Hudaco

INTEGRATED REPORT 2020

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 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.

CONTENTS

GROUP OVERVIEW

- Net borrowings down **R365 million** for the year to **R643 million**
- Cash generated from operations at **R908 million**
- Full year headline earnings per share down **23%**
- Full year comparable earnings per share down **35%**
- H2 headline earnings per share up **4%**
- H2 comparable earnings per share up **2%**
- H2 operating profit up **7%**
- Final dividend maintained at **410 cents** per share

2020 HIGHLIGHTS

- Strong cash generation in difficult circumstances
- The Hudaco team's response to Covid-19 lockdown
- H2 2020 earnings exceeded H2 2019
- First distribution to black staff from BEE trusts
- Progress in rationalising businesses

CHALLENGES IN 2020

- Managing through lockdown and related uncertainty
- Safety of employees in the pandemic
- Consolidation of security and communication businesses
- Business confidence with stage 6 load shedding and Moody's downgrade

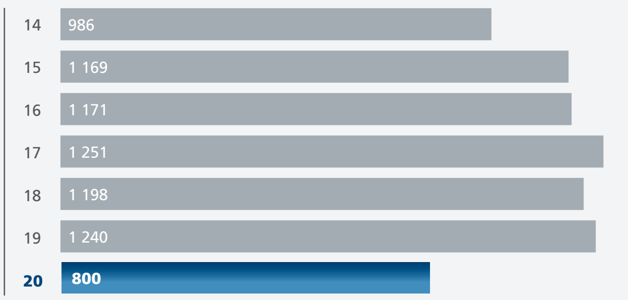
RESULTS IN BRIEF

30 November	2020	2019
Turnover (Rm)	**6 254**	6 704
Operating profit (Rm)	**510**	701
Comparable earnings (Rm)	**252**	392
Headline earnings (Rm)	**331**	429
Attributable earnings (Rm)	**36**	429
Comparable earnings per share (cents)	**800**	1 240
Headline earnings per share (cents)	**1 050**	1 355
Dividends per share (cents)	**410**	600

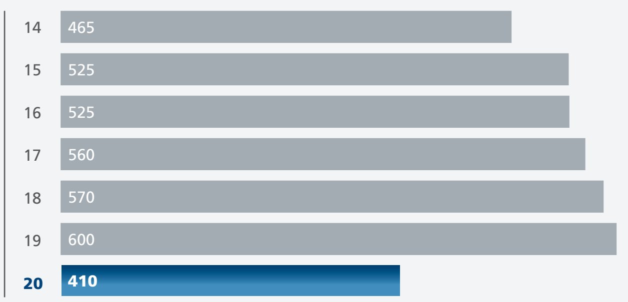
TURNOVER (RM)

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 2019 to 30 November 2020. 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 2020 and 30 November 2019. The previous IAR covered the period 1 December 2018 to 30 November 2019. The IAR deals with all of Hudaco's operations, which are overwhelmingly in South Africa, and to a small extent in the rest of Africa 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). Non-financial information deemed to be material is also included. This report aims to present a concise and balanced position 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 impacts 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 tries to integrate 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 82 to 91
Black economic empowerment status report	Codes of Good Practice, issued by the Department of Trade and Industry (dti)	Page 42
Environmental impact and employee report	Various relevant guidelines including those contained in the global reporting initiative (GRI) G3 indicators	Pages 42 to 45 and 50 to 59
Annual financial statements	International Financial Reporting Standards (IFRS), Financial Reporting Guides, issued by the South African Institute of Chartered Accountants, South African Companies Act and the JSE Listings Requirements	Pages 92 to 135

Assurance

No external assurance has formally been sought, other than from our 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 has 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 our judgements and future expectations, several factors may cause actual results to differ materially from our 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 also 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 the impacts thereon.

FINANCIAL CAPITAL

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

Impact

- Profit shared with ordinary shareholders (R139 million in dividends and repurchased shares from ordinary shareholders for R82 million);
- Contributed to societal growth by buying goods and services (R4.5 billion), paying taxes (R241 million) and employment (R1.2 billion);
- Market capitalisation of R2.6 billion as at 30 November 2020; and
- Provision of credit to customers of R1.1 billion as at 30 November 2020.

HUMAN CAPITAL

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

Impact

- Provide 3 694 jobs with improved diversity, with 24% of senior managers being black and 26% being women;
- R8.4 million spent on direct training for ongoing skills and development; and
- Granted 31 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 R265 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.

Impact

- Continued to support renewable energy sector, lower energy usage and other climate related solutions.

SOCIAL AND RELATIONSHIP CAPITAL

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

Impact

- R2.3 million spent on education and skills development of family members of employees;
- Loans and contributions of R3 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, in order 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

