workplace;
- consumer relations; and
- labour and employment, including skills development.

Each business within the Hudaco group has its own social and ethics subcommittee. These committees are required to meet twice a year prior to the main committee meeting and provide feedback and input on social and ethics activities.

Role and responsibilities

During the 2021 financial year the committee met twice, at which meetings performance in the following areas was reviewed on a rotational or core agenda basis, in response to the requirements of the Companies Act:

- anti-corruption compliance;
- human capital management;
- transformation;
- regulatory and compliance matters;
- stakeholder relations;
- socio-economic development;
- health and safety; and
- environmental impact.

The committee's terms of reference were reviewed during October 2021.

The committee confirms that it has discharged its mandate as prescribed by the Companies Regulations to the Companies Act. Management has confirmed that there has been no material non-compliance with legislation or regulations which are within the remit of the committee's mandate. In addition, there have not been any infringements of the relevant governance codes, and no material issues were identified during the year under review. Accordingly, the committee confirmed that Hudaco remains a responsible corporate citizen and that the group will continue its efforts to further create value and contribute positively to the environment, social and governance imperatives.

At the forthcoming annual general meeting, scheduled to take place on 17 March 2022, the chairman will be available to report to shareholders on the matters within its mandate in accordance with regulation 43(5)(c) of the Companies Act regarding Hudaco's performance with respect to the key focus areas of this committee.

Focus areas for 2022 include continuing to monitor the group's implementation of health and safety standards and environmental impact initiatives and the evaluation of performance. The committee will also seek reconfirmation that there are no gender-based pay gaps or pay gaps prejudicing historically disadvantaged individuals in the group.

Social and ethics committee meeting attendance 2021

	Mar	Oct
N Mandindi	✓	✓
LFJ Meiring	✓	✓
D Naidoo	✓	✓

EXECUTIVE COMMITTEE

The members of the committee are: Graham Dunford (chairman), David Allman, Clifford Amoils, Barry Fieldgate, Phylla Jele, Louis Meiring, Ernie Smith, Carl Rogers and Chris Pillay (joined 4 January 2021). The head of risk and internal audit and other senior executives have standing invitations to attend the meetings.

The executive committee is chaired by the chief executive, Graham Dunford, and meets quarterly, prior to the board meeting. Its principal terms of reference are to advise the chief executive on the formulation of operating policy, the implementation of group strategy and the management of key group risks. The committee incorporates a safety, health and environment subcommittee which has its own written terms of reference.

Executive committee meeting attendance 2021

	Jan	Mar	Jun	Oct
GR Dunford	✓	✓	✓	✓
DL Allman	✓	✓	✓	✓
CV Amoils	✓	✓	✓	✓
BWJ Fieldgate	✓	✓	✓	✓
MP Jele	✓	✓	✓	✓
LFJ Meiring	✓	✓	✓	✓
E Smith	✓	✓	✓	✓
C Rogers	✓	✓	✓	✓
C Pillay*	✓	✓	✓	✓

** Became a member in January 2021.*

Group secretary

Acorim Secretarial and Governance Services, represented by Natasha Davies (née Petrides), was appointed as the group secretary of Hudaco with effect from 1 December 2020.

The group secretary, who is subject to a fit and proper test, assists the board in fulfilling its functions and is empowered by the board to perform her duties. The group secretary, directly or indirectly:

- assists the chairman, chief executive and financial director with the induction of new directors;
- assists the board with director orientation, development and education;
- where practical ensures the group complies with legislation applicable and/or relevant to Hudaco;
- monitors the legal and regulatory environment and communicates new legislation and any changes to existing legislation to the board and the operating businesses; and
- provides the board with a central source of guidance and assistance.

The group secretary also assists the chairman and chief executive in determining the annual board plan and board agendas and in formulating governance and board-related matters.

In October 2021 the board considered and was satisfied with the competence, qualifications and experience of Natasha Davies, who represents the group secretary. It concluded that during this time, an arm's length relationship had been maintained between the board members and the group secretary. This conclusion was based on the fact that she performed her role independently from the board or any individual board member and without the directors having an undue influence over her.

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The certificate required to be signed by the group secretary in terms of section 88(2)(e) of the Companies Act appears in the annual financial statements on page 93.

Share dealings

Hudaco has adopted a closed-period policy, which precludes directors, officers, participants in share-based payment arrangements and staff who may have access to price-sensitive information from dealing in Hudaco shares prior to the release of interim and final results as well as during other price-sensitive periods.

All the directors, the members of the executive committee and their personal assistants are required to obtain written clearance from the chief executive before dealing in Hudaco's securities. The chief executive and financial director require prior clearance from the chairman.

Details of share dealings by directors and the group secretary are disclosed through the Securities Exchange News Service (SENS).

The group secretary maintains a record of all dealings in Hudaco shares by directors and affected employees.

No major subsidiary has any director who is not also a director of Hudaco.

Relationship with stakeholders

Hudaco's relationship with stakeholders is dealt with in the section on stakeholder engagement on pages 16 and 17. 16

The Hudaco group has various policies governing communication, relationships and conduct with its stakeholders, which comprise shareholders, employees, customers, suppliers, bankers, the community and government.

Nedbank Corporate and Investment Banking acted as the company's sponsor during the year under review.

Hudaco acknowledges the importance of its shareholders attending the company's annual general meetings as these meetings offer an opportunity for the shareholders to participate in discussions relating to general meeting agenda items and to raise additional issues. To this end, online attendance was facilitated for the 2021 annual general meeting and will be available again in 2022. Explanatory notes setting out the effects of all proposed resolutions have been included in the notice of annual general meeting. The company's transfer secretaries attend every meeting of shareholders to assist with the recording of shareholders' attendance and to tally the votes.

The chairmen of board-appointed committees, as well as the executive directors, are required to attend annual general meetings or other general meetings to respond to questions from shareholders.

AUDITED ANNUAL FINANCIAL STATEMENTS

AUDITED ANNUAL FINANCIAL STATEMENTS
Institutional investors, private shareholders, bankers, corporate finance houses, analysts and government

AUDIT AND RISK MANAGEMENT COMMITTEE'S REPORT

The audit and risk management committee has pleasure in submitting this report, as required in terms of the South African Companies Act.

The audit and risk management committee consists of three directors who act independently. During the year under review three meetings were held. At these meetings the members fulfilled their functions as prescribed by the South African Companies Act and the JSE Listings Requirements. Details of the functions of the audit and risk management committee are contained in the corporate governance section on pages 86 to 89.

The audit and risk management committee has satisfied itself that:

- the auditors are independent of the company and are thereby able to conduct their audit without any influence from the company;
- the auditor, the partner and the firm, have complied with the suitability requirements of the JSE as detailed in paragraph 22.15(h) of the JSE Listings Requirements;
- the accounting practices and systems of internal control are appropriate, adequate and monitored effectively; and
- the committee considered and noted the key audit matter determined by BDO as described in the independent auditor's report.

The audit and risk management committee has evaluated the group and company annual financial statements for the year ended 30 November 2021 and considers that they comply, in all material aspects, with the requirements of the Companies Act and International Financial Reporting Standards. The committee therefore recommended the annual financial statements for approval by the board. The board has subsequently approved the financial statements which will be presented at the forthcoming annual general meeting.

D Naidoo
Chairman of the audit and risk management committee

17 February 2022

GROUP CHIEF EXECUTIVE'S AND GROUP FINANCIAL DIRECTOR'S RESPONSIBILITY STATEMENT

The directors, whose names are stated below, hereby confirm that:

(a) the annual financial statements set out on pages 100 to 135 fairly present in all material respects the financial position, financial performance and cash flows of Hudaco Industries Limited and its subsidiaries ("Hudaco") in terms of IFRS;

(b) no facts have been omitted or untrue statements made that would make the annual financial statements false or misleading;

(c) internal financial controls have been put in place to ensure that material information relating to Hudaco and its consolidated subsidiaries have been provided to effectively prepare the financial statements of Hudaco; and

(d) the internal financial controls are adequate and effective and can be relied upon in compiling the annual financial statements, having fulfilled our role and function within the combined assurance model pursuant to principle 15 of the King Code. Where we are not satisfied, we have disclosed to the audit committee and the auditors the deficiencies in design and operational effectiveness of the internal financial controls and any fraud that involves directors, and have taken the necessary remedial action.

GR Dunford
Chief executive

17 February 2022

CV Amoils
Group financial director

17 February 2022

CERTIFICATE BY THE GROUP SECRETARY

In accordance with the provisions of section 88(2)(e) of the South African Companies Act, I certify that, to the best of my knowledge and belief, the company has filed for the financial year ended 30 November 2021 all such returns and notices as are required of a public company in terms of the said Act, and that all such returns and notices appear to be true, correct and up to date.

Acorim Secretarial and Governance Services
Represented by Ms N Davies

17 February 2022

DIRECTORS' REPORT

Reporting period

The directors have pleasure in presenting their report for the company's financial year ended 30 November 2021. The annual financial statements for the year ended 30 November 2021 were authorised for issue in accordance with a resolution of the directors on 17 February 2022. Hudaco Industries Limited is a public company incorporated and domiciled in South Africa whose shares are publicly traded.

The principal activities of the group are described below:

Nature of business

Hudaco Industries is a South African group specialising in the importation and distribution of high-quality branded automotive, industrial and electronic consumable products, mainly in the southern African region.

Hudaco businesses serve markets that fall into two primary categories. The automotive aftermarket, power tool and fasteners, data networking, security and communication equipment and battery businesses supply products into markets with a bias towards consumer spending whilst the bearings and belting, electrical power transmission, diesel engine, hydraulics and pneumatics, specialised steel, thermoplastic fittings and filtration businesses supply engineering consumables mainly to mining and manufacturing customers.

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.

Financial results

Earnings attributable to equity holders of the parent for the year ended 30 November 2021 were R499 million (2020: R36 million; 2019: R429 million).

The results represent basic earnings per share of 1 643 cents (2020: 113 cents; 2019: 1 355 cents). Headline earnings per share were 1 641 cents (2020: 1 050 cents; 2019: 1 355 cents) and comparable earnings per share were 1 613 cents (2020: 800 cents; 2019: 1 240 cents).

The results of the company and the group are set out in these financial statements.

Dividends

R million	2021	2020	2019
Dividend number 67 of 410 cents per share declared on 28 January 2021	**126**	130	120
The record date was 19 February 2021 and the dividend was paid on 22 February 2021			
Dividend number 68 of 240 cents per share declared on 24 June 2021	**73**	–	60
The record date was 6 August 2021 and the dividend was paid on 10 August 2021			

The dividends reflected above are net of the dividends on 2 507 828 shares held by a subsidiary.

On 3 February 2022 the directors declared dividend number 69 of 520 cents per share, being the final dividend in respect of the year ended 30 November 2021. The record date will be Friday, 4 March 2022 and the dividend will be paid on Monday, 7 March 2022.

Authority to buy back shares

At the forthcoming annual general meeting in March 2022, shareholders will be asked to provide the directors with authority to purchase up to 1 625 986 (5%) of Hudaco's issued shares. If approved, this authority will be valid until the following year's annual general meeting and subject to the Listings Requirements of the JSE Limited, allowing the Hudaco group to purchase its own shares up to 1 625 986 of the issued shares, at a price not greater than 10% above the preceding five-day weighted average.

During the year Hudaco continued to hold indirectly, through a wholly owned subsidiary, a total of 2 507 828 Hudaco shares, representing approximately 7.71% of its issued capital at the date of this report, by way of treasury shares.

Share capital

Authorised

The authorised share capital remained unchanged during the year.

Issued

During the period between 1 April 2021 and 7 October 2021, the company repurchased 609 211 of its ordinary shares on-market at a total cost of R69.0 million. The buy-back was approved by shareholders at the last annual general meeting. Of these repurchased shares, 404 146 were delisted and cancelled on 29 July 2021 and 205 065 were delisted and cancelled on 15 December 2021.

Since 30 November 2021, the share repurchase programme continued under a mandate given to a broker and without further reference to the company, resulting in a further 60 880 shares being acquired. The mandate has been irrevocable until the closed period comes to an end upon the release of the results for the year ended 30 November 2021.

Full details of the authorised and issued capital of the company at 30 November 2021 are contained in notes 18.1 and 18.2 to the financial statements.

Share-based remuneration schemes

Full details of the company's share-based remuneration schemes are set out in note 18.6 to the financial statements.

Directorate

Information on the directors of the company in office at the date of this report appears on pages 20 and 21 of the integrated report.

In terms of the company's Memorandum of Incorporation, Graham Dunford, Nyami Mandindi and Mark Thompson are required to retire by rotation at the forthcoming annual general meeting. All these directors are available, eligible and recommended for re-election.

Directors' interests

The directors' interests in the issued shares of the company are set out in note 26.1.

Details of the executive directors' interests in the performance-based Hudaco share appreciation bonus scheme and retention-based share matching scheme are provided in the implementation of the remuneration policy section of the remuneration report, specifically dealing with executive directors' remuneration as set out on pages 63 to 79.

Directors' remuneration and details of their service agreements

The remuneration of executive and non-executive directors is recommended to the board by the company's remuneration committee. Further information relating to the remuneration of the directors, together with details relating to the value of share appreciation right and share matching right allocations during the year, are set out in the implementation of the remuneration policy section of the remuneration report, specifically dealing with executive directors' remuneration as set out on pages 63 to 79 and non-executive directors' remuneration on page 80.

Information on the executive directors' service agreements is set out on page 63.

Secretary

Acorim Secretarial and Governance Services, represented by Natasha Davies (née Petrides), is the secretary of the company. The address of the secretary is set out on page 147. Reana van Zyl served as secretary until 4 December 2020.

Borrowing powers

The borrowing powers of the Hudaco group are unlimited. At 30 November 2021 unutilised borrowing facilities amounted to R1 386 million (2020: R1 437 million), of which R420 million is uncommitted.

Material risks disclosure

A description of all material risks which are specific to Hudaco Industries and/or the industries in which the company operates is set out on pages 18 to 19.

Covid-19: Going concern assessment and events after reporting date

The impact of Covid-19 has reduced significantly since 2020. Nevertheless, it has still been taken into account in the projected future cash flows when assessing the appropriateness of using the going concern assumption in preparing the annual financial statements. Covid-19 was also considered when assessing whether there had been any events after reporting date that could have a material effect on the annual financial statements and concluding that there had not been any such events.

Social and ethics committee

In compliance with Regulation 43 of the Companies Regulations 2011, the company has a social and ethics committee, comprised of two independent non-executive directors and one executive director. The members are N Mandindi (chairman), D Naidoo and L Meiring (executive director). The activities of the committee are detailed in the corporate governance section, on page 90 of the integrated report.

DIRECTORS' REPORT continued

Statement of directors' responsibility

The directors of the company are responsible for the preparation of the annual financial statements and related financial information that fairly presents the state of affairs and the results of the company and the group.

The annual financial statements set out in this report have been prepared under the supervision of CV Amoils CA(SA), financial director, in accordance with statements of International Financial Reporting Standards, the financial reporting pronouncements as issued by the Financial Reporting Standards Council, the requirements of the South African Companies Act and the JSE Listings Requirements. These are based on appropriate accounting policies, consistently applied, which are supported by reasonable and prudent judgements and estimates.

The external auditors are responsible for carrying out an independent examination of the financial statements in accordance with International Standards on Auditing and reporting their findings thereon. The auditor's report is set out on pages 97 to 99.

To enable the board to meet its responsibilities, systems of internal control and accounting and information systems have been implemented. These are aimed at providing reasonable assurance that risk of error, fraud or loss is reduced. The group's internal audit function, which has unrestricted access to the group's audit and risk management committee, evaluates and, if necessary, recommends improvements to the systems of internal control and accounting practices, based on audit plans that take cognisance of the relative degrees of risk of each function or aspect of the business.

The audit and risk management committee, together with the internal auditors, plays an oversight role in matters relating to financial and internal control, accounting policies, reporting and disclosure.

To the best of its knowledge and belief, based on the above and after making enquiries, the board of directors confirms that it has every reason to believe that the company and the group have adequate resources in place to continue in operational existence for the foreseeable future. For this reason, it continues to adopt the going concern basis in preparing the annual financial statements. The board of directors further confirms that, to the best of its knowledge and belief, the company is in full compliance with the provisions of the Companies Act No 71 of 2008, as amended, specifically related to its incorporation and that it is operating in conformity with its Memorandum of Incorporation.

The annual financial statements for the year ended 30 November 2021, which appear on pages 93 to 135, were approved by the board on 17 February 2022 and are signed on its behalf by:

SJ Connelly
Chairman

GR Dunford
Chief executive

17 February 2022

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Hudaco Industries Limited

Report on the audit of the consolidated and separate financial statements

Opinion

We have audited the consolidated and separate financial statements of Hudaco Industries Limited (the group and company) set out on pages 100 to 135, which comprise the consolidated and separate statements of financial position as at 30 November 2021, and the consolidated and separate statements of comprehensive income, consolidated and separate statements of changes in equity and the consolidated and separate statements of cash flows for the year then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Hudaco Industries Limited as at 30 November 2021, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act of South Africa.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of Consolidated and Separate Financial Statements* section of our report. We are independent of the group and company in accordance with the Independent Regulatory Board of Auditors' Code of *Professional Conduct for Registered Auditors* (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The following key audit matter relates to the consolidated financial statements. We have determined that there are no key audit matters in respect of the separate financial statements.

Key audit matter	How our audit addressed the key audit matter
Assessment of goodwill for impairment *(Note 13 to the consolidated financial statements)* Goodwill represents a significant asset in the consolidated statement of financial position. In terms of International Accounting Standard (IAS) 36 *Impairment of Assets*, the group is required to test the carrying value of goodwill for impairment annually, or more frequently when indicators of impairment exist. This is performed using a discounted free cash flow model (value in use) for the various cash-generating units (GGUs). Due to the significant judgement and estimates used in determining the inputs and assumptions into the free cash flow model and discount rates applied, and the sensitivity of the calculations to any changes in these assumptions, we have determined the goodwill impairment assessment to be a matter of most significance to our current year audit of the consolidated financial statements.	Our audit procedures included, amongst others: • We assessed the design and implementation of relevant controls in the goodwill impairment process as performed by management; • We examined the 2022 financial budget approved by the board of directors and evaluated the credibility of the budget preparation process by considering the key assumptions applied to the historical performance of the cash-generating units; • We evaluated management's forecasts and assessed the key inputs and assumptions used in the value in use and impairment model for reasonability, specifically the discount rates and long-term growth rates, by comparing these to external sources, taking into account our knowledge of the industry and business, and the sensitivity of the goodwill balances to changes in respective assumptions; • We made use of our internal valuations expertise to assess the valuation models and related key inputs and assumptions for reasonability, in particular those relating to the pre-tax discount rate and terminal growth rates, by comparing these to external sources, where appropriate, and assessing whether the methods applied are consistent with IFRS and industry norms; • We tested the integrity and mathematical accuracy of the value in use impairment calculation by re-performing the calculation; and • We considered the adequacy of the group's disclosures in terms of IFRS in respect of its goodwill impairment testing.

INDEPENDENT AUDITOR'S REPORT continued

Other information

The directors are responsible for the other information. The other information comprises the information included in the document titled "Hudaco Integrated Report 2021", which includes the Directors' Report, the Audit and Risk Management Committee's Report and the Certificate by the Group Secretary as required by the Companies Act of South Africa. The other information does not include the consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated and separate financial statements

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with IFRS and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group and/or the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated and separate financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's and the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's and the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group and/or the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that BDO South Africa Incorporated has been the auditor of Hudaco Industries Limited for 36 years.

BDO South Africa Inc.

BDO South Africa Incorporated
Registered Auditors

Vianca Pretorius
Director
Registered Auditor

17 February 2022

Wanderers Office Park
52 Corlett Drive
Illovo, 2196

GROUP STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 November 2021

R000	Notes	2021	2020
Turnover	5	**7 258 087**	6 253 637
Cost of sales		**4 570 935**	4 079 055
Gross profit		**2 687 152**	2 174 582
Operating expenses	6	**1 861 234**	1 664 447
Operating profit		**825 918**	510 135
Other income – proceeds of damages claim			35 000
Impairment of goodwill and intangible assets	13, 14		(347 948)
Fair value adjustments	7	**9 835**	47 625
Profit before interest		**835 753**	244 812
Interest on lease liabilities	19.2	**32 026**	34 301
Finance costs		**35 984**	69 165
Profit before taxation		**767 743**	141 346
Taxation	9	**218 464**	133 196
Profit after taxation		**549 279**	8 150
Equity-accounted income from joint venture			655
Profit for the year		**549 279**	8 805
Other comprehensive income (loss) that will subsequently be reclassified to profit or loss		**4 513**	(1 693)
Profit (loss) on fair value of cash flow hedges – current year		**943**	(1 070)
Adjustments for amounts transferred to the initial cost of inventory	16	**1 070**	1 339
Tax effect of the above		**(564)**	(75)
Exchange gain (loss) on translation of foreign operations		**3 064**	(1 887)
Total comprehensive income for the year		**553 792**	7 112
Profit (loss) attributable to:			
– Equity holders of the parent		**498 715**	35 560
– Non-controlling shareholders	18.5	**50 564**	(26 755)
		549 279	8 805
Total comprehensive income (loss) attributable to:			
– Equity holders of the parent		**502 092**	34 627
– Non-controlling shareholders	18.5	**51 700**	(27 515)
		553 792	7 112
Basic earnings per share (cents)	10	**1 643**	113
Diluted earnings per share (cents)	10	**1 610**	113

GROUP STATEMENT OF FINANCIAL POSITION

at 30 November 2021

R000	Notes	2021	2020
ASSETS			
Non-current assets		**1 977 895**	1 924 035
Property, plant and equipment	11	**284 623**	265 410
Right-of-use assets	12	**422 062**	414 280
Goodwill	13	**1 170 294**	1 170 294
Intangible assets	14	**25 786**	33 168
Deferred taxation	15	**75 130**	40 883
Current assets		**3 472 170**	3 031 114
Inventories	16	**2 004 106**	1 598 499
Trade and other receivables	17	**1 244 507**	1 196 186
Taxation		**252**	2 829
Bank deposits and balances	22.5	**223 305**	233 600
Total assets		**5 450 065**	4 955 149
EQUITY AND LIABILITIES			
Equity		**2 976 204**	2 669 455
Equity holders of the parent		**2 863 497**	2 593 489
Non-controlling interest	18.5	**112 707**	75 966
Non-current liabilities		**1 003 307**	1 146 978
Amounts due to bankers	19.1	**630 000**	780 000
Lease liabilities	19.2	**372 332**	365 776
Deferred taxation	15	**975**	1 202
Current liabilities		**1 470 554**	1 138 716
Trade and other payables	20	**1 271 858**	936 203
Bank overdraft	22.5	**61 973**	97 250
Amounts due to vendors of businesses acquired			488
Lease liabilities	19.2	**104 355**	88 570
Taxation		**32 368**	16 205
Total equity and liabilities		**5 450 065**	4 955 149

GROUP STATEMENT OF CASH FLOWS
for the year ended 30 November 2021

R000	Notes	2021	2020
Cash flow from operating activities			
Operating profit		**825 918**	510 135
Adjusted for:			
Equity-settled share-based payments	18.6	**36 083**	31 188
Depreciation and profit on disposal of plant and equipment	6, 11	**41 903**	43 217
Depreciation on right-of-use assets	12, 19.2	**107 711**	118 955
Amortisation and loss on scrapping of intangible assets	6, 14	**13 805**	21 981
(Increase) decrease in working capital	22.1	**(116 291)**	182 398
Cash generated from operations		**909 129**	907 874
Other income – proceeds from damages claim			35 000
Taxation paid	22.2	**(219 726)**	(112 617)
Net cash from operating activities		**689 403**	830 257
Cash flow from investing activities			
Additions to property, plant and equipment	11	**(69 469)**	(37 369)
Additions to intangible assets	14	**(6 423)**	(7 410)
Proceeds from disposal of property, plant and equipment		**8 388**	5 720
Acquisition of businesses			10 363
Decrease in amounts owed by non-controlling shareholders		**41**	
Payments from (to) vendors of businesses acquired	22.3	**9 347**	(16 430)
Net cash from investing activities		**(58 116)**	(45 126)
Cash flow from financing activities			
Advances from non-current amounts due to bankers*		**40 000**	147 100
Repayment of non-current amounts due to bankers*		**(190 000)**	(285 000)
Share-based payments settled		**(16 108)**	(3 252)
Repurchase of shares		**(69 029)**	(81 818)
Repayment of lease liabilities	19.2	**(93 152)**	(91 654)
Interest on lease liabilities		**(32 026)**	(34 301)
Finance costs paid		**(35 984)**	(69 165)
Dividends paid	22.4	**(213 067)**	(138 747)
Net cash from financing activities		**(609 366)**	(556 837)
Increase in net bank balances		**21 921**	228 294
Foreign exchange translation gain (loss)		**3 061**	(1 878)
Net bank balances at beginning of the year		**136 350**	(90 066)
Net bank balances at end of the year	22.5	**161 332**	136 350

* *These amounts have previously been shown as a net amount and have been seperated in compliance with IAS 7.21.*

GROUP STATEMENT OF CHANGES IN EQUITY

for the year ended 30 November 2021

R000	Share capital	Share premium	Non-distributable reserves	Retained income	Equity holders of the parent	Non-controlling interest	Equity
Note	18.2		18.4			18.5	
Balance at 1 December 2019	3 415	51 533	99 550	2 606 699	2 761 197	101 177	2 862 374
Repurchase of shares	(102)	(51 533)		(30 183)	(81 818)		(81 818)
Acquisition						11 304	11 304
Comprehensive (loss) income for the year			(933)	35 560	34 627	(27 515)	7 112
Movement in equity compensation reserve			24 770	3 166	27 936		27 936
Dividends (note 21)				(129 747)	(129 747)	(9 000)	(138 747)
Balance at 30 November 2020	3 313		123 387	2 485 495	2 612 195	75 966	2 688 161
Less: Shares held by subsidiary company	(251)		(41)	(18 414)	(18 706)		(18 706)
Net balance at 30 November 2020	3 062		123 346	2 467 081	2 593 489	75 966	2 669 455
Balance at 1 December 2020	**3 313**		**123 387**	**2 485 495**	**2 612 195**	**75 966**	**2 688 161**
Repurchase of shares	**(61)**			**(68 968)**	**(69 029)**		**(69 029)**
Advances to non-controlling shareholders						**41**	**41**
Comprehensive income for the year			**3 377**	**498 715**	**502 092**	**51 700**	**553 792**
Movement in equity compensation reserve			**9 635**	**25 377**	**35 012**		**35 012**
Dividends (note 21)				**(198 067)**	**(198 067)**	**(15 000)**	**(213 067)**
Balance at 30 November 2021	**3 252**		**136 399**	**2 742 552**	**2 882 203**	**112 707**	**2 994 910**
Less: Shares held by subsidiary company	**(251)**		**(41)**	**(18 414)**	**(18 706)**		**(18 706)**
Net balance at 30 November 2021	**3 001**		**136 358**	**2 724 138**	**2 863 497**	**112 707**	**2 976 204**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 30 November 2021

1. Accounting policies

1.1 Basis of preparation

The group and company annual financial statements are prepared on the historical cost basis adjusted for certain financial instruments measured at fair value, and incorporate the following principal accounting policies, which conform with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), the financial reporting pronouncements as issued by the Financial Reporting Standards Council and the requirements of the South African Companies Act and the JSE Listings Requirements. Except for the adoption of IFRS 9: Hedge Accounting, these policies have been consistently applied.

1.2 Basis of consolidation

The group financial statements incorporate all the assets, liabilities and results of the company and all entities that are controlled by the company. In all cases results are reported from the effective date of acquisition to the effective date of disposal using the acquisition method.

The company controls an entity when it is exposed or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through power over the entity.

Non-controlling interests in the net assets of consolidated entities are identified and recognised separately from the group's interest therein, and are recognised within equity on a proportionate share basis. Losses of subsidiaries attributable to non-controlling interests are allocated to the non-controlling interest even if this results in a debit balance being recognised for non-controlling interest.

1.3 Business combinations

The consideration transferred by the group to obtain control of a subsidiary is calculated as the sum of the acquisition date fair values of assets transferred, liabilities incurred and the equity interests issued by the group, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred.

The group recognises identifiable assets acquired and liabilities assumed in a business combination regardless of whether they have been recognised in the acquiree's financial statements prior to the acquisition. Assets acquired and liabilities assumed are measured at their acquisition date fair values in terms of IFRS 3.

Goodwill is stated after separate recognition of identifiable intangible assets. It is calculated as the excess of the sum of:

- fair value of consideration transferred;
- the recognised amount of any non-controlling interest in the acquiree; and
- acquisition date fair value of any existing equity interest in the acquiree, over the acquisition date fair values of identifiable net assets.

If the fair values of identifiable net assets exceed the sum calculated above, the excess amount (ie gain on a bargain purchase) is recognised in profit or loss immediately.

Contingent liabilities are only included in the identifiable assets and liabilities of the acquiree where there is a present obligation at the acquisition date.

Any contingent consideration to be transferred by the group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration, which is deemed to be a liability, is recognised in accordance with IFRS 9 in profit or loss.

1.4 Revenue

The group's revenue is predominantly derived from the sale of products and related services of high-quality branded engineering consumables and consumer-related products, overwhelmingly in South Africa. A small portion of its revenue is earned over time.

Revenue from contracts with customers for the supply of goods at a point in time is recognised when the performance obligation is satisfied. Generally this means that the customer has taken undisputed delivery of goods and that all risks and rewards have been transferred to the customer. Revenue from contracts with customers for the supply of goods is recognised over time where there is no alternative use to the group and the group has an enforceable right to payment for performance completed to date. The contracts embody a single performance obligation and are measured on the output method, being the completion of substages in the manufacturing process, as this is deemed the most appropriate. Revenue from contracts with customers to provide services to customers is recognised when the performance obligation is satisfied and could be over time as the services are rendered or at a point in time upon completion of the services.

Generally, customers are permitted to return faulty goods under the standard warranty terms. The warranties provide assurance that the goods are functioning as expected and they run for periods relevant to the nature of the product. Incidence of warranty claims is very low and in most cases responsibility for redress lies with the supplier. The group raises a warranty provision in terms of IAS 37 but the amount thereof is insignificant. In some businesses customers have a short-term right of return for credit but there is little usage thereof.

As the period of time between customer payment and performance will always be one year or less, the company applies the practical expedient and does not adjust the promised amount of consideration for the effects of financing. A large portion of the group's sales is for cash and the remainder is sold on credit with terms ranging from 30 days to 90 days.

1.5 Income from investments

In the company, dividend income from investments is recognised when the shareholder's right to receive payment has been established. Interest income is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable.

1.6 Other income

Other income is recognised when the group's right to receive payment has been established.

1.7 Cost of sales

When inventories are sold, the carrying amount is recognised as part of cost of sales. Any write-down of inventories to net realisable value and all losses of inventories or reversals of previous write-downs or losses are recognised in cost of sales in the period the write- down, loss or reversal occurs.

1.8 Short-term employee benefits

The cost of short-term employee benefits (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses and non-monetary benefits such as medical care) is recognised in the period in which the service is rendered and is not discounted.

The expected cost of incentive payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

1.9 Lease liabilities

The group assesses whether a contract is or contains a lease based on the definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. At inception or on reassessment of a contract that contains a lease component, the group allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices.

The company applies the short-term lease recognition exemption to its short-term leases of buildings (ie, those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases that are considered to be low value. Lease payments on short-term leases and leases of low value assets are recognised as an expense on a straight-line basis over the lease term.

At the commencement date of a lease, the group recognises a lease liability measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments less any lease incentive receivable, variable lease payments that depend on an index or rate, and amounts expected to be paid under residual value guarantees and payments of penalties for terminating a lease, if the lease term reflects the group exercising the option to terminate.

After the commencement date, the amount of the lease liabilities is increased to show the accretion of interest and reduced for the lease payments made. The carrying amount of the lease liabilities is also remeasured if there is a modification, a change in the lease payments or a change in the lease term.

1.10 Share-based payments

The group operates equity-settled share-based compensation plans for senior and middle management including executive directors. The costs of these arrangements are measured by reference to their fair value at the dates on which they were granted. The fair values are charged as an expense in determining operating profit, with a corresponding credit to equity, on a straight-line basis over the initial vesting period of each grant. The costs take into account the best estimate of the number of rights that are expected to vest, taking into account non-market conditions such as exits from the schemes prior to vesting and operating performance compared to targets for vesting, where applicable. These estimates are revised at each reporting date and the impact of the revision is to spread the new recognised expenses remaining cost over the balance of the vesting periods, including the current year. All differences between these recognised expenses and the actual payments on exercise of these rights as well as the excess, if any, of any taxation benefit of the cash settlement over the equity accrual, are accounted for directly in retained earnings.

1.11 Retirement benefits

Defined contribution pension or provident schemes are operated by all group companies. Contributions made to these schemes are charged to profit or loss in the year in which they are payable.

By virtue of the types of schemes operated in the group, no past service costs or experience adjustments will arise in the retirement funding arrangements.

1.12 Borrowing costs

Borrowing costs are recognised in profit or loss in the period in which they are incurred.

1. Accounting policies continued

1.13 Current taxation

The tax currently payable is based on the taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income as it excludes items of income and expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The group's tax liability is calculated using tax rates that have been enacted or substantively enacted at the reporting date.

1.14 Property, plant and equipment

Buildings, plant and equipment are carried at cost less accumulated depreciation and impairment. They are depreciated on a straight-line basis to their expected residual values over their estimated useful lives. Both their residual values and useful lives (note 11) are reassessed annually. Land is stated at cost to the group.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in profit or loss when the item is derecognised.

1.15 Right-of-use assets

Right-of-use assets are presented on the statement of financial position and are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. Depreciation starts at the commencement date of a lease and the charge for each year is recognised in profit or loss unless it is included in the carrying amount of another asset.

Initial measurement is at the amount of the lease liability, reduced for any lease incentives received, and increased for:

- lease payments made at or before commencement of the lease;
- initial direct costs incurred; and
- the amount of any provision recognised where the group is contractually required to dismantle, remove or restore the leased asset.

1.16 Investments in subsidiaries

In the company financial statements, investments in subsidiaries are carried at cost less accumulated impairments, if any. The cost of the investment in a subsidiary is the aggregate of the fair value of assets given, liabilities incurred or assumed, and equity instruments issued by the company.

1.17 Goodwill

Goodwill is initially measured and carried at cost. It represents the excess of the purchase consideration over the fair value of the group's share of the net fair value of identifiable assets, liabilities and contingent liabilities of the acquired entity at the date of acquisition. Goodwill is reviewed for impairment at least annually. Any impairment is immediately recognised as an expense and not reversed in future periods.

1.18 Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance and is initially recognised at fair value if acquired as part of a business combination and at cost if acquired separately.

If assessed as having a finite life, it is amortised over its useful life using the straight-line basis and tested for impairment if there is an indication that it may be impaired. Useful lives (note 14) are reassessed annually.

Intangible assets that are fully amortised and are no longer in use are derecognised.

1.19 Deferred tax

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting nor taxable profit.

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. A deferred tax asset is not recognised when it arises from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting nor taxable profit.

A deferred tax asset is recognised for the carry forward of unused tax losses to the extent that it is probable that future taxable profit will be available against which these unused tax losses can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

1.20 Inventories

Inventories are valued at the lower of cost and net realisable value. The basis of determining cost is first-in-first-out or weighted average, and includes direct costs and where applicable, a proportion of manufacturing overheads. Each business unit applies one of these bases consistently from year to year.

1.21 Financial instruments

Financial instruments are initially measured at fair value when the related contractual rights or obligations arise. Subsequent to initial recognition these instruments are measured as follows:

- Trade and other receivables are stated at amortised cost less allowance for expected credit loss. Receivables are considered to be in default when they are in breach of their agreed credit terms and are written off when management considers the recoverability of the outstanding balance to be highly unlikely. The group and the company apply the IFRS 9 simplified approach to measure expected credit losses using a lifetime expected credit loss allowance for trade receivables.
- Cash and cash equivalents are measured at amortised cost less allowance for expected credit loss.
- Financial liabilities – non-derivative financial liabilities are measured at amortised cost, comprising net proceeds from original debt less principal payments.
- Financial liabilities – amounts due to vendors of businesses acquired are measured at fair value through profit or loss.
- Derivative instruments, including forward exchange contracts, are measured at fair value.
- Intercompany loans are stated at amortised cost less allowance for expected credit loss. The general model applies to intercompany loans. In terms of the general model, a loss allowance for lifetime expected credit losses (ECL) is recognised for an intercompany loan if there has been a significant increase in credit risk since initial recognition. When determining whether the credit risk of an intercompany loan has increased significantly since initial recognition and when estimating ECLs, the company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the company's historical experience and informed credit assessment and including forward-looking information.

Hedge accounting transactions are classified into two categories:

- Fair value hedges, which hedge exposure to changes in the fair value of a recognised asset or liability, ie forward exchange contracts in respect of foreign trade liabilities.
- Cash flow hedges, which hedge exposure to variability in future cash flows attributable to forecasted transactions, ie forward exchange contracts in respect of orders placed with foreign suppliers but not yet shipped.

Gains or losses on subsequent measurements are treated as follows:

- Any gains or losses on fair value hedges are recognised in profit or loss for the year.
- Gains or losses on effective cash flow hedges are recognised in other comprehensive income. These gains or losses are recycled to profit or loss in the same period in which the hedged future transaction occurs and impacts profit or loss.
- The ineffective portion of any cash flow hedge is recognised in profit or loss for the year.
- Gains or losses from a change in the fair value of financial instruments that are not part of a hedging relationship are included in profit or loss for the period in which they arise.

1.22 Impairment

On an annual basis the group reviews goodwill carried on the statement of financial position for impairment and all tangible assets and definite life intangible assets for indicators of impairment. Where the recoverable amount of an asset or cash-generating unit is estimated to be lower than its carrying amount, its carrying amount is reduced to its recoverable amount. Impairment losses are charged against profit or loss in the period in which they are identified.

Except in the case of goodwill, where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount. Such increases in carrying amounts shall not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised in profit or loss in the period in which such reversal is identified.

1. Accounting policies continued

1.23 Foreign currency transactions

The functional and presentation currency of all the entities in the group is Rand, except for the foreign operations in Botswana, Kenya, Namibia, UK, USA and Zambia.

Transactions in foreign currencies are initially recorded in the functional currency of the operation concerned at the exchange rate ruling at the date of the transaction.

All assets and liabilities denominated in foreign currencies are translated to the functional currency at the exchange rate ruling at the reporting date.

Exchange differences arising on the settlement of transactions at rates different from those at the transaction date, and unrealised exchange differences on unsettled foreign currency monetary assets and liabilities, are recognised in profit or loss for the year.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Rand at the appropriate exchange rate at the reporting dates. The income and expenses of foreign operations are translated to Rand at exchange rates at the dates of the transactions.