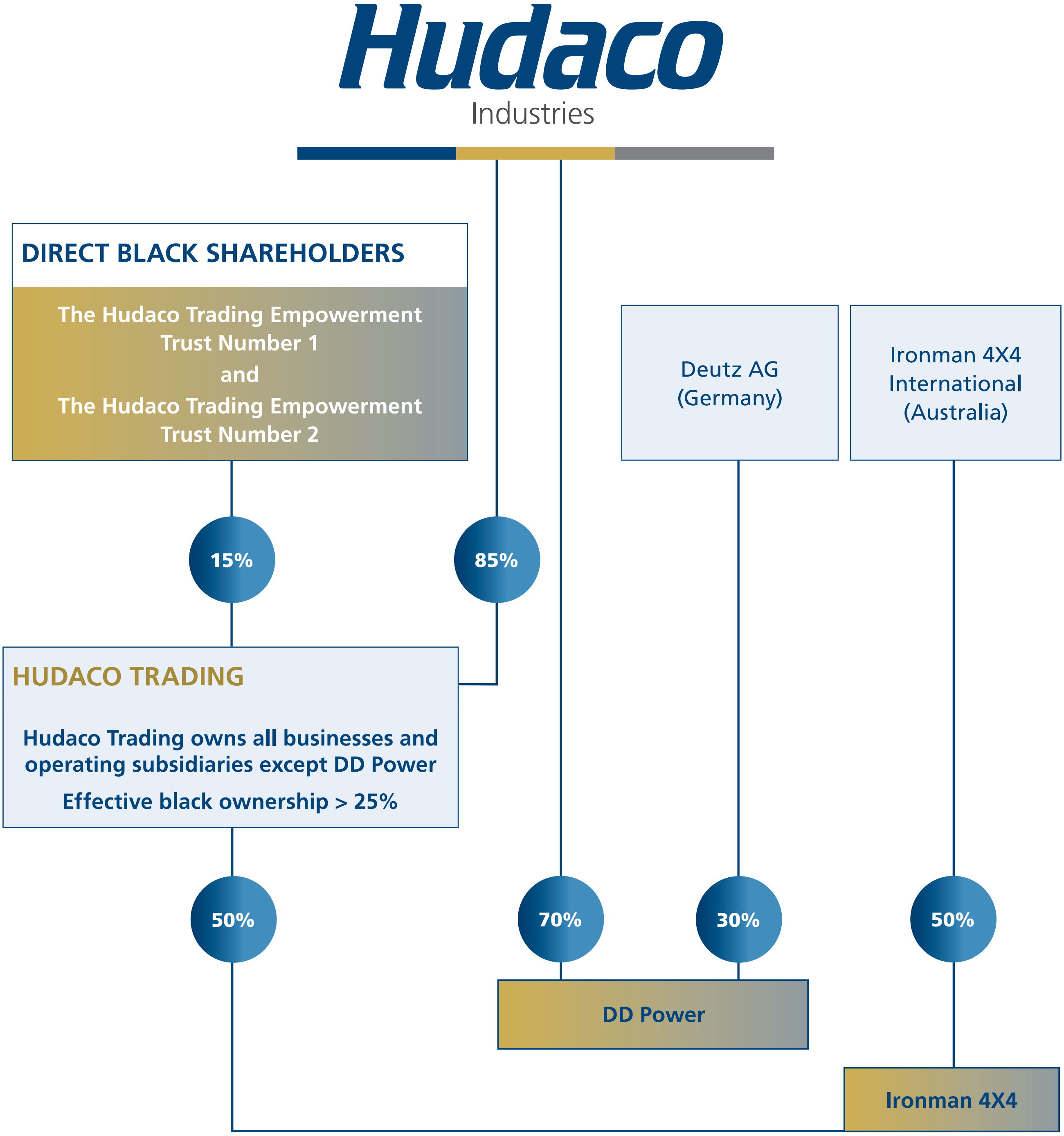
The past decade has seen Hudaco make several significant acquisitions, including Filter and Hose Solutions, Global Communications, the Dosco group, MiRO and Partquip. The latter serves the automotive aftermarket and is now the group's largest single business. Many smaller businesses have also been acquired.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

Today

A quality diversified industrial distributor

Today, with a proud history of almost 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 3 700 people and has a market capitalisation of about R2.6 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 67% 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	**Deltec, Specialised Battery Systems and Eternity Technologies**
The distribution of maintenance free lead acid, stand-by and solar batteries 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 and batteries for forklifts as well as provide 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**
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 communication equipment	**Elvey Security Technologies, Elvey Projects, Commercial ICT, Global Communications and SS Telecoms**
The distribution of stand-alone and integrated intrusion detection, access control, fire detection and surveillance/cctv solutions, including the provision of related IP/GSM network and support services as well as the distribution of VoIP, video products, professional mobile radio equipment and radio systems integration, and the distribution of communication management software, solutions and equipment.	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, JVC, Sharetel, Mitel and ATel communication equipment.

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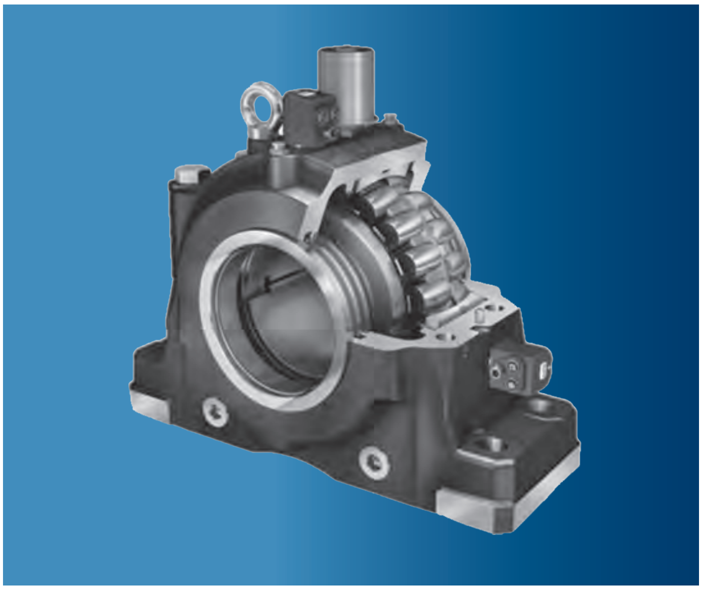
ENGINEERING CONSUMABLES

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, mainly to the mining aftermarkets.	Distributes Donaldson, Filtrec and other air and oil filters, kits and accessories for a broad range of applications but mainly to the opencast mining sector.
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, Bauer Geared Motors 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, Bauer geared motors, sophisticated cabling and accessories and manufacture electrical plugs, sockets, connectors and flame-proof lighting.