Foreign currency differences relating to foreign operations are recognised directly in equity in the foreign currency translation reserve (FCTR). When a foreign operation is disposed of, in part or in full, the relevant amount in the FCTR is transferred to profit or loss.

1.24 Contingencies

Contingent assets and liabilities that do not form part of a business combination are not recognised, but are disclosed in the notes to the financial statements.

1.25 Segment reporting

Hudaco's businesses have been divided into two primary reportable segments serving distinct markets. Hudaco's reportable segment information differentiates between consumer-related products, which markets are influenced mainly by consumer spending, and engineering consumables, which markets are influenced mainly by mining and manufacturing customers. These operations are monitored by the individuals as set out on pages 22 and 23.

The measurement policies the group uses for segment reporting under IFRS 8 are the same as those used in its financial statements. Corporate assets which are not directly attributable to the business activities of any operating segment are not allocated to a segment. In the financial period under review, this primarily applies to the group's headquarters.

2. Use of estimates, judgements and assumptions made in the preparation of the financial statements

Significant estimates and judgements are made in the following areas:

- Property, plant and equipment – useful lives and residual values – note 11
- Right-of-use assets – incremental borrowing rate – note 12
- Impairment of goodwill – future cash flows and determining the discount rate – note 13
- Recoverable amounts, impairment, useful lives and residual values of intangible assets – note 14
- Deferred taxation – the extent to which it is probable that taxable profit will be available against which deductible temporary differences can be utilised – note 15
- Inventories – allowance for slow-moving and obsolete inventory – note 16
- Trade and other receivables – allowance for expected credit loss – note 17
- Control assessment over subsidiary – note 18.5
- Fair value of share-based payments – estimate of the fair value of share rights – note 18.6
- Lease liabilities – incremental borrowing rate, reasonable certainty of renewal option exercise – note 19.2
- Value of vendor liabilities – amount and timing of contingent consideration
- Fair value of financial instruments – estimate of the fair value of the financial instrument – note 24

Actual results could differ from the estimates made by management from time to time.

3. Changes in accounting policies

The group did not change any accounting policies or adopt any new accounting standards during the year, except for IFRS 9: *Hedge Accounting*, which affected only disclosure. IFRS 9 aligns hedge accounting more closely with an entity's risk management strategy. The result is a more principle-based approach and better reflects an entity's risk management strategy. Under IFRS 9, it is necessary for a hedging relationship to consist only of eligible hedging instruments and eligible hedged items. In addition, on inception of the hedging relationship there must be formal designation and documentation of the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge. However, the 80% to 125% quantitative threshold criterion for applying hedge accounting under IAS 39 has been removed. Instead, IFRS 9 requires that the hedge relationship meets all the hedge effective requirements which are disclosed in note 24.2.1. The adoption of IFRS 9 hedge accounting has been prospectively applied.

4. Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the group

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective, and have not been adopted early by the group. Management anticipates that all of the relevant pronouncements will be adopted in the group's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new amendments, that is expected to be relevant to the group's financial statements is provided below. These amendments are not expected to have any material impact on the group's financial statements. Certain other new standards and interpretations have been issued but are not expected to have any impact on the group's financial statements.

Standard	Details of amendments	Effective date
		Annual periods beginning on or after
IAS 1 *Presentation of Financial Statements*	• Classification of Liabilities as Current or Non-current: Narrow-scope amendments to IAS 1 to clarify how to classify debt and other liabilities as current or non-current.	1 January 2023
(Amendment – Classification of Liabilities as Current or Non-Current)	• In January 2020, the IASB issued amendments to IAS 1, which clarify how an entity classifies liabilities as current or non-current. The amendments initially had an effective date of 1 January 2022, however, in July 2020 this was deferred until 1 January 2023 as a result of the Covid-19 pandemic. • At the IFRS Interpretations Committee's December meeting, the Committee discussed the amendments due to feedback from stakeholders which indicated that the requirements of the amendments may be unclear. • These amendments are expected to have a significant impact on many entities, with more liabilities being classified as current, particularly those with covenants relating to borrowings.	1 January 2023
(Amendment – Disclosure of Accounting Policies)	• The amendments require companies to disclose their material accounting policy information rather than their significant accounting policies, with additional guidance added to the Standard to explain how an entity can identify material accounting policy information with examples of when accounting policy information is likely to be material.	1 January 2023
IBOR *Reform and its Effects on Financial Reporting – Phase 2*	• In August 2020, the IASB issued amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16. These amendments complement those made in 2019 ('IBOR – phase 1') and focus on the effects on entities when an existing interest rate benchmark is replaced with a new benchmark rate as a result of the reform.	1 January 2021
Conceptual Framework for Financial Reporting (Amendments to IFRS 3)	• In May 2020, the IASB issued amendments to IFRS 3, which update a reference to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations. The amendments are effective for annual reporting periods beginning on or after 1 January 2022. Earlier application is permitted.	1 January 2022
IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* (Amendment *– Onerous Contracts – Cost of Fulfilling a Contract)*	• In May 2020, the IASB issued amendments to IAS 37, which specify the costs a company includes when assessing whether a contract will be loss-making and is therefore recognised as an onerous contract. These amendments are expected to result in more contracts being accounted for as onerous contracts because they increase the scope of costs that are included in the onerous contract assessment.	1 January 2022
IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* (Amendment *– Definition of Accounting Estimates)*	• The amendments clarify how companies should distinguish changes in accounting policies from changes in accounting estimates, by replacing the definition of a change in accounting estimate with a new definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty". The requirements for recognising the effect of a change in accounting estimate prospectively remain unchanged.	1 January 2023
IAS 12 Income Taxes (Amendment – Deferred Tax related to Assets and Liabilities arising from a Single Transaction)	• The amendment specifies how companies should account for deferred tax related to assets and liabilities arising from a single transaction. On transactions such as leases and decommissioning obligations. In specified circumstances, companies are exempt from recognising deferred tax when they recognise assets or liabilities for the first time. Previously, there had been some uncertainty about whether the exemption applied to transactions such as leases and decommissioning obligations – transactions for which companies recognise both an asset and a liability. The amendments clarify that the exemption does not apply and that companies are required to recognise deferred tax on such transactions.	1 January 2023

R000	2021	2020
5. Revenue		
Turnover comprises		
Revenue from contracts with customers		
Sales of products	**7 020 480**	6 101 249
Rendering of services	**237 607**	152 388
	7 258 087	6 253 637
Timing of revenue recognition		
Goods and services transferred at a point in time	**7 041 742**	5 947 925
Goods and services transferred over time[1]	**216 345**	305 712
	7 258 087	6 253 637

[1] *The remaining transaction price allocated to unsatisfied performance obligations will be satisfied within one year.*

Geographical disaggregation		
Goods and services sold in South Africa	**6 711 410**	5 737 032
Goods and services sold outside South Africa	**546 677**	516 605
	7 258 087	6 253 637

Refer to note 27 for further disaggregation of turnover.

6. Operating expenses		
Operating expenses comprise		
Employee-related expenses	**1 335 415**	1 182 258
Property rentals under short-term operating leases	**7 387**	4 971
Depreciation – property, plant and equipment	**45 824**	45 009
Depreciation – right-of-use assets	**107 711**	118 955
Amortisation – intangible assets	**11 045**	19 605
Profit on disposal of plant and equipment	**(3 921)**	(1 792)
Loss on scrapping of intangible assets	**2 760**	2 376
Acquisition costs – new businesses	**1 058**	
Other expenses – including non-executive directors' fees	**570 751**	506 892
Allocated to cost of sales	**(216 796)**	(213 827)
	1 861 234	1 664 447
7. Fair value adjustments		
Fair value of amounts due to vendors of businesses acquired		
Adjustment to estimated capital amounts due	**9 835**	51 619
Adjustment for time-value of money		(3 994)
	9 835	47 625
8. Auditor's remuneration		
Audit fees – current year	**10 360**	10 000
	10 360	10 000
9. Taxation		
9.1 Taxation comprises		
South African normal taxation		
Current year	**238 565**	129 813
Prior years under provision	**(4 208)**	1 099
Deferred taxation		
Current year	**(26 408)**	(941)
Prior years under provision	**6 406**	99
Foreign normal taxation	**4 109**	3 126
	218 464	133 196

	2021	2020
9. Taxation continued	%	%
9.2 Reconciliation of rate of taxation		
Normal rate	**28.0**	28.0
Impairment of goodwill and intangible assets		68.3
Share-based payments		12.9
Non-deductible holding company and other expenses	**0.3**	1.3
Prior year under provision	**0.3**	0.8
Rate differential	**0.4**	0.7
Tax penalties and interest		0.4
Adjustment to capital amounts due to vendors	**(0.4)**	(10.5)
Proceeds of damages claim		(6.9)
Learnership allowances	**(0.1)**	(0.8)
	28.5	94.2

10. Earnings, headline earnings and comparable earnings per share

	R000	R000
Calculation of headline earnings		
Profit attributable to equity holders of the parent	**498 715**	35 560
Adjusted for:		
Impairment of goodwill and intangible assets		347 948
Tax effect		(840)
Non-controlling interest		(52 066)
(Profit) loss on disposal of plant, equipment and intangible assets	**(1 161)**	584
Tax effect	**325**	(164)
Non-controlling interest	**133**	(53)
Headline earnings	**498 012**	330 969
Calculation of comparable earnings		
Headline earnings as per above	**498 012**	330 969
Adjusted for:		
Fair value adjustment on capital amounts due to and from vendors of businesses acquired	**(9 835)**	(51 619)
Non-controlling interest	**1 475**	7 743
Other income – proceeds of damages claim		(35 000)
Comparable earnings	**489 652**	252 093
Earnings per share (cents)		
Basic	**1 643**	113
Diluted basic	**1 610**	113
Headline	**1 641**	1 050
Diluted headline	**1 608**	1 050
Comparable	**1 613**	800
Diluted comparable	**1 581**	800

The calculation of comparable, headline and basic earnings per share is based on comparable earnings, headline earnings and earnings attributable to equity holders of the parent, divided by the weighted average of 30 356 525 (2020: 31 527 048) shares in issue during the year, taking account of shares held by a subsidiary.

Comparable earnings and comparable earnings per share are calculated, as the directors of the company believe these are more reliable measures of the ongoing trading performance of the group.

The calculation of diluted earnings per share is based on 30 975 667 (2020: 31 527 048) shares, being the weighted average number of shares in issue of 30 356 525 (2020: 31 527 048) plus 619 142 (2020: nil) deemed free issue shares. This assumes that any bonus due in terms of the share appreciation bonus scheme and share matching scheme is settled in shares at the year end price of R139.50 (2020: R85.50) per share. The number of deemed free issue shares is the difference between the number of shares assumed to have been taken up and the number of shares that could have been acquired with such proceeds less the future IFRS 2 charge on the unvested rights, at the average market price per share.

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for the year ended 30 November 2021

11. Property, plant and equipment

R000	Freehold land	Buildings	Plant	Computer hardware	Motor vehicles	Other assets	2021 Total
Cost							
Opening balance	**19 037**	**73 826**	**248 484**	**68 189**	**136 146**	**78 004**	**623 686**
Exchange differences			**57**	**11**	**89**	**20**	**177**
Additions			**26 129**	**13 322**	**20 441**	**9 577**	**69 469**
Disposals			**(5 233)**	**(9 213)**	**(18 558)**	**(6 269)**	**(39 273)**
Closing balance	**19 037**	**73 826**	**269 437**	**72 309**	**138 118**	**81 332**	**654 059**
Accumulated depreciation							
Opening balance		**17 484**	**147 363**	**55 930**	**82 291**	**55 208**	**358 276**
Exchange differences			**57**	**11**	**62**	**12**	**142**
Depreciation for the year		**1 735**	**14 954**	**8 435**	**13 076**	**7 624**	**45 824**
Disposals			**(4 454)**	**(9 048)**	**(15 035)**	**(6 269)**	**(34 806)**
Closing balance		**19 219**	**157 920**	**55 328**	**80 394**	**56 575**	**369 436**
Net book value	**19 037**	**54 607**	**111 517**	**16 981**	**57 724**	**24 757**	**284 623**

R000	Freehold land	Buildings	Plant	Computer hardware	Motor vehicles	Other assets	2020 Total
Cost							
Opening balance	19 037	73 826	245 376	66 537	134 482	76 807	616 065
Exchange differences			102	29	(143)	(21)	(33)
Acquisition			1 966	475	3 334	115	5 890
Additions			16 702	6 592	9 129	4 946	37 369
Disposals			(15 662)	(5 444)	(10 656)	(3 843)	(35 605)
Closing balance	19 037	73 826	248 484	68 189	136 146	78 004	623 686
Accumulated depreciation							
Opening balance		15 749	145 767	52 074	76 912	51 127	341 629
Exchange differences			68	80	(78)	(9)	61
Acquisition			1 008	294	1 892	60	3 254
Depreciation for the year		1 735	14 705	8 808	12 236	7 525	45 009
Disposals			(14 185)	(5 326)	(8 671)	(3 495)	(31 677)
Closing balance		17 484	147 363	55 930	82 291	55 208	358 276
Net book value	19 037	56 342	101 121	12 259	53 855	22 796	265 410
The initial expected useful lives are set within these ranges (years):		20 – 40	25 – 30	1 – 10	3 – 15	5 – 10	

As the residual values and remaining useful lives are reassessed on an annual basis, there are assets outside these ranges. Details of freehold land and buildings are available at the registered office of the group.

R000	2021	2020

12. Right-of-use assets

	2021	2020
Cost – Buildings		
Opening balance	**533 235**	
Derecognised	**(19 992)**	
Effect of the adoption of IFRS 16 on 1 December 2019		453 589
Effect of reassessment of the probability that options to renew will be exercised	**5 783**	51 582
Acquisition		6 234
Leases concluded during the year	**109 710**	21 830
Closing balance	**628 736**	533 235
Accumulated depreciation – Buildings		
Opening balance	**118 955**	
Derecognised	**(19 992)**	
Depreciation for the year – note 6	**107 711**	118 955
Closing balance	**206 674**	118 955
Net book value	**422 062**	414 280

The disclosure of the lease liabilities in respect of these assets is in note 19.2.

13. Goodwill

13.1 Goodwill comprises:

	2021	2020
Goodwill at cost	**1 570 639**	1 570 639
Accumulated impairment	**(400 345)**	(400 345)
	1 170 294	1 170 294

13.2 Movement for the year

	2021	2020
Balance at beginning of the year	**1 170 294**	1 511 842
Acquisition during the year		3 400
Impairments during the year		(344 948)
	1 170 294	1 170 294

The net book value of goodwill has been allocated to the following cash-generating units (CGUs):

	2021	2020
Partquip	**249 747**	249 747
Filter and Hose Solutions	**226 784**	226 784
MiRO	**171 069**	171 069
Eternity Technologies	**157 838**	157 838
Rutherford – FTS Boltworld	**66 016**	66 016
Joseph Grieveson	**55 834**	55 834
The Dished End Company	**51 212**	51 212
Dosco Precision Hydraulics	**40 932**	40 932
Astore Keymak	**24 397**	24 397
Hydraulic Engineering Repair Services	**22 850**	22 850
Gear Pump Manufacturing	**21 011**	21 011
Specialised Battery Systems	**14 955**	14 955
Abes Technoseal	**14 435**	14 435
Varispeed	**11 586**	11 586
Three-D Agencies	**9 968**	9 968
Deltec	**8 114**	8 114
Brewtech Engineering	**7 389**	7 389
Powermite group	**5 235**	5 235
Ironman 4X4	**3 400**	3 400
Other	**7 522**	7 522
	1 170 294	1 170 294

13. Goodwill continued

13.2 Movement for the year continued

Goodwill arises on acquisitions because the cost of acquisitions includes amounts that are not recognised separately from goodwill as they do not meet the recognition criteria for identifiable intangible assets. These include premiums paid for control, amounts in relation to the benefit of expected synergies, revenue growth, future market development and diversification of revenue streams.

Goodwill arising in business combinations is allocated, at acquisition, to the CGUs acquired and those expected to benefit from that business combination. The group tests goodwill for impairment at least annually by estimating the recoverable amount of any CGU to which goodwill has been allocated. The recoverable amount of all significant amounts of goodwill are estimated by using the higher of the value-in-use method and the fair value less cost to sell. During the current year, all recoverable amounts were based on value-in-use.

A discounted cash flow valuation model is applied using five-year forecasts with terminal values, as all CGUs have an expected life beyond five years. Detailed budgets, prepared by the management of the CGU and approved by the Hudaco board, are used to determine the cash flow for the first year and are the quantification of strategies of the specific CGU. The process ensures that any significant risks and sensitivities are appropriately considered and factored into these forecasts. Key assumptions are based on industry specific performance levels as well as economic indicators, especially forecast consumer price index increases, approved by the executive and their impact on turnover and operating margins. Assumptions are generally consistent with external sources of information and with past experience of the impact thereof on the group's cash flow. In the absence of specific factors or strategies that may be expected to have a significant impact on margins, it is assumed that these will remain unchanged from those of recent years.

Cash flows for the second and third years are forecast by applying individual estimated sustainable levels of growth for the specific businesses, taking into account the drivers of the economic sectors in which they operate and their expected impact on turnover and margins, their business strategies and the risks they face. For the fourth and fifth years and terminal value, cash flows are determined by using estimated sustainable growth levels of turnover for CGUs ranging from 5% to 8% and 4.25% (2020: 5% to 10% and 4.25%) per annum, respectively, which rates are considered reasonable in context of the industries in which they operate. Beyond the short-term, they are derived from the use of a common forecasting process followed across the group.

Discount rates applied to cash flow projections are based on a South African specific pre-tax weighted average cost of capital (WACC), which takes into account appropriate risk-free rates adjusted for market risk, company specific risk, cost of debt and the relevant weighting between debt and equity. The WACC applied to CGUs ranges from 16.5% to 21.3% (2020: 18.9% to 25.8%).

The recoverable amounts for the goodwill of the most significant CGUs have been determined by using the following main inputs:

	Revenue growth (%)		Working capital growth (%)		Pre-tax discount rate (%)		Terminal growth rate (%)	
	2021	2020	**2021**	2020	**2021**	2020	**2021**	2020
Partquip	**5 – 7**	5 – 23	**5 – 7**	5 – 23	**18.4**	16.1	**4.25**	4.25
Filter and Hose Solutions	**5 – 7**	5 – 10	**5 – 7**	5 – 10	**18.3**	16.1	**4.25**	4.25
MiRO	**5 – 11**	5 – 15	**5 – 11**	5 – 15	**17.7**	15.2	**4.25**	4.25
Eternity Technologies	**5 – 17**	5 – 43	**5 – 17**	5 – 43	**19.8**	17.4	**4.25**	4.25

In the prior year, goodwill was assessed for impairment in May 2020 as the impact of Covid-19 on the economy was considered to be a factor that might indicate impairment. The result of this assessment was an impairment of R345 million in 2020. Impairment tests were performed again at November 2020 and no further impairment was required.

In the current year, the recoverable amount determined for goodwill comfortably, and in most cases, far exceeded the carrying values thereof.

14. Intangible assets

R000	Customer relationships	Trade names	Computer software	2021 Total
Cost				
Opening balance	**30 290**	**19 306**	**63 174**	**112 770**
Derecognised	**(22 542)**	**(19 306)**		**(41 848)**
Additions			**6 423**	**6 423**
Scrapping			**(2 843)**	**(2 843)**
Closing balance	**7 748**		**66 754**	**74 502**
Accumulated amortisation				
Opening balance	**22 351**	**17 710**	**36 541**	**76 602**
Derecognised	**(19 542)**	**(19 306)**		**(38 848)**
Scrapping			**(83)**	**(83)**
Amortisation for the year	**3 730**	**1 596**	**5 719**	**11 045**
Closing balance	**6 539**		**42 177**	**48 716**
Accumulated impairment				
Opening balance	**3 000**			**3 000**
Derecognised	**(3 000)**			**(3 000)**
Closing balance				
Net book value	**1 209**		**24 577**	**25 786**

R000	Customer relationships	Trade names	Computer software	2020 Total
Cost				
Opening balance	49 467	30 445	64 066	143 978
Exchange differences			7	7
Derecognised	(19 177)	(11 139)		(30 316)
Additions			7 410	7 410
Scrapping			(8 317)	(8 317)
Acquisitions			8	8
Closing balance	30 290	19 306	63 174	112 770
Accumulated amortisation				
Opening balance	32 405	24 435	36 018	92 858
Exchange differences			(49)	(49)
Derecognised	(18 736)	(11 139)		(29 875)
Scrapping			(5 941)	(5 941)
Acquisitions			4	4
Amortisation for the year	8 682	4 414	6 509	19 605
Closing balance	22 351	17 710	36 541	76 602
Accumulated impairment				
Opening balance	441			441
Derecognised	(441)			(441)
Impairments during the year	3 000			3 000
Closing balance	3 000			3 000
Net book value	4 939	1 596	26 633	33 168
The initial expected useful lives are set within these ranges (years):	1 – 4	1 – 7	1 – 10	
The remaining useful lives are set within these ranges (years):	1 – 2		1 – 10	

The costs attributable to intangible assets that were acquired as part of the acquisition of a business and the annual impairment reviews have been determined by valuation specialists and management, applying recognised valuation techniques and exercising judgement on the same basis as for goodwill, as described in note 13.

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R000	2021	2020
15. Deferred taxation		
15.1 Deferred taxation comprises temporary differences arising from:		
Capital allowances	**(31 469)**	(29 602)
Intangible assets	**(1 444)**	(1 883)
Right-of-use assets and lease liabilities	**15 182**	11 146
Allowance for expected credit loss	**11 264**	11 878
Leave pay, bonus accruals and share-based payments	**79 256**	38 726
Calculated tax loss	**397**	4 585
Fair value of cash flow hedges	**(265)**	299
Other	**1 234**	4 532
Net deferred taxation asset	**74 155**	39 681
Deferred taxation is reflected on the group statement of financial position as follows:		
Deferred tax assets	**75 130**	40 883
Deferred tax liabilities	**(975)**	(1 202)
	74 155	39 681

The deferred tax asset has been raised as it is probable that taxable profit will be available against which deductible temporary differences can be utilised.

R000	2021	2020
15.2 Movement for the year		
Balance at beginning of the year	**39 681**	38 673
Arising on acquisitions during the year		
Capital allowances		101
Allowance for expected credit loss		5
Leave pay and bonus accruals		96
Other		39
Raised (utilised) during the year (including prior years under/over provision)		
Capital allowances	**(1 867)**	(1 172)
Amounts due to vendors		1 240
Intangible assets	**439**	4 663
Right-of-use assets and lease liabilities	**4 036**	11 146
Allowance for expected credit loss	**(614)**	(650)
Leave pay, bonus accruals and share-based payments	**40 530**	(13 066)
Calculated tax loss	**(4 188)**	(725)
Fair value of cash flow hedges	**(564)**	(75)
Other	**(3 298)**	(594)
	74 155	39 681
The movement has been recognised as follows:		
– in the current year tax charge (note 9)	**20 002**	842
– in other comprehensive income	**(564)**	(75)
– directly in equity	**15 036**	
	34 474	767

R000	2021	2020

16. Inventories

	2021	2020
Merchandise	**1 910 401**	1 541 293
Raw materials and components	**40 873**	22 119
Work in progress	**52 832**	35 087
	2 004 106	1 598 499
Cost of inventory recognised as an expense in cost of sales	**4 354 139**	3 865 228
Write-down of inventory to net realisable value and losses of inventory	**51 668**	81 644
Amounts removed during the year from the cash flow hedging reserve increasing the initial cost of inventories	**1 070**	1 339

The group policy is to estimate, at zero net realisable value, the inventory that will eventually be scrapped, as it is rare for price reductions to result in the sale of obsolete inventory.

In assessing the net realisable value of inventories, account was taken of the impact of Covid-19 on expected demand for products, sustainability of customers and availability of finance for infrastructure and project business.

17. Trade and other receivables

	2021	2020
Trade receivables	**1 097 462**	1 124 201
Allowance for expected credit loss	**(67 378)**	(63 638)
Fair value of forward exchange contracts	**13 645**	
Other receivables (including indirect taxes)	**91 286**	93 064
Pre-payments	**109 492**	42 559
	1 244 507	1 196 186

Allowance for expected credit loss	2021	2020
Balance at beginning of the year	**63 638**	52 804
Exchange differences	**31**	(29)
Additional allowance charged to profit or loss	**21 071**	30 886
Allowance reversed to profit or loss	**(1 706)**	(548)
Allowance utilised	**(15 656)**	(19 502)
Acquisitions during the year		27
	67 378	63 638

All trade receivables are provided for based on the lifetime expected credit loss impairment method using the simplified approach. The provision is predominantly determined by the use of a provision matrix that is based on historical credit loss experience, adjusted for forward-looking factors specific to the industry that the accounts receivable related to, including interest and exchange rate, industry growth expectations and extended payment terms granted. The group also provides fully for amounts past their due dates that are not insured, which based on history and the circumstances surrounding the individual receivable are not considered to be recoverable.

Expected credit losses on financial assets included in other receivables have been determined to be immaterial.

The table below sets out information regarding the group's credit risk exposure on trade receivables using the aforementioned provision matrix.

	2021			2020		
	Expected credit loss rate	Total gross carrying amount	Expected credit loss	Expected credit loss rate	Total gross carrying amount	Expected credit loss
Ageing of trade receivables	%	R000	R000	%	R000	R000
Less than 30 days	**1**	**659 602**	**7 442**	1	655 759	8 197
31 to 60 days	**2**	**234 443**	**4 074**	2	267 018	4 005
61 to 90 days	**3**	**86 323**	**2 603**	3	81 202	2 030
91 to 120 days	**13**	**31 312**	**4 022**	8	24 194	1 808
121 days and more	**31**	**50 204**	**15 453**	20	53 705	10 605
Specifically impaired		**35 578**	**33 784**		42 323	36 993
		1 097 462	**67 378**		1 124 201	63 638

There is no significant concentration of credit risk in any one customer of the group. At 30 November 2021, of gross trade receivables of R1 097 million, there were only 20 customers across the group owing more that R5 million individually and together these comprised only 17% of the book, with the largest representing 2%.

R000	2021	2020

18. Shareholders' equity

18.1 Authorised share capital

40 000 000 ordinary shares of 10 cents each	**4 000**	4 000

18.2 Issued share capital

32 724 785 (2020: 34 153 531) ordinary shares	**3 313**	3 415
Repurchase of shares	**(61)**	(102)
2 507 828 ordinary shares held by subsidiary company – 7.7%	**(251)**	(251)
Net 30 216 957 ordinary shares	**3 001**	3 062

During the year the company repurchased 609 211 of its own shares for R69.0 million. Of these, 404 146 were withdrawn from the market and cancelled on 29 July 2021, and 205 065 on 15 December 2021 reducing the number of issued shares to 32 519 720 ordinary shares of which 2 507 828 are held by a subsidiary company.

18.3 Unissued shares

4 003 000 unissued shares have been made available to the employee share incentive scheme although it is not policy to issue new shares to meet the obligations under the scheme (see note 18.6).

18.4 Non-distributable reserves

R000	Special reserve account	Cash flow hedging reserve	Foreign currency translation reserve	Equity compensation reserves	BEE transaction share-based payments	Total
Note		24.2.1				
Balance at 1 December 2019	332	(801)	(1 047)	63 740	37 326	99 550
Other comprehensive income for the year		141	(1 074)			(933)
Increase in equity compensation reserves				24 770		24 770
Balance at 30 November 2020	332	(660)	(2 121)	88 510	37 326	123 387
Less: Shares held by subsidiary company	(41)					(41)
Net balance at 30 November 2020	291	(660)	(2 121)	88 510	37 326	123 346
Balance at 1 December 2020	**332**	**(660)**	**(2 121)**	**88 510**	**37 326**	**123 387**
Other comprehensive income for the year		**1 269**	**2 108**			**3 377**
Increase in equity compensation reserves				**9 635**		**9 635**
Balance at 30 November 2021	**332**	**609**	**(13)**	**98 145**	**37 326**	**136 399**
Less: Shares held by subsidiary company	**(41)**					**(41)**
Net balance at 30 November 2021	**291**	**609**	**(13)**	**98 145**	**37 326**	**136 358**

18. Shareholders' equity continued

18.5 Non-controlling interest

R000	2021 Ironman 4X4 Africa RF (Pty) Ltd[(1)]	Hudaco Trading (Pty) Ltd	DD Power Holdings (Pty) Ltd
Proportion of ownership held by non-controlling interests	**50%**	**15%**	**30%**
Turnover	**41 812**	**7 230 975**	**309 461**
Profit after tax for the year	**5 440**	**230 628**	**44 139**
Profit allocated to non-controlling interests for the year	**2 720**	**34 595**	**13 249**
Dividends paid to non-controlling interests for the year			**(15 000)**
Total comprehensive income for the year allocated to non-controlling interests	**2 720**	**34 813**	**14 167**
Accumulated equity allocated to non-controlling interests	**15 056**	**53 633**	**45 010**
Cash flow from operating activities	**457**	**706 573**	**57 914**
Cash flow from investing activities	**(1 297)**	**(56 276)**	**(2 029)**
Cash flow from financing activities	**(1 139)**	**(630 987)**	**(50 000)**
Non-current assets	**11 362**	**2 607 605**	**7 203**
Current assets	**29 268**	**3 327 136**	**201 011**
Non-current liabilities	**3 995**	**4 014 600**	**1 053**
Current liabilities	**6 523**	**2 473 517**	**57 210**

(1) *The group gained voting control of Ironman 4X4 Africa RF (Pty) Ltd effective 30 November 2020, at which date it became a subsidiary. It was previously accounted for as a joint venture.*

R000	2020 Ironman 4X4 Africa RF (Pty) Ltd[(1)]	Hudaco Trading (Pty) Ltd	DD Power Holdings (Pty) Ltd
Proportion of ownership held by non-controlling interests	50%	15%	30%
Turnover		6 227 207	242 992
(Loss) profit after tax for the year		(242 453)	32 043
(Loss) profit allocated to non-controlling interests for the year		(36 368)	9 613
Dividends paid to non-controlling interests for the year			(9 000)
Total comprehensive (loss) income for the year allocated to non-controlling interests		(36 116)	8 601
Accumulated equity allocated to non-controlling interests	12 336	18 819	45 843
Cash flow from operating activities		843 767	42 187
Cash flow from investing activities		(44 455)	(681)
Cash flow from financing activities		(585 782)	(30 254)
Non-current assets	12 514	3 466 484	6 784
Current assets	20 855	2 911 875	192 994
Non-current liabilities	5 426	4 146 715	1 284
Current liabilities	3 270	2 094 161	42 159

All entities are headquartered in Gauteng and operate mainly throughout South Africa.

(1) *The group gained voting control of Ironman 4X4 Africa RF (Pty) Ltd effective 30 November 2020, at which date it became a subsidiary. It was previously accounted for as a joint venture.*

18. Shareholders' equity continued

18.6 Employee share-based remuneration schemes

Senior employees, including executive directors, participate in two equity-settled share-based remuneration schemes. They are the share appreciation bonus scheme and the share matching scheme, in which only executive directors and nominated senior managers participate.

	Number of shares	
000	**2021**	**2020**
Shares currently available to be granted in terms of the share appreciation bonus scheme in the future[(1)]	**1 656**	1 582
Shares potentially required to meet obligations in terms of the share appreciation bonus scheme[(2)]	**391**	145
Shares available	**1 295**	1 437

(1) *Authorised at the annual general meeting held on 18 March 2021.*

(2) *The number of shares varies in accordance with the Hudaco share price. This number has been calculated using the share price at year end. Group policy is not to issue new shares but to acquire them on the open market.*

Share appreciation bonus scheme

The following share appreciation bonus rights have been granted in terms of the scheme, an update of which was approved by shareholders in March 2011:

	Weighted average strike price in cents		Number of rights (000)	
	2021	**2020**	**2021**	**2020**
Rights not taken up at beginning of the year	**10 485**	11 785	**5 425**	4 103
Rights granted during the year	**12 491**	6 837	**861**	1 470
Forfeited during the year	**(11 314)**	(10 300)	**(768)**	(147)
Rights exercised during the year	**(10 630)**	(8 637)	**(543)**	(1)
Rights not taken up at end of the year	**10 688**	10 485	**4 975**	5 425
Already exercisable	**11 522**	10 748	**1 473**	1 793
First exercisable in the financial years ending:				
November 2021		12 660		638
November 2022	**12 930**	12 950	**590**	721
November 2023	**9 775**	10 025	**904**	1 025
November 2024	**9 674**	8 642	**984**	768
November 2025	**9 042**	6 837	**746**	480
November 2026	**12 491**		**278**	
	10 688	10 485	**4 975**	5 425

Participants in this scheme will receive a bonus, settled in Hudaco shares at market price, equal to the appreciation in the Hudaco share price between the date of grant (strike price) and the date of exercise, multiplied by the number of rights granted. It is Hudaco's policy to acquire these shares on the open market and not to issue new shares. Tranche 1 vests three years after grant, tranche 2 vests four years after grant and tranche 3 vests five years after grant. Each tranche must be taken up within four years of vesting.

For executive directors and nominated senior managers, the number of rights that may be taken up in each tranche is subject to performance tests. For other participants there are no performance tests. For rights awarded prior to 2015, the performance test was based on the growth in Hudaco's comparable earnings per share during the period exceeding inflation plus 5%. For rights awarded in 2015 and thereafter there are two performance tests. For full vesting, return on equity from date of the award until vesting date must be at least 18% per annum for 2015 to 2019 and 17% for 2020 and comparable earnings per share growth must exceed inflation plus 3%. For the rights awarded in 2015 the two performance measures carry equal weighting. For those awarded in 2016 the weighting is 60% on return on equity and 40% on ceps growth, while for those awarded in 2017, 2018 and 2019 the weighting is 70% on return on equity and 30% on ceps growth and for those awarded in 2020 and 2021 the weighting is 50% each.

18. Shareholders' equity continued

18.6 Employee share-based remuneration schemes continued

Share matching scheme

The following share matching rights have been granted in terms of the scheme that was introduced by the remuneration committee in January 2014:

	Weighted average share price in cents		Number of rights (000)	
	2021	2020	**2021**	2020
Rights not taken up at beginning of the year	**10 997**	12 955	**287**	204
Rights granted during the year	**8 660**	9 064	**516**	134
Rights forfeited during the year	**(13 511)**	(13 921)	**(14)**	(11)
Rights exercised during the year	**(14 779)**	(13 845)	**(36)**	(40)
Rights not taken up at end of the year	**9 171**	10 997	**753**	287

105 188 of these shares are first exercisable in the financial year ending November 2022, 132 386 in the financial year ending November 2023 and the remaining 515 976 in the financial year ending November 2024.

Participants in the scheme will receive one Hudaco share for each right if they remain in Hudaco's employ and hold on to their shares for three years after the date on which they were acquired.

Cost of share-based payments

The estimated fair value of these rights was calculated at grant date using a modified binomial tree option pricing model with the following inputs:

Share appreciation bonus scheme

Date of grant	12 Jul 13	25 Jul 14	10 Jul 15	20 Jul 16	24 Jul 17	23 Jul 18	26 Jul 19	27 Jul 20	**9 Jul 21**
Number of rights granted	464 250	932 080	710 300	787 420	698 950	751 410	882 870	1 469 675	**860 695**
Rights forfeited/expired	(241 151)	(243 011)	(208 182)	(219 754)	(194 831)	(207 280)	(158 530)	(75 825)	
Rights taken up	(178 201)	(401 732)	(176 066)	(205 608)	(72 220)				
Rights still outstanding	44 898	287 337	326 052	362 058	431 899	544 130	724 340	1 393 850	**860 695**
Vested rights	44 898	287 337	326 052	362 058	269 211	183 577			
Unvested rights					162 688	360 553	724 340	1 393 850	**860 695**
Exercise price (R) – strike price (10-day VWAP)	90.80	92.04	125.24	102.93	125.10	149.51	117.27	68.37	**124.91**
Share price at grant date (R)	90.30	91.92	129.63	104.21	127.40	150.00	117.96	70.00	**129.39**
Expected volatility (%)[1]	21	21	21	28	28	27	27	29	**31**
Expected dividend yield (%)	4.7	4.6	4.3	4.8	4.7	4.1	5.5	8.3	**4.9**
Risk-free rate (%)	7.4	7.6	7.8	8.1	7.7	8.1	7.3	6.4	**7.4**
Vesting period (years)	3 to 5	3 to 5	3 to 5	3 to 5	3 to 5	3 to 5	3 to 5	3 to 5	**3 to 5**
Estimated fair value per right (R)	18.26	18.96	29.88	29.54	37.23	45.41	32.22	13.07	**44.88**

Share matching scheme

Granted during	2018	2019	2020	**2021**
Number of rights granted	48 814	115 878	133 386	**515 976**
Number of rights forfeited	(12 663)	(10 690)	(1 076)	
Number of rights exercised	(36 151)			
Unvested rights		105 188	132 310	**515 976**
Share price at grant date (R)	164.21	119.63	95.10	**95.56**
Expected volatility (%)[1]	27	27	29	**31**
Expected dividend yield (%)	4.1	5.5	8.3	**4.9**
Risk-free rate (%)	8.1	7.3	6.4	**7.4**
Vesting period (years)	3	3	3	**3**
Estimated fair value per right (R)	147.79	119.15	90.64	**86.60**

[1] *Taking into account the expected term of the right, the Hudaco Industries Limited historical weekly volatility information was used to estimate expected future volatility, as there is nothing to indicate that this would not be an appropriate proxy for forecasting volatility.*

R000	2021	2020

18. Shareholders' equity continued

18.6 Employee share-based remuneration schemes continued

	2021	2020
Employee share-based payment expense included in operating profit arising from:		
Share appreciation scheme	**16 129**	21 014
Share matching scheme	**19 954**	10 174
	36 083	31 188

19. Non-current liabilities

19.1 Amounts due to bankers

	2021	2020
Unsecured borrowings on a R600 million evergreen revolving credit facility from FirstRand Bank Limited and The Standard Bank of South Africa Limited (50% each). The FirstRand Bank portion bears interest at a rate of JIBAR plus 1.44% and the Standard Bank portion JIBAR plus 1.55%.		
– FirstRand Bank Limited	**15 000**	15 000
– The Standard Bank of South Africa Limited	**15 000**	15 000
Unsecured borrowings on a R500 million evergreen revolving credit facility from Absa Bank Limited. The facility bears interest at a rate of JIBAR plus 1.44%.	**100 000**	250 000
Unsecured borrowings on a R500 million evergreen revolving credit facility from Nedbank Limited. The facility bears interest at a rate of JIBAR plus 1.55%.	**500 000**	500 000
For each of the facilities, the bank has the right to call it up on 367 days' notice and the primary financial covenants are that the interest cover to EBITDA ratio shall exceed 4:1 and the net debt to EBITDA ratio shall not exceed 2.5:1. At year end these were 27.5:1 (2020: 10:1:1) and 0.5:1 (2020: 0.9:1), respectively.		
	630 000	780 000

19.2 Lease liabilities

	2021	2020
Measurement of lease liabilities	**476 687**	454 346
Less: Payable within 12 months	**104 355**	88 570
	372 332	365 776

In calculating the present value of lease payments, the group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. The discount rate applied to leases concluded during the year varied between 4.77% and 4.96% (2020: 4.82% and 8.13%).