KEY DRIVERS	R million	2020	2019
• Consumer spending • Building activity • Employment levels • Vehicle sales • Analogue to digital migration • Broadband, Wi-Fi and VoIP expansion	Turnover	3 360	3 589
	Operating profit	369	421
	Average net operating assets	2 184	2 126
	Number of permanent employees	1 642	1 713

KEY DRIVERS	R million	2020	2019
• GDP growth • Mining activity • Mining investment • Mining mechanisation • Manufacturing activity • Electricity usage management	Turnover	2 907	3 120
	Operating profit	178	284
	Average net operating assets	1 936	1 869
	Number of permanent employees	1 919	2 120



GROUP

SALES BY MARKET SECTOR – 2020 (%)

KEY DRIVERS	R million	2020	2019
• Exchange rates • Acquisitions	Turnover	6 254	6 704
	Operating profit	510	701
	Average net operating assets	4 095	3 992
	Number of permanent employees	3 587	3 858

SEVEN-YEAR REVIEW

R million	2020	2019	2018	2017	2016	2015	2014
GROUP STATEMENT OF INCOME							
Turnover	**6 254**	6 704	6 381	5 902	5 534	5 230	4 480
Profit before interest and tax	**245**	731	632	656	645	600	495
Net finance costs	**104**	103	91	81	87	73	37
Profit before taxation	**141**	628	541	575	558	527	458
Taxation excluding tax settlement	**133**	160	144	156	148	141	128
Profit before tax settlement	**8**	468	397	419	410	386	330
Settlement of tax dispute							312
Income from joint venture	**1**	3	3	3	3	3	
Profit for the year	**9**	471	400	422	413	389	18
Non-controlling interest	**(27)**	42	19	25	25	20	15
Attributable earnings	**36**	429	381	397	388	369	3
Shares in issue (000) (weighted average)	**31 527**	31 646	31 646	31 646	31 646	31 646	31 646
Earnings per share (cents)							
– comparable	**800**	1 240	1 198	1 251	1 171	1 169	986
– headline	**1 050**	1 355	1 289	1 256	1 222	1 163	6
– basic	**113**	1 355	1 202	1 254	1 226	1 164	8
Dividends per share (cents)	**410**	600	570	560	525	525	465
GROUP STATEMENT OF FINANCIAL POSITION							
Property, plant and equipment	**265**	274	249	270	256	261	257
Right-of-use assets	**414**						
Investment in joint venture		12	9	9	7	7	
Goodwill	**1 170**	1 512	1 505	1 480	1 243	1 001	730
Intangible assets	**33**	51	77	70	68	69	36
Deferred taxation – net	**40**	38	34	13	26	15	1
Inventories	**1 598**	1 720	1 822	1 538	1 508	1 369	1 141
Trade and other receivables	**1 196**	1 269	1 278	1 156	1 046	990	856
Trade and other payables	**(936)**	(968)	(989)	(943)	(898)	(764)	(711)
Taxation – net	**(13)**	8	(29)	(26)	3	3	(186)
Net operating assets	**3 767**	3 916	3 956	3 567	3 259	2 951	2 124
Lease liabilities	**(455)**						
Net borrowings	**(643)**	(1 008)	(1 163)	(860)	(905)	(1 016)	(413)
Employment of capital	**2 669**	2 908	2 793	2 707	2 354	1 935	1 711
Equity holders of the parent	**2 593**	2 742	2 509	2 295	2 065	1 844	1 649
Non-controlling interest	**76**	101	70	81	65	51	33
Equity	**2 669**	2 843	2 579	2 376	2 130	1 895	1 682
Amounts due to vendors on acquisitions		65	214	331	224	40	29
Total capital employed	**2 669**	2 908	2 793	2 707	2 354	1 935	1 711
GROUP STATEMENT OF CASH FLOWS							
Cash generated from trading	**726**	794	760	776	709	677	545
Decrease (increase) in working capital	**182**	59	(292)	(65)	37	(153)	(44)
Cash generated from operations	**908**	853	468	711	746	524	501
Other income – proceeds of damages claim	**35**						
Taxation paid (including tax settlement)	**(113)**	(196)	(164)	(131)	(175)	(378)	(222)
Net cash from operating activities	**830**	657	304	580	571	146	279
Investment in new operations	**(6)**	(114)	(242)	(210)	(165)	(463)	(224)
Investment in property, plant, equipment and intangible assets	**(39)**	(74)	(51)	(47)	(30)	(31)	(58)
Dividends and interest received			4				
Net cash from investing activities	**(45)**	(188)	(289)	(257)	(195)	(494)	(282)
Share-based payments	**(3)**	(22)	(18)	(16)	(5)	(24)	(20)
(Decrease) increase in long-term borrowings	**(138)**	(96)	339	(35)	(90)	603	197
Repurchase of shares	**(82)**						
Finance costs paid	**(103)**	(103)	(91)	(81)	(86)	(73)	(38)
Repayment of lease liabilities	**(92)**						
Dividends paid	**(139)**	(189)	(211)	(178)	(174)	(158)	(148)
Net cash from financing activities	**(557)**	(410)	19	(310)	(355)	348	(9)
Decrease (increase) in bank balances	**228**	59	34	13	21	0	(12)

MISSION

Hudaco has been an important part of the South African business landscape for almost 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 skills development and socio-economic development initiatives

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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 what 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 now 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 more recently in Kenya.

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Consumer-related products

- Automotive aftermarket products
- Batteries
- 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 usually bolt-on 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 seller 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

We are all fully aware that 2020 was a year of great trauma and hardship for people the world over and that the economic impact of measures to contain the spread of the Covid-19 coronavirus has been devasting. In South Africa we also suffered from the effect of level 6 load shedding and a ratings downgrade of government debt to junk status by Moody's, events which paled into insignificance compared to the lockdowns but should not be overlooked.

In our interim results announcement released at the end of June 2020, we detailed how events unfolded for Hudaco in the first half of the year, the extensive steps we took in response and how the financial results were affected. Operating profit to May 2020 was only R79 million, after increasing expected credit losses and writing down certain inventory in the expectation of write-offs due to the pandemic. Goodwill and other intangibles were impaired by R348 million, resulting in a loss for that period. These impairments, required in terms of IFRS, were based on judgement exercised while the country was in the midst of the first wave of Covid-19. As expected, the impact on the first half numbers was so overwhelming that it also dominates the results for the full year and so we believe that there is little to be gained from an analysis of the full-year income statement on its own. A much better understanding of the performance of the group, and the extent to which it has bounced back after the battering it took in the first half, can be derived from an assessment of the performance in the second six months, the commencement of which coincided with the downgrade of the lockdown status to level 3. The group's performance in this period was commendable.

We used the extended lockdown in the first half of our financial year to identify opportunities to achieve long-term savings and synergies through rationalisation of elements of certain businesses whose cost structures were expected to be out of line with future sales levels. Most of these opportunities were found in the security and communication, hydraulics and pneumatics and electrical power transmission businesses.

Throughout the second half of the year, all our businesses and the majority of our customers were able to operate, albeit initially at reduced capacity. The all-important work on planning and strategising, managing working capital, and cost containment done over the lockdown months in the first half enabled us to optimise performance from the outset. Despite the negative sentiment and lack of business confidence, both of our business segments very quickly got back up to 2019 turnover levels.

The increasing difficulty in getting goods through our ports had a significant impact on our supply chain and led to stock shortages which had a negative effect on our turnover and operating profits. There was a general shortage of containers available on the world market and then finding space on ships that would stop in South Africa's ports was the next challenge. Durban, in particular, is now regarded worldwide as notoriously inefficient, with ships sometimes having to wait for longer periods offshore before being granted a berth. There are then delays in offloading and transporting containers inland. All of this increases costs. It is of concern that if the inefficiencies at our ports remain unresolved, South Africa could be marked an undesirable export destination for suppliers and result in our having to carry more inventory.

For the record, annual turnover was down 6.7% to R6.3 billion while operating profit decreased 27.2% to R510 million. Headline earnings were down 22.5% to 1 050 cents per share, and comparable earnings were down 35.5% to 800 cents per share. Importantly, R908 million cash was generated from operations, and borrowings declined by R365 million over the year. Our sales by market sector analysis reflected very little change in the various segments we serve from the prior year.

Hudaco is predominantly an importer of branded products, so currency levels and movement greatly impact our pricing. The best scenario for Hudaco is a gradually depreciating Rand, but in 2020 the Rand once again did not oblige, making pricing exceptionally difficult. The currency started the year at R14.66 to the US dollar, depreciated by 31.4% in April to R19.26, and gradually strengthened to close the financial year back at R15.40. We adhere to our hedging policy to protect the downside, but the volatility means we are sometimes locked in with expensive cover when the Rand strengthens.

Comparing the second half of 2020 results with those of 2019

Turnover was up **2.5%** to **R3.6 billion**.

Operating profit increased by **6.9%** to **R431 million**.

Headline earnings were up **3.5%** to **R269 million**, while headline earnings per share increased **4%** to **855 cents**.

Comparable earnings were up **1.0%** to **R230 million**, while comparable earnings per share increased **1.5%** to **731 cents**.

Operating expenses are down **0.4%**, whilst GP% was maintained.

Closing net borrowings are R643 million, down **R523 million** from May 2020 and down R365 million from November 2019. This is after spending R82 million on repurchasing shares.

Working capital is down **R203 million** since May 2020.

Return on equity for the second half was **24.0%**. If the May 2020 goodwill impairment was added back, then the ROE in the second half would have been 21.1%.

Hudaco has managed well through the business interruption of the first Covid-19 wave and has again shown its resilience. The second half of 2020 operational and financial performance compared favourably against the comparable period in 2019. Therefore, we consider prospects for Hudaco to be positive for 2021, despite what is happening in the economy.

JOINT REPORT OF THE CHAIRMAN AND CHIEF EXECUTIVE
continued

As we reflect on the things in Hudaco for which we are most grateful in this traumatic year, it is, without doubt, the management and staff who helped make and supported the tough decisions through the most challenging of times. Their understanding and hard work enabled us to focus on finding and implementing innovative solutions and responses to the lockdowns in the first half of the year, so that we could come out strongly in the second half.

Consumer-related products

The consumer-related products segment now comprises 11 businesses. In 2020, it made up 54% of Hudaco's sales and 67% of operating profit. In 2019, this segment contributed 60% of group operating profit.

MiRO had a very good second half, with increased demand for wireless and fibre home connectivity, video conferencing, touchless access control and network upgrades for internet service providers and enterprises. Our battery businesses supplying products to the automotive wholesale and retail sectors, as well as in the energy storage market, stand-by battery systems for support infrastructure to the UPS market, telecommunication, security (alarm) and solar markets, project orders within the data centre sector, together with replacement batteries for load shedding stand-by applications, both did very well. Our automotive businesses managed their gross profit margins and expenses well to produce a good second half result. The consolidation of Global Communications, SS Telecoms, TPA and Pentagon projects into Elvey incurred extra once-off expenses through moving and retrenchments. We believe the work done now has set us up well for 2021 and beyond.