Lease liabilities mostly relate to warehouse and office facilities and represent the financial obligation of the group to make lease payments to landlords to use the underlying leased premises (right-of-use assets), during the lease term. The majority of leases cover an initial period of three to five years, and some include an option to renew on expiry. The lease term includes the renewal period only if the group has agreed terms with the landlord and the renewal contract is enforceable by both parties, and the probability of exercising the renewed option is reasonably certain.

	2021	2020
Balance at beginning of the year	**454 346**	465 901
New leases concluded during the year	**109 710**	21 830
Acquisition		6 687
Effect of reassessment of the probability that leases will be extended	**5 783**	51 582
Interest charged to lease liability during the year	**32 026**	34 301
Repayments of principal and interest during the year	**(125 178)**	(125 955)
Balance at end of the year	**476 687**	454 346

R000	2021	2020

19. Non-current liabilities continued

19.2 Lease liabilities continued

The lease liability will be settled as follows:		
– during the year ending 30 November 2021		88 570
– during the year ending 30 November 2022	**104 355**	79 931
– during the year ending 30 November 2023	**97 341**	79 379
– during the year ending 30 November 2024	**78 705**	64 170
– during the year ending 30 November 2025	**63 720**	48 504
– during the year ending 30 November 2026	**47 759**	30 235
– during the year ending 30 November 2027 and thereafter	**84 807**	63 557
	476 687	454 346

The assets relating to the liabilities are disclosed in note 12 and the maturity profile in note 24.4.

20. Trade and other payables

Trade payables	**920 561**	626 711
Fair value of forward exchange contracts		23 770
Other payables	**351 297**	285 722
	1 271 858	936 203

Included in other payables are payroll and other accruals.

21. Dividends

Dividends paid to equity holders of the parent were:		
Dividend number 67 of 410 cents per share declared on 28 January 2021	**135 829**	140 029
The record date was 19 February 2021 and the dividend was paid on 22 February 2021		
Dividend number 68 of 240 cents per share declared on 24 June 2021	**78 539**	
The record date was 6 August 2021 and the dividend was paid on 10 August 2021		
Dividends paid to subsidiary company	**(16 301)**	(10 282)
	198 067	129 747

On 3 February 2022 the directors declared dividend number 69 of 520 cents per share, being the final dividend in respect of the year ended 30 November 2021. The record date will be 4 March 2022 and the dividend will be paid on 7 March 2022. This dividend has not been included as a liability in these financial statements.

22. Notes to the statement of cash flows

22.1 (Increase) decrease in working capital

(Increase) decrease in inventories	**(405 607)**	129 682
Amounts from cash flow hedging reserve allocated to initial value of inventories	**1 070**	1 339
(Increase) decrease in trade and other receivables	**(52 092)**	59 555
Increase in allowance for expected credit loss	**3 771**	10 836
Exchange differences	**(31)**	29
Increase (decrease) in trade and other payables	**335 655**	(17 973)
Fair value of current year cash flow hedges included in working capital	**943**	(1 070)
	(116 291)	182 398

22.2 Taxation paid

Net amounts (owed) paid in advance at beginning of the year	**(13 376)**	7 978
Current tax charge	**(238 565)**	(129 813)
Prior year under provision	**4 208**	(1 099)
Foreign tax charge	**(4 109)**	(3 126)
Acquired during the year		67
Net amounts owed at end of the year	**32 116**	13 376
	(219 726)	(112 617)

R000	2021	2020

22. Notes to the statement of cash flows continued

22.3 Payments to vendors of businesses acquired

Amounts owed at beginning of the year	**(488)**	(64 543)
Adjustment to fair value of amounts due to vendors of businesses acquired	**9 835**	47 625
Amounts owed at end of the year		488
	9 347	(16 430)

22.4 Dividends paid

To equity holders of the parent	**(198 067)**	(129 747)
To non-controlling shareholders	**(15 000)**	(9 000)
	(213 067)	(138 747)

22.5 Net bank balances

Bank deposits and balances	**223 305**	233 600
Bank overdraft	**(61 973)**	(97 250)
	161 332	136 350

23. Commitments

The group has budgeted to spend R88 million (2020: R63 million) to acquire property, plant and equipment and computer software in 2022, none of which is committed or contracted for. Total capital expenditure will be financed by net cash flow from operations and the utilisation of unutilised borrowing facilities.

24. Financial instruments

Details of the group's financial instruments are set out below:

24.1 Summary of financial instruments

Financial assets by class:		
Trade receivables – net	**1 030 084**	1 060 563
Trade receivables	**1 097 462**	1 124 201
Allowance for expected credit loss	**(67 378)**	(63 638)
Other receivables (excluding indirect taxes)	**57 298**	77 051
Fair value of forward exchange contracts	**13 645**	
Bank deposits and balances	**223 305**	233 600
	1 324 332	1 371 214
Financial assets by category:		
At amortised cost	**1 310 687**	1 371 214
Derivatives used for hedging at fair value	**13 645**	
	1 324 332	1 371 214
Financial liabilities by class:		
Amounts due to vendors of businesses acquired		488
Amounts due to bankers	**630 000**	780 000
Bank overdraft	**61 973**	97 250
Trade payables	**920 561**	626 711
Fair value of forward exchange contracts		23 770
Other payables (excluding payroll accruals and indirect taxes)	**207 199**	128 365
	1 819 733	1 656 584
Financial liabilities by category:		
Financial liabilities at amortised cost	**1 819 733**	1 632 326
Financial liabilities at fair value through profit or loss		488
Derivatives used for hedging at fair value		23 770
	1 819 733	1 656 584

Forward exchange contracts are recognised at fair value in the statement of financial position. The fair value is indirectly derived from prices in active markets for similar liabilities, which means it is classified as a level 2 fair value measurement.

All other financial instruments are carried at amounts that approximate fair value. The fair values for bank deposits and balances, receivables, payables and bank overdraft approximate their carrying values due to the short-term nature of these instruments. The fair values have been determined by using available market information and appropriate valuation methodologies.

24. Financial instruments continued

24.2 Market risk

24.2.1 Foreign currency risk

The group imports more than 65% of its inventories and consequently has significant exposure to currency risk arising from the volatility of the South African Rand against major currencies. Group policy is to use forward cover contracts to mitigate risk resulting from the future payment for goods where transactions are denominated in foreign currencies and to protect Hudaco's cash flows in the functional currency of ZAR. The Hudaco basket of currencies for the year ended 30 November 2021 was very typical for the group and comprised approximately 68% USD, 25% EUR, 6% YEN and 1% GBP. Amounts for other currencies were insignificant. Management of foreign currency exposure is based on the principle of avoiding speculation and employing a hedging strategy designed to achieve high hedge effectiveness. All foreign currency liabilities are hedged directly by the time ownership of the asset passes to Hudaco, which is usually on bill of lading date. In addition, on average about 30% of open orders on suppliers are also hedged directly to guard against spikes in exchange rates. Each business has its own mandate for covering orders varying from 0% to 100%. An important driver of the extent to which orders of a business are hedged is the opportunity to change selling prices between the time the order is placed on the supplier and the point at which a selling price is committed to the customer.
It is understood that, in the context of Rand volatility, rather than the preferred gradual depreciation of the currency, this hedging strategy involves a risk of being locked in at weak exchange rates at times when the Rand strengthens. The FECs related to open orders are initially accounted for as cash flow hedges and once the related inventory and payable is recognised in the statement of financial position, the FECs are accounted for as fair value hedges.

Hudaco's hedging policy has the objective of getting as close to 100% effectiveness as reasonably possible on the exposures that are hedged, and is designed accordingly. While Hudaco would consider 70% effectiveness of hedges to be acceptable because of vagaries in the supply chain, the targeted and actual effectiveness is expected to be above 90% for the group as a whole.

The hedge is assessed using the following criteria set out in IFRS 9:

a) An economic relationship between the hedged item (payments to suppliers) and the hedging instrument (FEC in the same currency as the hedged item) exists in that the value attributable to the hedging instrument and to the hedged item move proportionately in opposite directions.
b) Credit risk does not dominate value changes: Only the big four South African banks are used as counterparties, so credit risk is negligible and does not give rise to any value changes in the hedging relationship.
c) The hedge ratio: The amount and nature of the hedged item and the amount of the hedging instrument are identical in all instances, except in the case of cancelled orders or short delivery. This results in a hedge ratio of 1:1 or 100%.

The above three criteria have been met and all hedges are effective.

The primary factor that could affect hedge effectiveness is the cancellation of orders or delays that are so long and unexpected or uncertain that an existing forward contract is used for a different transaction. The extent to which this happens is very small in the context of Hudaco's total imports.

Fair value hedges – during the year the group had entered into various forward exchange contracts to cover foreign currency liabilities. The cost of these fair value hedges amounted to R22.9 million (2020: R17.4 million). These contracts for the purchase forward currency will be utilised for the settlement of foreign accounts payable in the next year:

	Year end spot rate R	Foreign amount 000	Contract rate R	Rand equivalent R000
US Dollar	15.78	19 030	15.13	287 831
Pound Sterling	21.02	244	20.94	5 110
Euro	17.88	8 250	17.53	144 580
Japanese Yen	7.20	392 816	7.37	53 304
Other				59
Total cost of contracts				490 884
Rand equivalent, at year end spot rates, of the foreign currency amounts in the above contracts				507 472
Fair value of forward exchange contracts on foreign accounts payable				16 588

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24. Financial instruments continued

24.2 Market risk continued

24.2.1 Foreign currency risk continued

The foreign currency liabilities covered by the forward exchange contracts above are as follows:

	Year end spot rate R	Foreign amount 000	Rand equivalent R000
US Dollar	15.78	19 030	300 212
Pound Sterling	21.02	244	5 130
Euro	17.88	5 979	106 910
Japanese Yen	7.20	392 816	54 558
Other			52
Total cost of contracts			466 862

Cash flow hedges – at 30 November 2021 the group had entered into the following forward exchange contracts relating to forecast purchase transactions, ie orders placed on suppliers but not yet shipped. These contracts for the purchase of foreign currency will be utilised for settlement of shipments received during the next two months:

	Year end spot rate R	Foreign amount 000	Contract rate R	Rand equivalent R000
US Dollar	15.78	12 378	15.84	196 005
Pound Sterling	21.02	517	20.96	10 827
Euro	17.88	5 857	17.62	103 214
Japanese Yen	7.20	37 183	7.38	5 037
Other				46
Total cost of contracts				315 128
Rand equivalent, at year end spot rates, of the foreign currency amounts in the above contracts				316 071
Profit recognised directly in equity on import orders				943
Taxation				(264)
Attributable to non-controlling shareholders				(70)
Attributable to equity holders of the parent (note 18.4)*				609

* *To be allocated to initial cost of inventories in subsequent accounting periods.*

Significant export orders will also expose the group to currency risk. Group policy is to take forward cover on significant foreign currency accounts receivable (which effectively changes them from foreign to local currency assets). At 30 November 2021 the group had not entered into any forward exchange contracts relating to forecasted sale transactions and held the following exchange contracts in respect of foreign accounts receivable that will be utilised in the next year:

	Year end spot rate R	Foreign amount 000	Contract rate R	Rand equivalent R000
US Dollar	15.78	5 201	15.05	78 254
Australian Dollar	11.31	66	11.44	752
Euro	17.88	686	17.74	12 177
Total cost of contracts				91 183
Rand equivalent, at year end spot rates, of the foreign currency amounts in the above contracts				95 069
Fair value of forward exchange contracts on foreign accounts receivable				3 886

The group determines whether the forward exchange contracts being used in hedging transactions, are indeed highly effective.

Hudaco's central treasury is responsible for the management of foreign currency exposure throughout the group. This is done within clear guidelines set by the board, and exposure and limits are reviewed at quarterly board meetings. There has been no change during the year to the group's approach to managing foreign currency risk.

24. Financial instruments continued

24.2 Market risk continued

24.2.1 Foreign currency risk continued

The group does not speculate in foreign currencies and hedging is only done where management is satisfied that there is a firm and ascertainable underlying commitment. As an element of control over input data, all information submitted is authorised by the chief financial officer of the business concerned.

The Rand remained volatile during 2021 and the conservative approach in the hedging policy was maintained so as not to expose the group to the continued volatility.

24.2.2 Interest rate risk

The group uses bank finance and has been reluctant to fix interest rates for extended periods on borrowings that finance working capital.

The interest rate profile of non-current borrowings is as follows:

	Year of repayment	Interest rate %	2021 R000	2020 R000
Amounts due to bankers	2023	JIBAR plus premium	**630 000**	780 000

A change of 1% in the interest rate charged on non-current borrowings will affect profit after tax by approximately R4.5 million (2020: R5.6 million) per year and profit attributable to equity holders of the parent by R3.9 million (2020: R4.8 million).

24.3 Credit risk

Credit risk is present in trade receivables and short-term cash investments.

At group level trade receivables consist of a large, widely-spread customer base with no significant concentration of risk to any one customer or industry. Each business in the group is responsible for the management of credit risk in receivables and does so through ongoing credit evaluations, credit insurance and credit control policies and procedures. Management does not consider there to be any material credit risk exposure that is not already covered by an allowance for expected credit loss.

It is group policy to deposit short-term cash investments with major banks, within limits approved by the board, where security rather than yield is the overriding consideration.

The maximum credit risk to which the group is exposed is as follows:

R000	2021	2020
Trade receivables	**1 030 084**	1 060 563
Other receivables (excluding indirect taxes)	**81 401**	77 051
Fair value of forward exchange contracts	**13 645**	
Bank deposits and balances	**223 305**	233 600
	1 348 435	1 371 214

24.4 Liquidity risk

The group manages liquidity risk by monitoring forecast cash flows and ensuring that adequate unutilised borrowing facilities are maintained. Unutilised facilities plus available cash resources at 30 November 2021 were R1 609 million.

There is no restriction on borrowing powers in terms of the Memorandum of Incorporation and at 30 November 2021 the group's banking facilities substantially exceeded its forecast requirements for the forthcoming year.

The maturity profile of financial liabilities is as follows:

	Expected cash flows during the year ending		
R000	Total	30 November 2022	30 November 2023 and thereafter
Amounts due to bankers	**661 028**	**31 028**	**630 000**
Lease liabilities	**565 733**	**131 062**	**434 671**
Bank overdraft	**61 973**	**61 973**	
Trade payables	**920 561**	**920 561**	
Other payables (excluding payroll accruals and indirect taxes)	**207 199**	**207 199**	

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 November 2021

24. Financial instruments continued

24.4 Liquidity risk continued

R000	Total	Expected cash flows during the year ending 30 November 2021	30 November 2022 and thereafter
Amounts due to bankers	818 467	38 467	780 000
Lease liabilities	556 448	117 194	439 254
Amounts due to vendors of businesses acquired	488	488	
Bank overdraft	97 250	97 250	
Trade payables	626 711	626 711	
Other payables (excluding payroll accruals and indirect taxes)	128 365	128 365	

24.5 Fair value of derivative financial instruments

The profit (loss) arising on the fair value adjustment on all forward exchange contracts is set out below:

R000	2021	2020
Cash flow hedges (note 24.2.1)	**943**	(1 070)
Fair value hedges (on import contracts of R316 million at year end spot rates)	**16 588**	(22 700)
Fair value hedges (on export contracts of R95 million at year end spot rates)	**(3 886)**	
	13 645	(23 770)

24.6 Capital management

The group seeks to ensure that it and each separate entity has sufficient capital to support its activities and its medium-term growth objectives.

In setting the ideal mix between debt and equity, the group seeks to optimise its return on shareholders' equity while maintaining prudent financial gearing. Generally, the objective is to operate with net interest-bearing debt not exceeding 2.0 times EBITDA.

In 2021 it was 0.5 times (2020: 0.9 times).

Excess capital will be returned to shareholders in the form of special dividends or share buy-backs when appropriate.

In setting the maximum amount of unsubordinated debt the group would carry, the group's objective would also be to have net interest covered at least five times by operating profit; net interest being interest paid on interest-bearing debt less interest received. In 2021 it was 23.0 times (2020: 7.4 times) operating profit and 27.5 times EBITDA (2020: 10.1 times).

25. Retirement benefits

It is the policy of the group to provide for employees' retirement benefits by contributing to separate, defined contribution pension or provident plans which are independent entities managed by trustees and subject to the Pension Funds Act, 1956. Membership is of umbrella funds administered by Old Mutual. There are some businesses acquired by the group whose employees remain on their pre-acquisition retirement funds.

Contributions to retirement funding during the year amounted to R75.9 million (2020: R57.1 million). All permanent employees are required to become members of one of these plans unless they are obliged by legislation to be members of various industry funds.

The group does not contribute to post-retirement medical costs for current or future pensioners.

26. Directors' interests and remuneration

26.1 Interests of directors in the share capital of the company as at 30 November 2021

The total beneficial interests of directors in the shares of the company are:

	Direct Share register (own name)		Indirect Held by associates	
	2021	2020	**2021**	2020
SJ Connelly	**274 139**	274 139	**1 680**	1 680
CV Amoils	**125 132**	114 196	**7 500**	7 500
GR Dunford	**291 712**	269 182	**647 212**	647 212
LFJ Meiring	**61 800**	37 879		
	752 783	695 396	**656 392**	656 392

On 8 February 2022, GR Dunford and CV Amoils acquired directly a further 34 591 and 17 192 shares, respectively. There have been not other changes in the shareholdings above between 30 November 2021 and the date of the notice of the annual general meeting.

26.2 Directors' interests in the share appreciation bonus scheme and the share matching scheme

The directors' interests in the share appreciation bonus scheme and the share matching scheme are set out in the implementation of the remuneration policy section of the remuneration report, specifically dealing with executive directors' remuneration as set out on pages 63 to 79 of the integrated report.