In the second half of the year, consumer-related products sales were up 2.5% with operating profit up 18.1%. Operating margin increased from 11.5% to 13.3%.

Engineering consumables

The 18 businesses that now constitute engineering consumables made up the other 46% of sales and 33% of operating profit. In 2019 this segment contributed 40% of operating profit. The expense base in engineering consumables is much higher because of its extensive branch network and the number of separate businesses in that segment, so the negative effect of reduced sales on its profitability was greater.

Demand in the second half has been surprisingly strong in this segment with all businesses very quickly getting up to 2019 levels. Ambro Steel and Bearings International in particular had a good second half. There were consolidations in our hydraulics cluster with Dosco, Ernest Lowe and HERS. Bauer, Powermite, Ampco, Three-D Agencies and Varispeed are to be consolidated into one electrical cluster in March 2021.

In the second half of the year, engineering consumables turnover was up 3.5% with operating profit up 12.6%. Operating margin increased from 10.6% to 11.5%.

Financial position

While always solid, the financial position has strengthened even further with R908 million cash generated by operations in 2020. The group had R643 million in net bank borrowings at year end, down R365 million from R1 008 million in 2019, after spending R82 million on repurchasing shares. More importantly, interest payments were covered more than seven 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 suitable acquisition opportunities are identified, we have the capacity to fund them.

At the beginning of 2019, we committed to reducing inventory levels and have done so by a further R122 million on top of R102 million achieved that year. Closing inventory was R1 598 million.

Accounting for leases: IFRS 16

The adoption of IFRS 16, with effect from 1 December 2019, in accounting for leases has resulted in a right-of-use asset and a lease liability being brought onto the statement of financial position for the first time. In the statement of comprehensive income, operating lease costs on fixed property are replaced with depreciation and finance costs.

Settlement of lawsuit

Hudaco was paid R35 million to settle the damages claim instituted by Hudaco against its advisers on its 2007 BEE transaction. Full details were set out in an announcement released on SENS on 31 August 2020.

Dividends and repurchase of shares

Hudaco normally pays an interim dividend but did not do so in 2020. Given the uncertainty prevailing at the time and the extent of the impact the Covid-19 virus was having and was expected to continue to have on our businesses, the board considered it prudent and in the company's and its stakeholders' best interests to preserve the company's financial liquidity. A strong performance in the second half of the year with very good cash generation means that we can pay a final dividend. The board has decided that 410 cents, which is the same as the 2019 final dividend is an appropriate level. This is 68% of the total dividends for 2019 of 600 cents. The dividend cover is 2.0 times comparable earnings, which is at the top end of our long-term dividend policy range of paying between 40% and 50% of comparable earnings.

Suitable acquisitions proved elusive, and as the Hudaco share price traded lower during 2020, buying back shares became an attractive option. After paying down some of the debt, late in the financial year the company utilised available cash resources, including the R35 million proceeds of the legal settlement, to repurchase 3% of the issued shares in the open market. In total, we repurchased 1 024 600 shares at a cost of R82 million, including transaction costs, which were withdrawn from the market on 8 December 2020.

Strategic focus

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 mean that businesses which 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 product offering. We also continue to look for new markets and grow our businesses' reach geographically where appropriate. Compelling acquisition opportunities may well arise in the aftermath of the Covid-19 pandemic.

Prospects

Hudaco has managed well through the business interruption of the first Covid-19 wave and has again shown its resilience. The second half of 2020 operational and financial performance compared favourably against the comparable period in 2019. Therefore, we consider prospects for Hudaco to be positive for 2021, despite what is happening in the economy. While we appreciate there is much uncertainty ahead, our businesses are well placed and ready for 2021, subject to no further lockdown restrictions on businesses in the markets we serve. We should also see the benefit of the rightsizing and rationalisation within certain businesses coming through in 2021. We are confident that we will benefit immediately from any increase in business confidence and growth in GDP.

We continue to seek opportunities to improve efficiencies and synergies in our businesses where it makes sense, manage the elements within our control and use the cash generated to either pay down debt or make accretive acquisitions, potentially including of our own shares.

Appreciation

As we reflect on the things in Hudaco for which we are most grateful in this traumatic year, it is, without doubt, the management and staff who helped make and supported the tough decisions through the most challenging of times. Their understanding and hard work enabled us to focus on finding and implementing innovative solutions and responses to the lockdowns in the first half of the year, so that we could come out strongly in the second half. We thank them all for this and the sacrifices they made for Hudaco this year.

We thank our loyal suppliers and customers for their support and the roles that they played through this difficult year and look forward to a better 2021 for all.

As always, we thank our non-executive directors for their support and insight, for always challenging our thinking and sharing the benefit of their extensive experience in the company's best interests.