26.3 Directors' remuneration

The remuneration of the directors is set out in the implementation of the remuneration policy section of the remuneration report, specifically dealing with executive directors' remuneration as set out on pages 63 to 79 of the integrated report and non-executive directors' remuneration on page 80.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 November 2021

27. Segment information

R million	Group 2021	Group 2020	Head office, shared services and eliminations 2021	Head office, shared services and eliminations 2020	Consumer-related products 2021	Consumer-related products 2020	Engineering consumables 2021	Engineering consumables 2020
Statement of net income								
Turnover[(1)]	**7 258**	6 254	**(20)**	(13)	**3 777**	3 360	**3 501**	2 907
EBITDA	**990**	694	**(88)**	(33)	**629**	448	**449**	279
Depreciation less recoupments								
– property, plant and equipment	**42**	43	**2**	2	**23**	20	**17**	21
– right-of-use assets	**108**	119	**2**	2	**45**	47	**61**	70
Amortisation of intangible assets	**14**	22			**9**	12	**5**	10
Operating profit (loss)	**826**	510	**(92)**	(37)	**552**	369	**366**	178
Other income – proceeds of damages claim		35		35				
Impairment of goodwill and intangible assets		(348)				(198)		(150)
Fair value adjustments	**10**	48			**10**	40		8
Profit (loss) before interest	**836**	245		(2)		211		36
Statement of financial position								
Property, plant and equipment	**285**	265			**84**	88	**201**	177
Right-of-use assets	**422**	414	**1**	11	**177**	214	**244**	189
Goodwill	**1 170**	1 170			**686**	686	**484**	484
Intangible assets	**26**	33			**10**	19	**16**	14
Deferred taxation – net	**74**	40	**59**	28	**10**	7	**5**	5
Inventories	**2 004**	1 598			**922**	773	**1 082**	825
Trade and other receivables	**1 245**	1 196	**18**	29	**656**	613	**571**	554
Trade and other payables	**(1 272)**	(936)	**(57)**	(55)	**(563)**	(430)	**(652)**	(451)
Taxation – net	**(32)**	(13)	**112**	97	**(95)**	(77)	**(49)**	(33)
Net operating assets	**3 922**	3 767	**133**	110	**1 887**	1 893	**1 902**	1 764
Turnover comprises								
Revenue from contracts with customers	**7 258**	6 254	**(20)**	(13)	**3 777**	3 360	**3 501**	2 907
Sales of products	**7 020**	6 102	**(20)**	(13)	**3 717**	3 287	**3 323**	2 828
Rendering of services	**238**	152			**60**	73	**178**	79
Timing of revenue recognition	**7 258**	6 254	**(20)**	(13)	**3 777**	3 360	**3 501**	2 907
Goods and services transferred at a point in time	**7 042**	5 948	**(20)**	(13)	**3 726**	3 328	**3 336**	2 633
Goods and services transferred over time	**216**	306			**51**	32	**165**	274
Geographical disaggregation	**7 258**	6 254	**(20)**	(13)	**3 777**	3 360	**3 501**	2 907
Goods and services sold in South Africa	**6 711**	5 737	**(20)**	(13)	**3 602**	3 177	**3 129**	2 573
Goods and services sold outside South Africa	**547**	517			**175**	183	**372**	334
Additional information								
Average net operating assets	**3 790**	4 095	**(101)**	(25)	**2 036**	2 184	**1 855**	1 936
Capital expenditure	**74**	45		1	**19**	15	**55**	29
Operating profit margin (%)	**11.4**	8.2			**14.6**	11.0	**10.4**	6.1
Return on average net operating assets (%)	**21.8**	12.5			**26.3**	16.9	**18.6**	9.2
Number of permanent employees	**3 593**	3 587	**23**	26	**1 608**	1 642	**1 962**	1 919

(1) *Of the R20 million (2020: R13 million) elimination, R19 million (2020: R10 million) relates to consumer-related products and the balance to engineering consumables.*

No secondary segment information has been prepared as revenue and assets outside South Africa are less than 10% of the group total. The performance of operating segments is measured at operating profit level. Management of interest is centralised.

28. Related-party transactions

Related parties are those that control or have a significant influence over the group (including holding companies, major investors and key management personnel) and parties that are controlled or significantly influenced by the group (including subsidiaries and retirement benefit plans).

Hudaco has no holding company, nor is there a major shareholder that has significant influence over the group. Group companies have entered into transactions in the ordinary course of business with certain financial institutions that are also shareholders, or their affiliates. In the main, these transactions relate to property leases and financial services. All such transactions have been concluded under terms that are consistent with those entered into with third parties.

The company and its subsidiaries do have dealings with each other but these are eliminated on consolidation and are not dealt with in this note. A list of principal subsidiaries is provided on page 135.

Details of transactions between the group and other related parties are disclosed below.

Key management personnel are defined as directors of the company and members of the executive committee and include partners and children.

Hudaco does not have prescribed officers as defined in Regulation 38 of the Companies Regulations, 2011.

R000	2021	2020
Compensation of key management personnel (excluding non-executive directors)		
Short-term employee benefits	**68 317**	38 552
Value of long-term incentives awarded during the year	**53 401**	20 543
	121 718	59 095

In addition to the above, key management personnel exercised share appreciation rights during 2021 with a difference between the market price at exercise date and the strike price amounting to R4.1 million. No rights were exercised in 2020.

Directors

Details of directors' remuneration and share-based payments are set out in the implementation of the remuneration policy section of the remuneration report, specifically dealing with executive directors' remuneration as set out on pages 63 to 79 of the integrated report and non-executive directors' remuneration on page 80.

Shareholdings of the directors are set out in note 26.

GR Dunford, chief executive of Hudaco, is a 60% member of Industrial Gearbox Services CC to which net sales of R0.1 million were made by the group. In addition he is an 82% shareholder of the landlord of premises occupied by Ambro Steel, Bauer, Dosco Precision Hydraulics, Gear Pump Manufacturing and Joseph Grieveson. Rentals paid in respect of these businesses are as follows:

R000	Expiry date	2021	2020
Ambro Steel	Feb 23	**3 659**	3 389
Hudaco Power Transmissions	Nov 24	**2 479**	2 296
Dosco Precision Hydraulics	Apr 22	**2 020**	1 871
Gear Pump Manufacturing	Jun 24	**2 681**	2 565
Joseph Grieveson	Jun 24	**3 502**	2 873

29. Events after reporting date

29.1 Acquisition

Hudaco has entered into an agreement with Cadac (Pty) Ltd to acquire the southern African trading division of CADAC as a going concern during February 2022. CADAC is a distributor of a wide range of outdoor cooking and heating products including gas cylinders, stoves, cookers, braais, skottels, heaters, lamps, blowtorches and accessories in southern Africa.

The business was acquired on an earnout and the financial consideration is dependent on the average profit for the three years ending 30 September 2020, 30 September 2021 and 28 February 2023 with a maximum consideration of R100 million.

Hudaco constantly seeks out opportunities to expand operations and following the lifting of a moratorium on acquisitions earlier in the year, CADAC was acquired in order to increase the revenue earning capacity of the group.

29.2 Dividends

Refer to note 21 for details of dividend 69 declared on 3 February 2022.

30. Going concern assessment

The impact of Covid-19 has reduced significantly since 2020. Nevertheless, it has still been taken into account in the projected future cash flows when assessing the appropriateness of using the going concern assumption in preparing the group and company annual financial statements. Covid-19 was also considered when assessing whether there had been any events after reporting date that could have a material effect on the group and company annual financial statements and concluding that there had not been any such events.

COMPANY FINANCIAL STATEMENTS

for the year ended 30 November 2021

Hudaco Industries Limited

Statement of financial position

at 30 November 2021

R000	2021	2020
ASSETS		
Non-current assets		
Interest in subsidiaries (note 1)	**92 275**	92 275
Current assets	**349 049**	636 902
Amounts owed by subsidiaries (note 1)	**348 459**	636 797
Receivables	**590**	105
Total assets	**441 324**	729 177
EQUITY AND LIABILITIES		
Shareholders' equity	**439 965**	737 463
Current liabilities		
Payables and taxation	**1 359**	1 714
Total equity and liabilities	**441 324**	737 463

Statement of comprehensive income

for the year ended 30 November 2021

R000	2021	2020
Dividends received from subsidiaries		
– Hudaco Investment Company (Pty) Ltd		875 000
Operating costs	**(4 394)**	(4 485)
Profit before taxation	**(4 394)**	870 515
Taxation – prior years over provision	**293**	
(Loss) profit after taxation	**(4 101)**	870 515

Statement of changes in equity

for the year ended 30 November 2021

R000	Share capital	Share premium	Special reserve account	Retained income	Shareholders' equity
Note	3				
Balance at 1 December 2019	3 415	51 533	332	23 515	78 795
Profit after taxation				870 515	870 515
Repurchase of shares (note 3.2)	(102)	(51 533)		(30 183)	(81 818)
Dividends to shareholders				(129 747)	(129 747)
Dividends to subsidiary				(10 282)	(10 282)
Balance at 1 December 2020	**3 313**		**332**	**723 818**	**727 463**
Loss after taxation				**(4 101)**	**(4 101)**
Repurchase of shares (note 3.2)	**(61)**			**(68 968)**	**(69 029)**
Dividends to shareholders				**(198 067)**	**(198 067)**
Dividends to subsidiary				**(16 301)**	**(16 301)**
Balance at 30 November 2021	**3 252**		**332**	**436 381**	**439 965**

COMPANY FINANCIAL STATEMENTS continued

for the year ended 30 November 2021

Hudaco Industries Limited

Statement of cash flows

for the year ended 30 November 2021

R000	2021	2020
Cash generated from operating activities		
Dividends received		875 000
Operating costs paid	**(4 394)**	(4 485)
(Increase) decrease in working capital	**(547)**	403
Cash flow from operations	**(4 941)**	870 918
Dividends paid	**(214 368)**	(140 029)
Net cash (applied) retained	**(219 309)**	730 889
Cash flow from investing activities		
Repayments of (advances on) loans to subsidiaries	**288 338**	(636 797)
Cash flow from financing activities		
Repurchase of shares	**(69 029)**	(81 818)
Repayments of loan from subsidiaries		(12 274)
Net cash movement	**–**	–

Notes to the company financial statements

for the year ended 30 November 2021

R000	2021	2020
1. Interest in and loans to subsidiaries		
Shares at cost less amounts written off	**92 275**	92 275
Loans to subsidiaries	**348 459**	636 797
	440 734	729 072

These loans are unsecured, interest-free and repayable on demand.

The investment in a subsidiary company is carried at cost less impairment losses where applicable.

The risk of default on the loans is considered to be highly unlikely and classified as stage 1 and therefore no allowance for expected credit loss has been raised.

Details of subsidiaries are on page 135.

2. Contingent liability

The company has guaranteed the senior banking facilities of Hudaco Trading (Pty) Ltd, amounting to R630 million (2020: R780 million) at year end. When allocating the risk to the various guarantors it is important to assess the structure of the transaction. The two primary guarantors within the structure are Hudaco Industries Limited and Hudaco Investment Company (Pty) Ltd. The difference in exposure of the two entities is, however, materially impacted by the intercompany loan between Hudaco Investment Company (Pty) Ltd and Hudaco Trading (Pty) Ltd. By acting as a guarantor Hudaco Investment Company (Pty) Ltd has structurally de facto subordinated itself to the lending banks. In the event of Hudaco Trading (Pty) Ltd defaulting, Hudaco Investment Company (Pty) Ltd will only be entitled to recovery cash flows, against the intercompany loan, once the exposure to the banks has been settled.

Given the structure above, Hudaco Industries Ltd will only be required to step in as guarantor if the cash flows realised from the Hudaco Trading (Pty) Ltd is not sufficient to settle the amounts due to the senior lenders. To assess the potential exposure of Hudaco Industries Limited the Loss Given Default was estimated after accounting for the structural de facto sub-ordination of the intercompany loan. The assessment resulted in a Loss Given Default of 0% indicating that Hudaco Industries Ltd has minimal exposure to a Hudaco Trading (Pty) Ltd default event. There has been no significant increase in credit risk.

COMPANY FINANCIAL STATEMENTS continued

for the year ended 30 November 2021

R000	2021	2020

3. Share capital

3.1 Authorised share capital

	2021	2020
40 000 000 ordinary shares of 10 cents each	**4 000**	4 000

3.2 Issued share capital

	2021	2020
32 724 785 (2020: 34 153 531) ordinary shares	**3 313**	3 415
Repurchase of shares	**(61)**	(102)
	3 252	3 313

During the year the company repurchased 609 211 of its own shares. Of these, 404 146 were withdrawn from the market on 29 July 2021 and 205 065 were withdrawn from the market on 15 December 2021, reducing the number of issued shares to 32 519 720 ordinary shares of which 2 507 828 are held by a subsidiary company.

4. Risk management

Risk is managed under the same principles as set out in note 24 of the consolidated annual financial statements on pages 125 and 128 of this report. This include the amounts owed by subsidiaries of R348.5 million (2020: R636.8 million) which is classified as a financial asset classified at amortised cost.

PRINCIPAL SUBSIDIARIES

for the year ended 30 November 2021

	Issued share capital Rand	Interest of holding company					
		Group's effective interest		Book value of shares		Loans owing (to) by	
		2021 %	2020 %	2021 R000	2020 R000	2021 R000	2020 R000
Hudaco Trading (Pty) Ltd	2 000	**85[1]**	85[1]	**2**	2		
Hudaco Investment Company (Pty) Ltd	26 160	**100**	100	**48 158**	48 158	**348 459**	636 797
Ironman 4X4 Africa RF (Pty) Ltd[4]	100	**50[3]**					
DD Power Holdings (Pty) Ltd[4]	300 000	**70[2]**	70[2]				
DD Power (Pty) Ltd[4]	7 450 000	**70**	70				
Valhold Ltd	959 841	**100**	100	**37 692**	37 692		
Valard Ltd	874 149	**100**	100	**6 423**	6 423		
Interest in subsidiaries				**92 275**	92 275	**348 459**	636 797

(1) *15% of the shares in Hudaco Trading (Pty) Ltd are held by the following BEE shareholders: The Hudaco Trading Empowerment Trust Number 1 – 10%; The Hudaco Trading Empowerment Trust Number 2 – 5%.*

(2) *30% of the shares in DD Power Holdings (Pty) Ltd are held by Deutz AG, incorporated in Germany.*

(3) *50% of the shares in Ironman 4X4 RF (Pty) Ltd are held by Ironman 4X4 International (Pty) Ltd incorporated in Australia.*

(4) *Indirectly held.*

Refer to the group directory on pages 148 to 151 for a comprehensive list of all trading businesses.

A complete list of subsidiaries is available to shareholders on request at the registered office of the company.

SHAREHOLDER ANALYSIS

as at 30 November 2021

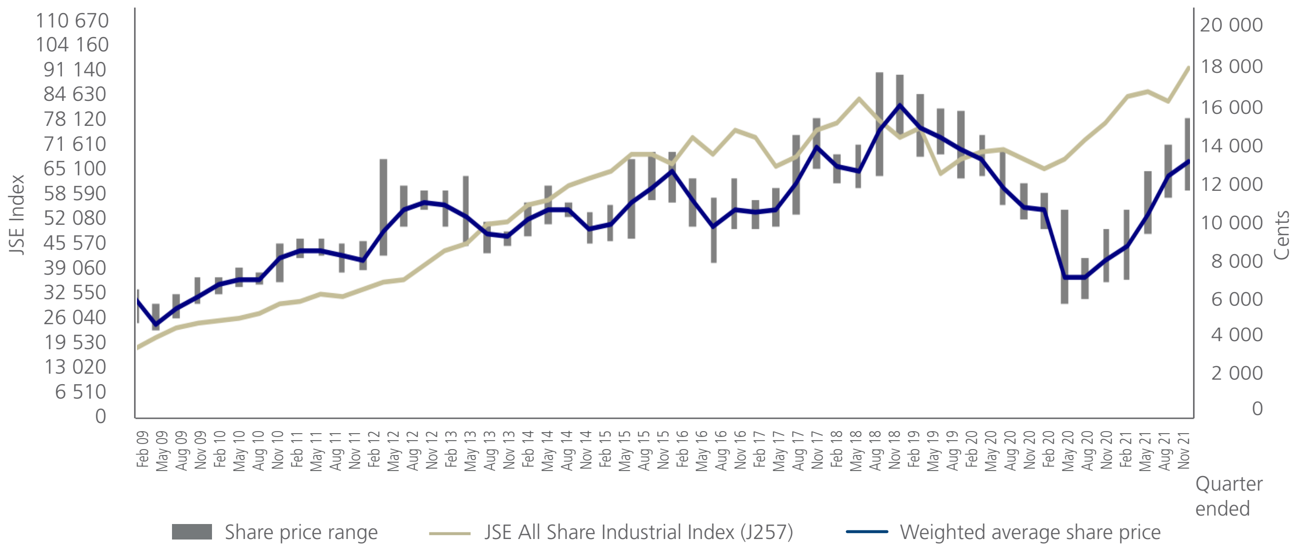
Shareholder analysis	Number of shareholders	Number of shares	% of issued shares
Portfolio size			
1 – 1 000 shares	2 795	**732 473**	2.64
1 001 – 5 000 shares	562	**1 270 117**	4.23
5 001 – 10 000 shares	98	**731 799**	2.44
10 001 – 100 000 shares	178	**5 738 543**	19.12
Over 100 000 shares	46	**21 538 960**	71.77
Total[1]	3 679	**30 011 892**	100.00
Category			
Banks and nominee companies	48	**2 818 860**	9.40
Financial institutions and pension funds	526	**23 286 555**	77.59
Individuals	3 073	**3 648 872**	12.16
Other corporate bodies	32	**257 605**	0.85
Total[1]	3 679	**30 011 892**	100.00
Shareholder spread			
Public shareholders	3 653	**28 391 971**	94.60
Non-public shareholders	26	**1 619 921**	5.40
Total[1]	3 679	**30 011 892**	100.00

[1] *Excludes 2 507 828 shares held by a subsidiary company and the 205 065 shares that were repurchased during the year and cancelled on 15 December 2021.*

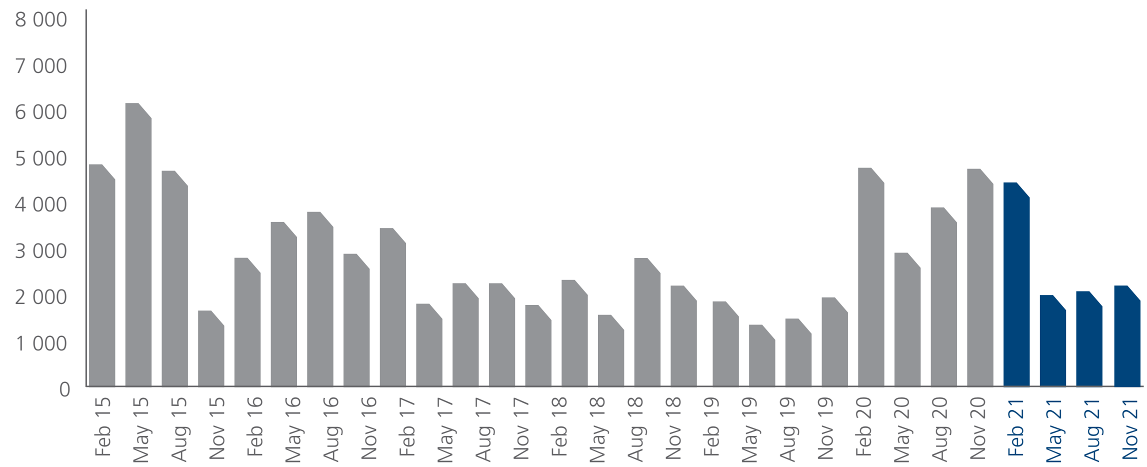
Major shareholders		
Beneficial shareholders holding more than 3%		
Public Investment Corporation GEPF	**3 008 220**	10.02
Ninety One Emerging Companies Fund	**1 306 627**	4.35
Old Mutual Life Assurance	**1 149 347**	3.83
PSG Flexible Fund	**1 139 663**	3.80
Fund managers holding more than 3%		
Public Investment Corporation	**3 053 799**	10.18
PSG Asset Management	**2 874 455**	9.58
Ninety One	**2 352 012**	7.84
Old Mutual Investments	**2 082 009**	6.94
Aylett & Co Fund Managers	**1 563 327**	5.21
Bateleur Capital	**1 448 767**	4.83
Foord Asset Management	**1 427 338**	4.76
Abax Investments	**1 263 388**	4.21
Sanlam Investments	**1 089 563**	3.63

SHARE INFORMATION

Share price history



Volume of shares traded (000)



JSE statistics	2021	2020	2019	2018	2017	2016	2015
Market price (cents)	**13 950**	8 550	10 808	14 200	13 600	10 850	10 701
NAV per share (cents)	**9 541**	8 470	8 666	7 927	7 252	6 525	5 827
Number of shares in issue (000)*	**30 012**	30 621	31 646	31 646	31 646	31 646	31 646
Market capitalisation (Rm)*	**4 187**	2 618	3 420	4 494	4 304	3 434	3 386
Price:earnings ratio (times)	**9.1**	8.1	8.4	10.9	11.0	9.3	9.2
All Share Industrial Index PE ratio (J257)	**22.4**	33.6	22.9	19.9	30.4	27.0	22.6
Dividend yield (%)	**3.7**	3.8	4.2	3.2	3.1	4.8	4.9
All Share Industrial Index dividend yield (J257) (%)	**1.5**	1.6	2.3	2.3	1.9	2.5	2.3
Annual trade in Hudaco shares							
Number of transactions recorded	**31 289**	33 184	22 314	24 072	29 245	20 903	36 271
Volume of shares traded (000)	**13 162**	13 424	6 882	8 440	9 714	12 995	17 211
% of issued shares traded*	**44**	44	22	27	31	41	54
Value of shares traded (Rm)	**1 377**	1 041	863	1 272	1 234	1 341	2 007

* *Excludes treasury shares.*

NOTICE OF ANNUAL GENERAL MEETING

Hudaco Industries Limited

(Incorporated in the Republic of South Africa)
(Registration number 1985/004617/06)
Share code: HDC ISIN code: ZAE000003273
("Hudaco" or "the company")

Notice to shareholders of the 37th annual general meeting (AGM) of Hudaco Industries Limited

Notice is hereby given that the 37th AGM of shareholders of the company for the year ended 30 November 2021 will be held at 11:00 on Thursday, 17 March 2022 in the boardroom at Hudaco's offices situated at Building 9, Greenstone Hill Office Park, Emerald Boulevard, Greenstone Hill, Edenvale. Registration for attendance will commence at 10:30.

Important dates and times (1), (2)	2022
Record date for determining which shareholders are entitled to receive the AGM notice	Friday, 11 February
Notice posted to shareholders on or about	Thursday, 17 February
Last day to trade to be eligible to participate and vote at the AGM	Tuesday, 8 March
Record date for attending and voting at the AGM(3)	Friday, 11 March
AGM to be held at 11:00	Thursday, 17 March
Results of AGM to be released on SENS on	Thursday, 17 March

Notes

(1) All times referred to in this notice are local times in South Africa.

(2) Any material variation of the above dates and times will be announced on SENS.

(3) The Hudaco board of directors (the board) has determined that the record date for the purpose of determining which shareholders are entitled to receive the AGM notice is Friday, 11 February 2022, and the record date for purposes of determining which shareholders of the company are entitled to participate and vote at the AGM is Friday, 11 March 2022. Accordingly, only shareholders who are recorded as such in the register maintained by the transfer secretaries of the company on Friday, 11 March 2022, will be entitled to participate in and vote at the AGM.

(4) Kindly note that AGM participants (including shareholders and proxies) are required to provide satisfactory picture identification before being entitled to attend or participate at the AGM. Forms of satisfactory identification include valid identity documents, driver's licences and passports.

Business to be transacted

The purpose of the AGM is for the following business to be transacted and the following ordinary and special resolutions to be proposed:

1. Presentation of audited consolidated financial statements

To present the audited consolidated financial statements of the company (as approved by the board), as well as the reports of the external auditor, audit and risk management committee, social and ethics committee and directors for the financial year ended 30 November 2021, distributed as required.

Copies of the integrated report, which contains the full audited consolidated annual financial statements, for the year ended 30 November 2021 are obtainable from the company's website: www.hudaco.co.za or from the group secretary.

2. Ordinary Resolution Number 1: To re-elect directors retiring by rotation

To re-elect as directors, each by way of a separate vote, the following directors who are required to retire in terms of clause 21.6.1 of the company's Memorandum of Incorporation (MOI) and who are eligible and have offered themselves for re-election:

2.1 Ordinary Resolution Number 1.1: Re-election of Mr MR Thompson;

2.2 Ordinary Resolution Number 1.2: Re-election of Ms N Mandindi; and

2.3 Ordinary Resolution Number 1.3: Re-election of Mr GR Dunford.

The nomination committee of the board has reviewed the composition of the board against corporate governance and transformation requirements and has recommended the re-election of the directors listed above. It is the view of the board that re-election of the candidates referred to above would enable the company to:

- responsibly maintain a mixture of business skills and experience relevant to the company and balance the requirements of transformation, continuity and succession planning; and
- comply with corporate governance requirements in respect of matters such as the balance of executive, non-executive and independent directors on the board.

Brief *curricula vitae* of directors who have offered themselves for re-election are included on pages 20 and 21 of the Hudaco integrated report.

For Ordinary Resolution Numbers 1.1, 1.2 and 1.3 to be adopted, the support of more than 50% of the total number of votes exercisable by shareholders, present in person or by proxy, is required.

Note
In terms of clause 21.6.1 of the company's MOI at least one-third of the directors must retire each year and are eligible for re-election. The directors who shall retire shall be the longest serving directors since their last election.

3. Ordinary Resolution Number 2: To approve the appointment of external auditors

To appoint Deloitte & Touche (Deloitte) as independent auditors of Hudaco and to note that the individual registered auditor who will undertake the audit for the financial year ending 30 November 2022 is Mr PWM van Zijl. This appointment is pursuant to mandatory audit firm rotation requirements.

The audit and risk management committee of the company has concluded that the appointment of Deloitte will comply with the requirements of the Companies Act, 71 of 2008 (the Companies Act), the Companies Regulations 2011 and the JSE Listings Requirements and has accordingly nominated Deloitte for appointment as auditors of the company.

For Ordinary Resolution Number 2 to be adopted, the support of more than 50% of the total number of votes exercisable by shareholders, present in person or by proxy, is required.

4. Ordinary Resolution Number 3: Appointment of the members of the audit and risk management committee

To elect, each by way of a separate vote, the members of the audit and risk management committee of the company, with effect from the end of the AGM:

4.1 Ordinary Resolution Number 3.1: To elect Ms D Naidoo as member;

4.2 Ordinary Resolution Number 3.2: To elect Ms N Mandindi as member, subject to the passing of Ordinary Resolution Number 1.2; and

4.3 Ordinary Resolution Number 3.3: To elect Mr MR Thompson as member, subject to the passing of Ordinary Resolution Number 1.1.

Under the Companies Act the audit committee is a committee elected by the shareholders at each AGM. A brief *curriculum vitae* of each of the independent non-executive directors mentioned above appears on page 20 of the Hudaco integrated report.

The board has reviewed the proposed composition of the audit and risk management committee against the requirements of the Companies Act and the Companies Regulations 2011 and has confirmed that the proposed audit and risk management committee will comply with the relevant requirements and have the necessary knowledge, skills and experience to enable the committee to perform its duties in terms of the Companies Act. Accordingly, the board recommends the election of the directors listed above as members of the audit and risk management committee.

For Ordinary Resolution Numbers 3.1, 3.2 and 3.3 to be adopted, the support of more than 50% of the total number of votes exercisable by shareholders, present in person or by proxy, is required.

5. Special Resolution Number 1: Approval of non-executive directors' remuneration

That the remuneration, exclusive of value-added tax, payable to the non-executive directors of Hudaco for their services as directors for the period 1 April 2022 until 31 March 2023, be and it is hereby approved as set out below:

	Proposed 2022		2021	
R (excluding VAT)	Base fee	Penalty for non-attendance	Base fee	Penalty for non-attendance
Board				
Chairman of the board	**1 207 700***	**22 000**	1 134 000*	21 000
Lead independent director	**439 000**	**21 000**	412 000	20 000
Board member	**322 700**	**16 000**	303 000	15 000
Audit and risk management committee				
Chairman of the committee	**281 200**	**22 000**	264 000	21 000
Committee member	**155 500**	**16 000**	146 000	15 000
Remuneration committee				
Chairman of the committee	**197 000**	**22 000**	185 000	21 000
Committee member	**89 500**	**15 000**	84 000	14 000
Nomination committee				
Chairman of the committee	*	**16 000**	*	
Committee member	**65 000**	**10 500**	61 000	10 000
Social and ethics committee				
Chairman of the committee	**182 500**	**22 000**	158 000	21 000
Committee member	**82 000**	**14 000**	70 000	12 000

** All inclusive fee.*

The penalty incurred for non-attendance as chairman of a meeting would be paid to the member who stood in as chairman at that meeting.

The fee for additional meetings would be: Chairman – R33 000 (2021: R31 000) and member – R23 000 (2021: R22 000).

Reason and effect of Special Resolution Number 1

This resolution is proposed in order to comply with the requirements of the Companies Act. In terms of section 65(11)(h) of the Companies Act, read with sections 66(8) and 66(9), remuneration may only be paid to directors for their services as directors in accordance with a special resolution approved by the shareholders within the previous two years, and, only if this is not prohibited in terms of the company's MOI.

Therefore, the reason for and effect of Special Resolution Number 1 is to approve the payment of and the basis for calculating the remuneration payable by Hudaco to its non-executive directors for their services as directors of the company for the period 1 April 2022 until 31 March 2023. The fees payable to the non-executive directors are detailed above. Further details on the basis of calculation of remuneration are included in the remuneration report on page 80 of the Hudaco integrated report.

For Special Resolution Number 1 to be adopted, the support of at least 75% of the total number of votes exercisable by shareholders, present in person or by proxy, is required.

6. Non-binding Resolution Number 1: Approval of Hudaco's remuneration policy

That shareholders endorse, through a non-binding advisory vote, Hudaco's remuneration policy. Hudaco's remuneration policy is set out on pages 60 to 63 of the Hudaco integrated report.

King IV as well as the JSE Listings Requirements require the board (with the assistance of the remuneration committee) to present Hudaco's remuneration policy to the shareholders. This ordinary resolution is of an advisory nature and failure to pass this resolution will therefore not have any legal consequences for existing arrangements. However, should the resolution be voted against by 25% or more of the voting rights exercised, the board undertakes to offer to engage with those opposed to the remuneration policy in order to ascertain the reasons therefore, and to address appropriately legitimate objections and concerns. The manner and timing of such engagement will be communicated in the voting results announcement.

7. Non-binding Resolution Number 2: Approval of Hudaco's remuneration implementation report

That shareholders endorse, through a non-binding advisory vote, Hudaco's remuneration implementation report. Hudaco's remuneration implementation report is set out on pages 63 to 79 of its integrated report.

King IV as well as the JSE Listings Requirements require the board (with the assistance of the remuneration committee) to present Hudaco's remuneration implementation report to the shareholders. This ordinary resolution is of an advisory nature and failure to pass this resolution will therefore not have any legal consequences for existing arrangements. However, should the resolution be voted against by 25% or more of the voting rights exercised, the board undertakes to offer to engage with those opposed to the remuneration implementation report in order to ascertain the reasons therefore, and to address appropriately legitimate objections and concerns. The manner and timing of such engagement will be communicated in the voting results announcement.

8. Special Resolution Number 2: Authorising the provision of financial assistance to subsidiaries

That the board of the company be and it is hereby authorised, to the extent required by and subject to section 45 of the Companies Act and the requirements, if applicable of: (i) the MOI; and (ii) the JSE Listings Requirements, to cause the company to provide direct or indirect financial assistance to a subsidiary or joint venture of Hudaco, provided that no such financial assistance may be provided at any time in terms of this authority after the expiry of two years from the adoption of this Special Resolution Number 2.

Reason and effect of Special Resolution Number 2

In the normal course of business, the company is often required to grant financial assistance to subsidiary or joint venture companies. This assistance includes but is not limited to loans and guarantees for banking facilities. If this authorisation is not granted, it could inhibit the group from making acquisitions or obtaining banking facilities without having to call a general meeting of shareholders on each occasion. Special Resolution Number 2 will enable the company to provide financial assistance to subsidiaries and joint ventures in the Hudaco group for any purpose in the normal course of business.

Section 45 of the Companies Act provides, among others, that financial assistance to subsidiaries and joint ventures must be provided only pursuant to a special resolution of the shareholders, adopted within the previous two years, which approved such assistance whether for the specific recipient, or generally for a category of potential recipients, and the specific recipient falls within that category and the board of directors must be satisfied that: (a) immediately after approving the financial assistance, the company would satisfy the solvency and liquidity test, and (b) the terms under which the financial assistance is proposed to be given are fair and reasonable to the company.

For Special Resolution Number 2 to be adopted, the support of at least 75% of the total number of votes exercisable by shareholders, present in person or by proxy, is required.

9. Special Resolution Number 3: General authority to repurchase up to 1 625 986 (5%) of the ordinary shares in issue

That Hudaco or any of its subsidiaries be and is hereby authorised, by way of a general approval, to acquire up to 1 625 986 (5%) of Hudaco's ordinary shares (ordinary shares) in terms of section 48 of the Companies Act and the JSE Listings Requirements, being that:

- any such acquisition of ordinary shares shall be effected through the order book operated by the JSE trading system and done without any prior understanding or arrangement between Hudaco and the counterparty;
- this general authority shall be valid until Hudaco's next AGM, provided that it shall not extend beyond 15 months from the date of passing of this special resolution;
- an announcement will be published as soon as Hudaco or any of its subsidiaries has acquired ordinary shares constituting, on a cumulative basis, 3% of the number of ordinary shares in issue and for each 3% in aggregate of the initial number acquired thereafter, in compliance with rule 11.27 of the JSE Listings Requirements;
- acquisitions of ordinary shares in aggregate in any one financial year may not exceed 5% of Hudaco's ordinary issued share capital as at the date of passing of this Special Resolution Number 3;
- ordinary shares may not be acquired at a price greater than 10% above the weighted average of the market value at which such ordinary shares are traded on the JSE as determined over the five business days immediately preceding the date of repurchase of such ordinary shares by Hudaco or any of its subsidiaries;

- Hudaco has been given authority by its MOI;
- at any point in time, Hudaco may only appoint one agent to effect any repurchase on its behalf;
- prior to entering the market to repurchase the company's shares, a company resolution authorising the repurchase will have been passed in accordance with the requirements of section 46 of the Companies Act, stating that the board has applied the solvency and liquidity test as set out in section 4 of the Companies Act, and has reasonably concluded that the company will satisfy the solvency and liquidity test immediately after the repurchase; and
- Hudaco and/or its subsidiaries may not repurchase any ordinary shares during a prohibited period as defined by the JSE Listings Requirements unless a repurchase programme is in place, where the dates and quantities of ordinary shares to be traded during the prohibited period are fixed and full details of the programme have been submitted to the JSE in writing prior to the commencement of the prohibited period.

Before entering the market to effect the general repurchase, the directors, having considered the effects of the repurchase of the maximum number of ordinary shares in terms of the aforegoing general authority, will ensure that for a period of 12 months after the date of this notice of AGM:

- Hudaco and the group will be able, in the ordinary course of business, to pay its debts;
- the consolidated assets of Hudaco and the group, fairly valued in accordance with statements of International Financial Reporting Standards, will exceed the consolidated liabilities of Hudaco and the group; and
- Hudaco and the group's ordinary share capital, reserves and working capital will be adequate for ordinary business purposes.

The following additional information, which appears in the integrated report as published on Hudaco's website, is provided in terms of the JSE Listings Requirements for purposes of the general authority to repurchase shares:

- major shareholders – page 136; and
- share capital – note 18 on page 118.

Directors' responsibility statement

The directors, whose names appear on pages 20 and 21 of this integrated report, collectively and individually accept full responsibility for the accuracy of the information pertaining to this Special Resolution Number 3 and certify that, to the best of their knowledge and belief, there are no facts that have been omitted which would make any statements false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that this Special Resolution Number 3 contains all information required by law and the JSE Listings Requirements.

Material changes

Other than the facts and developments reported on in this integrated report, there have been no material changes in the affairs or financial position of Hudaco and its subsidiaries since the date of signature of the audit report and up to the date of this AGM notice.

Reason and effect of Special Resolution Number 3

The reason for and effect of this special resolution is to grant the directors of Hudaco a general authority in terms of the Companies Act and the JSE Listings Requirements for the repurchase by Hudaco, or a subsidiary of Hudaco, of up to 1 625 986 (5%) of its ordinary shares.

For Special Resolution Number 3 to be adopted, the support of at least 75% of the total number of votes exercisable by shareholders, present in person or by proxy, is required.

10. Ordinary Resolution Number 4: General authority to directors to allot and issue up to 1 625 986 authorised but unissued ordinary shares (5% of the shares in issue)

That, as required by and subject to the MOI and the requirements of the Companies Act and the JSE Listings Requirements, from time to time, the directors be and they are, as a general authority and approval, authorised, as they in their discretion think fit, to allot and issue unissued ordinary shares of the company, subject to the following:

- the authority shall be valid until the date of the next AGM of the company, provided that it shall not extend beyond 15 months from the date of this AGM; and
- issues in terms of the authority will not, in any financial year, in aggregate, exceed 5% of the number of ordinary shares in the company's issued share capital as at the date of the AGM.

As explanation for the passing of Ordinary Resolution Number 4, please note that clause 10.4 of the company's MOI, read with the JSE Listings Requirements, provides that shareholders may authorise directors to allot and issue the authorised but unissued shares, as the directors in their discretion think fit.

The authority in Ordinary Resolution Number 4 will be subject to the Companies Act and the JSE Listings Requirements. The aggregate number of ordinary shares able to be allotted and issued in terms of this authority is limited as set out in this Ordinary Resolution Number 4.

For Ordinary Resolution Number 4 to be adopted, the support of more than 50% of the total number of votes exercisable by shareholders, present in person or by proxy, is required.

11. Special Resolution Number 4: Amendment of clause 21.6 of the company's Memorandum of Incorporation (MOI)

To approve the amendment of clause 21.6 of the company's MOI in accordance with section 16(5)(b)(ii) and (iii) of the Companies Act, with effect from the date of the filing of the notice of amendment with the Companies and Intellectual Property Commission as follows:

21.6.1 At the annual general meeting held in each year at least 1/3 (one-third) of the non-executive directors shall retire from office.

21.6.2 The non-executive director so to retire at each annual general meeting shall be those who have been longest in office since their last election. As between non-executive directors of equal seniority, the non-executive directors to retire shall, in the absence of agreement, be selected from among them by lot, provided that notwithstanding anything herein contained, if, at the date of any annual general meeting any non-executive director will have held office for a period of 3 (three) years since his last election or appointment, he shall retire at such meeting, either as one of the non-executive directors to retire in pursuance of the aforegoing or additionally thereto. A retiring director shall act as a director throughout the meeting at which he retires.

21.6.3 Retiring directors shall be eligible for re-election, provided the board, through the nomination committee, recommended eligibility after due consideration of *inter alia* past performance and contribution. No person, other than a non-executive director retiring at the meeting shall, unless recommended by the directors for election, be eligible for election to the office of director at any annual general meeting unless, not less than 15 (fifteen) days before the day appointed for the meeting, there shall have been given to the secretary notice in writing by some holder duly qualified to be present and vote at the meeting for which such notice is given, of the intention of such holder to propose such person for election and also notice in writing signed by the person to be proposed of his willingness to be elected.

21.6.4 If at any annual general meeting, the place of any retiring director is not filled, he shall, if willing continue in office until the dissolution of the annual general meeting in the next year, and so on from year to year until his place is filled, unless it shall be determined at such meeting not to fill such vacancy.

Reason and effect of Special Resolution Number 4

Special resolution number 4 is proposed because, by virtue of executive directors being employed by the company and being subject to open ended employment contracts, this is inconsistent with the requirement for executive directors to retire by rotation together with non-executive directors. It is considered preferable, and is the more frequently adopted practice, in order to mitigate the risk to the company, for the non-executive directors to assess the fitness of the executive directors to continue in employment and in office.