SJ Connelly
Chairman

GR Dunford
Chief executive

18 February 2021

STRATEGIC FOCUS

2020

- Sustain focus on working capital
- Improve performance of businesses that disappointed in 2019
- Integrate Global Communications with security businesses
- Extract additional synergies from engineering consumables businesses
- Make further acquisitions
- Regularly consider capital allocation
- Grow black management pool within the group

2021

- Sustain focus on working capital
- Develop more black managers within the group
- Improve performance of security and communication businesses
- Continue extraction of synergies through rationalisation of engineering consumables businesses
- Find a significant value-adding acquisition
- Grow capacity of alternative energy businesses

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 3 694 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 year of Covid-19, regular update discussions. Overwhelmingly, the major topic of interest this year for most categories of stakeholders was the impact of Covid-19 and the consequential lockdown on the group, its employees and the availability of the products it supplies. Other topics included the effect of load-shedding and the ratings downgrade by Moody's to junk status, acquisition opportunities in a post-Covid environment, prospects for economic growth in South Africa, capital allocation under current market conditions, the impact of the volatility of the Rand, prospects for growth in other African countries, governance processes around related party lease renewals and the settlement of our legal action against Bravura and Cadiz. 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 • Status of litigation against Bravura (recently settled) • 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
End-users of products	Customers	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

Hudaco

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 • Company 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 lockdown • 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 lockdown • 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 lockdown • 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 R75 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.
28 **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 R190 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	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.	Unable to quantify.	Geographic diversification to other southern African countries. Acquiring businesses that serve different sectors, some of which are less dependent on electricity supply.	Highly likely, considering recent experience of load shedding 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.
42 **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 now 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 13% is sold directly to the mining industry and 15% into manufacturing, much of which is to service the mining industry.	R40 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 firms and advocates 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.	We manage the delivery process as closely as possible and strive to find other ways to minimise this risk.	Unlikely. This risk 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.	R15 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.	Even chance.	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

1

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4


1 Stephen Connelly (69)

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.

Stephen joined the board in 1992.

2 Nonyameko "Nyami" Mandindi (54)

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, Kusile Africa Development, Petals Global and ITISA.

Nyami joined the board in 2015.

3 Mark Thompson (68)

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, asset and liability committee, credit and large exposure committee as well as chairman of the audit and compliance committee, and capital investment committee), PPC (member of the board 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 Sappi Limited Pension Fund (chairman of the audit committee).

Mark joined the board in 2017.

4 Dhanasagree "Daisy" Naidoo (48)

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, Mr Price Group, STRATE and Redefine Properties. In addition, she chairs the audit committees of Mr Price, STRATE, Absa Financial Services and Redefine Properties. She is also a member of the Tax Court of South Africa.

She spent nine years with Sanlam Capital Markets, including as head of the Debt Structuring Unit.

Daisy joined the board in 2011.

EXECUTIVE DIRECTORS

5


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7


5 Graham Dunford (56)

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.

6 Clifford Amoils (59)

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.

7 Louis Meiring (56)

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 consumable industry.

He joined the board in 2019.

EXECUTIVE COMMITTEE

1 **Graham Dunford (56)**
NDip: Mechanical Engineering
Chief executive
32 years' service

2 **Clifford Amoils (59)**
BCom, BAcc (cum laude), CA (SA)
Group financial director
12 years' service

3 **Louis Meiring (56)**
NDip: Electrical Engineering
Executive director
2 years' service

4 **Phylla Jele (42)**
BA, MAP, Executive Human Resources Programme, Programme in Human Resources Management
Group executive: Transformation and human resources
1 year's service

5 **Barry Fieldgate (59)**
Portfolio executive: Deutz Dieselpower, Filter and Hose Solutions, MiRO, Ambro Steel, Sanderson Special Steels and The Dished End Company
13 years' service

Service is with Hudaco and businesses acquired.

CHIEF EXECUTIVE

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
- Abes Technoseal
- Partquip
- A-Line Wheels
- Ironman 4X4

Batteries
- Deltec Energy Solutions
- Eternity Technologies
- Specialised Battery Systems

Data networking
- MiRO

Security and communication
- Commercial ICT
- Elvey Security Technologies
- Elvey Projects
- Global Communications
- SS Telecoms

Power tools and fasteners
- Rutherford
- FTS Boltworld

ENGINEERING CONSUMABLES

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

Diesel engines and spares
- DD Power
- Deutz Dieselpower

Filtration
- Filter and Hose Solutions

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6 David Allman (62)

S.A.I.M. Dip: Marketing Management/Production Management
Portfolio executive: Abes Technoseal, Deltec Energy Solutions, Eternity Technologies and Specialised Battery Systems
34 years' service

7 Carl Rogers (58)

BCom, MBA
Portfolio executive: Partquip, A-Line Wheels and Ironman 4X4
26 years' service

8 Ernie Smith (50)

BTech: Industrial Engineering
Portfolio executive: Astore Keymak, Bearings International, Belting Supply Services, Brewtech Engineering, Bosworth
Executive: SHEQ and projects
3 years' service

9 Chris Pillay (47)

BA Hons (cum laude), MBA
Portfolio executive: Rutherford and FTS Boltworld
Joined the group on 4 January 2021

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

Thermoplastic pipes and fittings
- Astore Keymak

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

Electrical power transmission
- Powermite
- Proof Engineering
- Three-D Agencies
- Varispeed
- Bauer

GROUP SERVICES

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

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

Africa
- Africa development

FINANCIAL REVIEW

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 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 on the basis of 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 2020 the gain increased basic and headline earnings per share by 139 cents, compared with 115 cents in 2019.
- 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. In 2020 impairment of goodwill decreased basic earnings per share by 932 cents. The reasons for this are detailed below. The impairment was added back for headline earnings per share. There was no goodwill impairment in 2019.