The effect of special resolution number 4 will be that executive directors will not be required to retire by rotation in terms of the company's MOI, and that only non-executive directors will be required to retire at an annual general meeting.

For Special Resolution Number 4 to be adopted, the support of at least 75% of the total number of votes exercisable by shareholders, present in person or by proxy, is required. The proposed amendments to the MOI have been approved by the JSE and the MOI is available for inspection at the registered office of Hudaco during normal business hours from the date of this notice of AGM until the date of the AGM.

12. Ordinary Resolution Number 5 – Signature of documents

That any one director or the group secretary of Hudaco be and is hereby authorised to do all such things and sign all documents and take all such action as they consider necessary to implement the resolutions set out in the notice convening the AGM at which this ordinary resolution will be considered.

For Ordinary Resolution Number 5 to be adopted, the support of more than 50% of the total number of votes exercisable by shareholders, present in person or by proxy, is required.

Quorum

A quorum for the purpose of considering the resolutions above consists of three shareholders of the company, personally present or represented by proxy and entitled to vote at the AGM. In addition, a quorum will comprise 25% of all voting rights entitled to be exercised by shareholders in respect of the resolutions above.

The date on which shareholders must be recorded as such in the register maintained by the transfer secretaries, Computershare Investor Services (Pty) Ltd, to be entitled to attend, participate in and vote at the AGM is Friday, 11 March 2022.

Voting and proxies

To record the votes more effectively and give effect to the intentions of shareholders, voting on all resolutions will be conducted by way of a poll. Any shareholder entitled to attend and vote at the AGM may appoint a proxy to attend, speak and vote in his/her stead. A proxy need not be a shareholder of the company. For the convenience of registered members of the company, a form of proxy is enclosed herewith.

The attached form of proxy is to be completed only by those shareholders who are:
- holding the company's ordinary shares in certificated form; or
- recorded on the electronic sub-register in "own name" dematerialised form.

Shareholders who have dematerialised their ordinary shares through a Central Securities Depositary Participant (CSDP) or broker and wish to attend the AGM must instruct their CSDP or broker to provide them with their voting instruction in terms of the relevant custody agreement/mandate entered into between them and the CSDP or broker.

A form of proxy is attached but may also be obtained on request from the company's registered office. Completed forms of proxy should be returned to the transfer secretaries, Computershare Investor Services (Pty) Ltd, Rosebank Towers, 15 Biermann Avenue, Rosebank, 2196 (Private Bag X9000, Saxonwold, 2132), so as to reach them by no later than 11:00 on Tuesday, 15 March 2022. It may also be emailed to them at proxy@computershare.co.za. Any forms of proxy not submitted in this time may nevertheless be submitted to the transfer secretaries before the AGM or handed to the chairman of the AGM prior to the shareholder exercising any rights of a shareholder at the AGM.

Electronic participation

In terms of section 61(10) of the Companies Act, every shareholders' meeting of a public company must be reasonably accessible within South Africa for electronic participation by shareholders. Therefore, shareholders or their proxies may participate in a meeting by way of video conference if they wish to do so. In this event:

- Hudaco's company secretary must be contacted by email (at the address hudaco@acorim.co.za) by no later than 11:00 on Tuesday, 15 March 2022 in order to obtain dial-in details for participation;
- valid identification will be required:
  - if the shareholder is an individual, a certified copy of their identity document and/or passport;
  - if the shareholder is not an individual, a certified copy of a resolution by the relevant entity and a certified copy of the identity documents and/or passports of the persons who passed the relevant resolution, specifying the name of the individual that is authorised to represent the relevant entity at the AGM by way of video conference call as well as a valid email address and/or facsimile number; and
- no electronic voting facilities will be available so shareholders who wish to participate in the meeting by video conference and wish to vote are still required to submit their proxy forms in advance.

By order of the board

N Davies – Acorim Secretarial and Governance Services
Company secretaries

17 February 2022

Transfer secretaries
Computershare Investor Services (Pty) Ltd
Rosebank Towers, 15 Biermann Avenue
Rosebank, 2196
(Private Bag X9000, Saxonwold, 2132)

FORM OF PROXY

To: **Computershare Investor Services Proprietary Limited**
Rosebank Towers, 15 Biermann Avenue, Rosebank, 2196
(Private Bag X9000, Saxonwold, 2132)
email: proxy@computershare.co.za

Hudaco Industries Limited
(Incorporated in the Republic of South Africa)
(Registration number 1985/004617/06)
Share code: HDC **ISIN:** ZAE000003273
("Hudaco" or "the company")

Proxy form for the 37th annual general meeting – for use by certificated Hudaco ordinary shareholders and dematerialised shareholders with own name registration only (see note 1)

For use by Hudaco shareholders at the annual general meeting of Hudaco to be held on Thursday, 17 March 2022 at Hudaco's offices situated at Building 9, Greenstone Hill Office Park, Emerald Boulevard, Greenstone Hill, Edenvale, Gauteng at 11:00 (the annual general meeting).

I/We

of (address)

(please print)

being the holder(s) of ____________ ordinary shares in the capital of the company, do hereby appoint (see note 2):

1 or failing him/her

2 or failing him/her

3 the chairman of the annual general meeting

as my/our proxy to act on my/our behalf at the annual general meeting, which will be held for the purpose of considering and, if deemed fit, passing, with or without modification, the resolutions to be proposed thereat and at any adjournment thereof, and to vote for and/or against the resolutions and/or abstain from voting in respect of all the above ordinary shares registered in my/our name/s, in accordance with the following instructions:

Please indicate with an "X" in the appropriate box below how you wish to vote.

	Number of ordinary shares		
	For	**Against**	**Abstain**
Resolution			
Ordinary Resolution Number 1: To re-elect directors retiring by rotation:			
1.1 MR Thompson			
1.2 N Mandindi			
1.3 GR Dunford			
Ordinary Resolution Number 2: To approve the appointment of external auditors			
Ordinary Resolution Number 3: Appointment of the members of the audit and risk management committee:			
3.1 D Naidoo			
3.2 N Mandindi (subject to the passing of Ordinary Resolution Number 1.2)			
3.3 MR Thompson (subject to the passing of Ordinary Resolution Number 1.1)			
Special Resolution Number 1: Approval of non-executive directors' remuneration			
Non-binding Resolution Number 1: Approval of Hudaco's remuneration policy			
Non-binding Resolution Number 2: Approval of Hudaco's remuneration implementation report			
Special Resolution Number 2: Authorising the provision of financial assistance to subsidiaries			
Special Resolution Number 3: General authority to repurchase up to 1 625 986 of the ordinary shares (5% of the shares in issue)			
Ordinary Resolution Number 4: General authority to directors to allot and issue up to 1 625 986 authorised but unissued ordinary shares (5% of shares in issue)			
Special Resolution Number 4: Amendment of clause 21.6 of the company's MOI			
Ordinary Resolution Number 5: Signature of documents			

Signed at on 2022

Signature(s)

Assisted by me (where applicable)

FORM OF PROXY continued

Notes

1. Shareholders who have dematerialised their shares through a Central Securities Depository Participant (CSDP) or broker must either inform their CSDP or broker of their intention to attend the annual general meeting to provide them with the necessary authority to attend or provide the CSDP or broker with their voting instruction in terms of the custody agreement entered into between the beneficial owner and the CSDP or broker.
2. A shareholder may insert the name of a proxy or the names of two alternative proxies of the shareholder's choice in the space provided. The person whose name appears first on the form of proxy and who is present at the annual general meeting will be entitled to act as proxy to the exclusion of those whose names follow.
3. A shareholder's instructions to the proxy must be indicated by "X" in the appropriate box provided on the proxy form. Failure to comply with the above will be deemed to authorise a proxy to vote or abstain from voting at the annual general meeting as he/she deems fit in respect of all the members' votes exercisable at the annual general meeting.
4. The completion and lodging of this form of proxy will not preclude the shareholder from attending the annual general meeting and speaking and voting thereat to the exclusion of any proxy appointed in terms hereof should the shareholder wish to do so (see note 1 above).
5. The chairman of the annual general meeting may reject or accept any proxy form that is completed and/or received, other than in accordance with these notes. Proxy forms received by way of facsimile will be acceptable.
6. Each shareholder is entitled to appoint one or more proxies (none of whom needs to be a shareholder of Hudaco) to attend, speak and vote in place of the shareholder at the annual general meeting.
7. Any alteration to this form of proxy, other than a deletion of alternatives, must be initialled by the signatories.
8. Documentary evidence establishing the authority of the person signing this form of proxy in a representative capacity must be attached to this form of proxy unless previously recorded by Hudaco.
9. Where there are joint shareholders:
   (a) Any one shareholder may sign the form of proxy;
   (b) The vote of the senior (for that purpose seniority will be determined by the order in which the names of shareholders appear in Hudaco's register of shareholders) who tenders a vote (whether in person or by proxy) will be accepted to the exclusion of the vote/s of the other joint shareholder/s.
10. For administrative purposes only, forms of proxy should be lodged with the transfer secretaries, Computershare Investor Services (Pty) Ltd, Rosebank Towers, 15 Biermann Avenue, Rosebank, 2196 or be posted to them at Private Bag X9000, Saxonwold, 2132, or emailed to them at proxy@computershare.co.za, by Tuesday, 15 March 2022, at 11:00 or thereafter to the company by hand at Hudaco's offices situated at Building 9, Greenstone Hill Office Park, Emerald Boulevard, Greenstone Hill, Edenvale, Gauteng. Any forms of proxy not submitted by this time may nevertheless be submitted to the transfer secretaries before the annual general meeting or handed to the chairman of the annual general meeting prior to the shareholder exercising any rights of a shareholder at the annual general meeting.
11. In terms of section 61(10) of the Companies Act, every shareholders' meeting of a public company must be reasonably accessible within South Africa for electronic participation by shareholders. Therefore, shareholders or their proxies may participate in a meeting by way of video conference if they wish to do so. In this event:
    - Hudaco's company secretary must be contacted by email (at the address hudaco@acorim.co.za) by no later than 11:00 on Tuesday, 15 March 2022 in order to obtain dial-in details for participation;
    - valid identification will be required:
      - if the shareholder is an individual, a certified copy of their identity document and/or passport;
      - if the shareholder is not an individual, a certified copy of a resolution by the relevant entity and a certified copy of the identity documents and/or passports of the persons who passed the relevant resolution, specifying the name of the individual that is authorised to represent the relevant entity at the AGM by way of video conference call as well as a valid email address and/or facsimile number; and
    - no electronic voting facilities will be available so shareholders who wish to participate in the meeting by video conference and wish to vote are still required to submit their proxy forms in advance.

Additional forms of proxy are available from the transfer secretaries on request.

CORPORATE INFORMATION

Hudaco Industries Limited

(Incorporated in the Republic of South Africa)
(Registration number 1985/004617/06)
JSE share code: HDC
ISIN code: ZAE000003273

Registered and business address

1st Floor, Building 9
Greenstone Hill Office Park
Emerald Boulevard
Greenstone Hill, Edenvale
(Private Bag 13, Elandsfontein, 1406)
Tel: +27 11 657 5000
Email: info@hudaco.co.za
Website: www.hudaco.co.za

Secretary

Acorim Secretarial and Governance Services
13th Floor, Illovo Point
68 Melville Road
Illovo
Tel: +27 11 325 6363
Email: hudaco@acorim.co.za
Website: www.acorim.co.za

Transfer secretaries

Computershare Investor Services (Pty) Ltd
Rosebank Towers, 15 Biermann Avenue
Rosebank
(PO Box 61051, Marshalltown, 2107)
Tel: + 27 11 370 5000

Auditors

2021

BDO South Africa Incorporated
Wanderers Office Park
52 Corlett Drive, Illovo
(Private Bag X60500, Houghton, 2041)

2022

Deloitte & Touche
5 Magwa Crescent
Waterval City, Midrand

Bankers

Absa Bank Ltd
FirstRand Bank Ltd
Nedbank Ltd
The Standard Bank of South Africa Ltd

Sponsor

Nedbank Corporate and Investment Banking, a division of
Nedbank Limited
135 Rivonia Road, Sandton
(PO Box 1144, Johannesburg, 2000)

SHAREHOLDERS' DIARY

Financial year end	30 November
Annual general meeting	17 March 2022
Reports and financial statements	
Preliminary report and final dividend announcement	3 February 2022
Abridged financial statements and notice of annual general meeting (mailed to shareholders)	17 February 2022
Interim report and interim dividend announcement	Early July 2022
Dividend payment details	
Payment of final dividend	7 March 2022
Payment of interim dividend	third week in August 2022

DIVISION	BUSINESS NAME	PRINCIPAL ACTIVITIES	ADDRESS
CONSUMER-RELATED PRODUCTS			
Power tools and fasteners	Rutherford	Distributor of Makita power tools, Mercury marine engines and survey instrumentation.	Unit 3A & B City Deep Industrial Park 36 Fortune Street City Deep
	FTS Boltworld	Distributor of a comprehensive range of quality fasteners, including blind rivets, self-drilling screws, hexagonal bolts, nuts and washers.	Unit 3A & B City Deep Industrial Park 36 Fortune Street City Deep
Security and communication equipment	Elvey Security Technologies	Distributor of electronic security equipment, including intruder detection, access control, CCTV, fire detection, electric fencing and specialised products, as well as related consumables.	27 Greenstone Place Greenstone Hill Edenvale
	Pentagon	Distributor of integrated security and life safety solutions, including surveillance, access control, fire detection, public address and perimeter detection products.	27 Greenstone Place Greenstone Hill Edenvale
	Commercial ICT	Distributor of Permaconn mobile radio communication equipment and systems as well as hosting and support of core IT infrastructure and communication networks.	27 Greenstone Place Greenstone Hill Edenvale
	Global Communications	Distributor of professional mobile radio communication equipment and radio systems integrator.	27 Greenstone Place Greenstone Hill Edenvale
Data networking equipment	MiRO	Distributor of wireless IP convergence solutions, including network infrastructure, switches and routers, Wi-Fi and hotspot, enterprise wireless, fixed wireless broadband, carrier class wireless, antennas and masts, voice over IP and IP surveillance products.	9 Landmarks Avenue Kosmosdal Ext 11 Samrand
	SS Telecoms	Distributor of voice and data solutions.	9 Landmarks Avenue Kosmosdal Ext 11 Samrand
Automotive aftermarket	Abes Technoseal	Distributor of light and heavy duty clutch kits, ignition leads and rotary shaftseals to the automotive aftermarket and hydraulic and pneumatic seals to the industrial and construction equipment market.	3 Wankel Street Jet Park
	Partquip	Distributor of automotive spares and accessories.	61 Trump Street West Selby Johannesburg
	A-Line Wheels	An importer and distributor of alloy and steel wheels.	61 Trump Street West Selby Johannesburg
	Ironman 4X4	Distributor of suspension and accessories to the 4X4 industry.	1 Voortrekker Road Alberante Alberton
Batteries and sustainable energy	Deltec Energy Solutions	Distributor of maintenance-free batteries for automotive, trucking, mining, stand-by, solar utility and electric vehicle applications and a provider of custom-designed energy solutions.	6 Liebenberg Street Alrode Alberton
	Eternity Technologies	Distributor of batteries, high frequency chargers and related battery equipment to the traction battery market in southern Africa. It also designs, builds and manages battery bays for warehouses and distribution centres.	192 Peenz Street Corner Pretoria Road Putfontein Benoni
	Hudaco Energy	Distributor of sustainable power and storage products and solutions, including solar inverters, PV panels, residential, commercial and industrial storage and balance of plant equipment.	6 Liebenberg Street Alrode Alberton
	Specialised Battery Systems	Distributor of stand-by and solar batteries.	23 Golden Drive Morehill Benoni
ENGINEERING CONSUMABLES			
Bearings and belting	Bearings International	Distributor of bearings, chains, seals, electric motors, transmission and allied products.	Lancaster Commercial Park Cnr Merlin Rose & Lancaster Ivy Drives (off Atlas Road) Parkhaven Ext 5, Boksburg
	Belting Supply Services	Distributor of conveyor belting, industrial hose, fluid sealing and process control products.	12 Fortune Street City Deep
	Brewtech Engineering	Distributor of plastic and stainless steel slat chains and modular belting and conveyor components. Manufacturer of plastic engineering parts for machines used in food, bottling and mining industries.	12 Fortune Street City Deep
Diesel engines and spares	Deutz Dieselpower	Distributor of DEUTZ diesel engines, DEUTZ spare parts, HJS exhaust gas aftertreatment systems and provider of service support.	5 Tunney Road Elandsfontein

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DIVISION	BUSINESS NAME	PRINCIPAL ACTIVITIES	ADDRESS
ENGINEERING CONSUMABLES continued			
Specialised steel	Ambro Steel	Distributor of engineering steels, solid, round, square, hexagonal and hollow bar steel.	Corner Lamp and Snapper Roads Wadeville
	Sanderson Special Steels	Distributor of special steels and of heat treatment to the tool making and general engineering industries.	18 Junction Street Parow Industria Cape Town
	Bosworth	Manufacturer of conveyor drive pulleys, forging and rollings.	Corner Vereeniging and Juyn Roads Alrode
	The Dished End Company	Manufacturer of end caps on pressure vessels and single pressed weld caps and the pressing and flanging of small conical sections.	30 North Reef Road Elandsfontein Germiston
	Joseph Grieveson	Manufacturer of ferrous and non-ferrous castings.	332 Aberdare Drive Phoenix Industrial Park Phoenix, Durban
Thermoplastic pipes and fittings	Astore Keymak	Distributor of specialised thermoplastic pipes, fittings and Keymak PVC hose.	Building B 1 Makro Place Sunnyrock, Germiston
Filtration	Filter and Hose Solutions	Distributor of filtration solutions, customised exhaust systems, kits and accessories.	160 Francis Road Anderbolt Boksburg North
Hydraulics and pneumatics	Dosco Precision Hydraulics	Distributor of hydraulic pumps and motors to the mining, industrial, mobile, marine and forestry industries.	6 Impangela Road Sebenza Ext 6 Edenvale
	Ernest Lowe	Manufacturer of hydraulic and pneumatic equipment.	6 Skew Road Boksburg North
	Gear Pump Manufacturing	Manufacturer and assembler of hydraulic gear pumps.	15 Moody Avenue Goodwood Cape Town
	Hydraulic Engineering Repair Services	Manufacturer and repairer of hydraulic cylinders and repairer of drivetrain components.	1 Setchell Road Roodekop Germiston
Electrical power transmission	Hudaco Power Transmissions	Distributor and repairer of geared and electric motors, industrial bevel helical transmissions and drive solutions.	72 Acacia Road Cnr Barbara Road Primrose, Germiston
	Powermite	Distributor of electric cabling, plugs, sockets, electric feeder systems and crane materials.	Linbro Business Park 47 Galaxy Avenue Frankenwald, Sandton
	Proof Engineering	Manufacturer of mining connectors and lighting systems.	368 Sifon Street Robertville Roodepoort
	Three-D Agencies	Distributor of electrical cable accessories.	Linbro Business Park 47 Galaxy Avenue Frankenwald, Sandton
	Varispeed	Distributor of controllers, monitors and regulators of the speed of standard AC motors.	Linbro Business Park 47 Galaxy Avenue Frankenwald, Sandton
GROUP			
Group head office	Hudaco Industries Hudaco Trading		Building 9 Greenstone Hill Office Park Emerald Boulevard Greenstone Hill Edenvale

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Designations in consumer-related products and engineering consumables segments referring to director denote divisional directorships and not statutory directorships.