The impact of the initial lockdown in response to the Covid-19 pandemic in the first half of 2020 was so overwhelming that, in the results for the full year, it overshadows the commendable performance of the group in the second half. In order to provide perspective, where appropriate second half metrics for our financial performance are also included:

- We target real growth in comparable earnings per share over the medium and long-term. Comparable eps for 2020 is 800 cents as compared to 1 240 cents in 2019. For the second half of 2020 it was 731 cents compared to 720 cents in the equivalent period in 2019, an increase of 1.5%. A repurchase of shares late in the year impacted the weighted average number of shares outstanding so it is also worth considering the total comparable earnings for the second half, which increased 0.8% from R227 million to R230 million. As expected, the repurchase has 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 2015, earnings in the J257 showed compound growth of negative 6.8% and since 2010 its growth was 3.3%. To achieve this, we encourage our businesses to grow while producing a return over time exceeding the cost of capital. Based on the 2020 results, we lag the growth in the industrial index over five years by 0.5% and 1.9% over 10 years but that is not surprising considering the impact of Covid-19 on the industries we serve and the much more diverse composition of the industrial index. 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 the whole of 2020 was negative because of the goodwill impairment and only 11.4% if the impairment is ignored but, importantly, for the second half it was 24% and 21% respectively. We recognise that, under normal circumstances, with equity increasing by income retained, 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 has to be to achieve a return exceeding the cost of capital.

We achieved an operating profit margin of only 8.2% for the full year. For the second half, it was 11.9%, compared with 11.4% in the second half of 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 as a whole but in the second half we exceeded it with a RONTA of 37%. In 2019 we just achieved our target as the full year 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 board was of the view that the Covid-19 pandemic was such a factor, 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. Constraints in government spending meant business was unlikely to be "as usual" for many years to come. The rest was spread across a range of engineering consumables businesses, particularly those that rely on projects for a significant portion of their turnover. Although levels of project business had been low for some time, we anticipated no recovery in private sector investment in our projection period. The expected general contraction in the economy also had a significant impact on the projections of the future cash flows of these businesses when testing for impairment of goodwill. We assessed goodwill for impairment again at year end and concluded that there had been no further impairment in any of the businesses.

Settlement of legal proceedings

In exchange for the payment of a total amount of R35 million on 4 September 2020, in settlement of a damages claim instituted by the Hudaco group to recover tax paid by Hudaco, Hudaco agreed to settle its legal proceedings against Bravura Equity Services Proprietary Limited (BES), Cadiz Holdings Limited, certain other entities in the BES and Cadiz groups, as well as certain BES executives and former executives of Cadiz (the defendants).

Hudaco instituted the legal proceedings in November 2015 with the aim of recovering as much as possible of the payment made by Hudaco to SARS in the amount of R312 million, in settlement of a challenge under the general anti-avoidance rule, and pertaining to the financing arrangements for Hudaco's 2007 empowerment transaction. The Hudaco board firmly believed that Hudaco had been wronged, and that from an ethical perspective to seek redress was the right thing to do. A comprehensive explanation of the basis for the claim was set out in an announcement released by Hudaco on SENS on 10 November 2015.

After earnestly pursuing the litigation and engaging in extensive negotiations with the defendants, the Hudaco board concluded that it had become expedient to settle the claim, albeit for very much less than the amount claimed, in the context of the following:

- Hudaco was satisfied that its original ethical objectives in launching the action had been achieved.
- The defendants had impressed upon Hudaco that they were not in a position to make a larger payment. Therefore, even if Hudaco were to have succeeded in its action, any award made by the court would probably have proved irrecoverable. In this context, Hudaco was cognisant of the fact that the entities against which the action had been brought were no longer operating.

Suitable acquisitions proved elusive and the Hudaco share price traded lower during 2020 so buying back shares became an attractive option. After paying down some of the debt, the company utilised available cash resources to repurchase 3% of the issued shares in the open market.

- The management time that would have been required to run the case would have been very considerable, particularly as the matter was highly complex. Three months had been set down for court time alone, excluding preparation time. The board believed that management time could be better spent focusing on Hudaco's core business, especially in light of the prevailing economic conditions and the challenges posed by the Covid-19 pandemic.
- The repudiation by Bravura's insurers of the professional indemnity claim by BES, BES group companies and BES executives.
- Normal legal risk in a highly complex matter of this nature.
- The considerable legal costs (estimated at an additional R15 million) that would have been incurred in running the case to its conclusion, potentially without return for the reasons outlined above.

After careful consideration of all relevant factors, the board was of the opinion that, under the circumstances, rather than to pursue what was a 13 year old matter with limited prospects of recovery, it was preferable to accept the settlement and avoid the legal costs, thereby leaving the group R50 million better off.

It is important to note that Hudaco's BEE shareholders were not affected in any way by the settlement with SARS and that Hudaco's BEE credentials remain in place.

Capital allocation and share repurchase

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 2020 so buying back shares became an attractive option. After paying down some of the debt, the company utilised available cash resources, including the R35 million proceeds of the legal settlement, to repurchase 3% of the issued shares in the open market. In total, 1 024 600 shares were repurchased between 7 September and 26 November 2020 at a cost of R81.8 million, including transaction costs. Excluding transaction costs, the lowest price paid per share was R68.01, the highest R92.90 and the weighted average R79.51. The repurchased shares have been cancelled on 8 December 2020.

Dividends

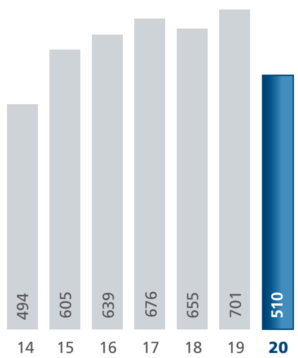
Hudaco's long-term dividend policy is to pay interim and final cash dividends to shareholders totalling between 40% and 50% of comparable earnings, resulting in dividends being covered by earnings by between 2.5 and 2.0 times. This year, because of the impact of the Covid-19 pandemic on the first half results and the need to conserve cash at that stage in the context of tremendous uncertainty, no interim dividend was paid. Conditions stabilised considerably and trading in the second half was very respectable. Accordingly, a final dividend of 410 cents per share has been declared. This amounts to R126 million and represents 50% of comparable earnings for the year. Dividends in 2019 totalled 600 cents per share, of which 410 cents was a final dividend.

Cash flow

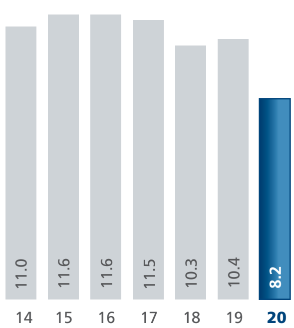
Hudaco businesses are cash generative. General economic stagnation can inhibit the generation of cash from certain businesses but that is transient and not endemic to the business model. Other of our businesses usually compensate for this with very strong cash flows.

Net cash flow from operating activities of R830 million (2019: R657 million), after releasing R182 million from working capital and paying R113 million in taxation, was very strong and once again demonstrates the cash-generative nature of Hudaco's businesses. R139 million was paid out as dividends, finance costs excluding on the lease liabilities for premises were R69 million, R39 million was spent on property, plant, equipment and software and R125 million, including finance costs, was paid to landlords for the right to use premises. R82 million was invested in repurchasing Hudaco shares, R16 million was spent on earn-out payments for businesses acquired in recent years, share-based payment obligations of R3 million were settled and long-term borrowings were paid down by R138 million. The net short-term position moved R228 million, from borrowings of R90 million to positive bank balances of R136 million.

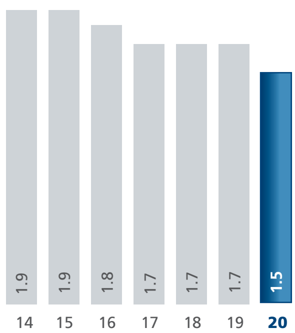
OPERATING PROFIT (RM)



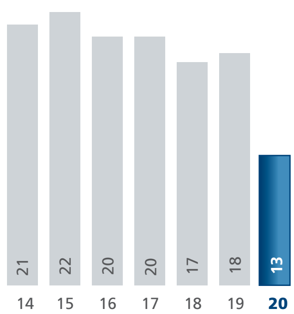
OPERATING PROFIT MARGIN (%)
OPERATING PROFIT/TURNOVER



NOA* (TIMES)
TURNOVER/AVERAGE NOA



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



** Net operating assets*

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 2020, net borrowings amounted to R643 million, down R365 million from R1 008 million in 2019. 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 3.42%. 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 R400 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 R414 million and a lease liability of R454 million on the statement of financial position. The statement of comprehensive income contains a depreciation charge of R119 million and finance costs of R34 million, instead of rental charges of R126 million.

Taxation

The group's effective rate of taxation this year is 94.2% (2019: 25.5%). In the second half it was 28.9%.There are no existing factors that would normally result in the rate varying significantly from the standard rate, however this year the impairment of goodwill and the impairment of a deferred tax asset in Namibia had the effect of increasing the effective rate, while the legal settlement by way of a contribution to tax paid in a prior year (although accounted for as other income), the fair value adjustment on the vendor liability and our BEE learnership programme reduced it. The low profit before tax number accentuates the impact.

The gross contribution to government in South Africa, comprising direct and indirect taxation, amounts to R576 million (2019: R635 million) for the year ended 30 November 2020. The composition of this figure is set out in the value-added statement on page 29. 29

Financial risk management

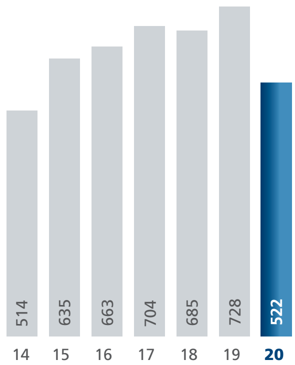
Significant financial risks in the group have been identified and are considered at each board, executive committee and audit and risk management committee meeting. These are described on pages 18 and 19. 18 The impact of each risk is quantified and its probability is assessed. Measures are put in place 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 identified early and avoided or mitigated. The group's risk appetite and risk tolerance statements are considered by the operation 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 25 to the financial statements. 127

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.

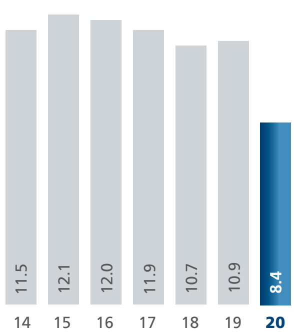
Group services

Services currently handled at head office, and provided free of charge to operating businesses, are tax, company secretarial, treasury (including foreign exchange and hedging), coordination of business development efforts in Africa, 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), SHEQ guidance, 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.

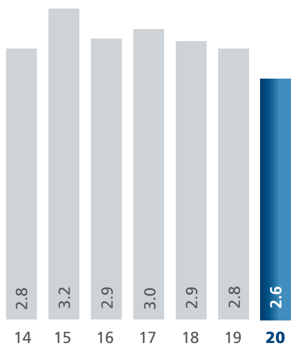
PBITA** (RM)



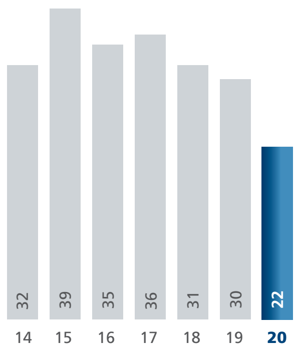
PBITA MARGIN (%)
PBITA**/TURNOVER



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



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



*** Operating profit before amortisation*

**** Net tangible operating assets*

FINANCIAL REVIEW continued

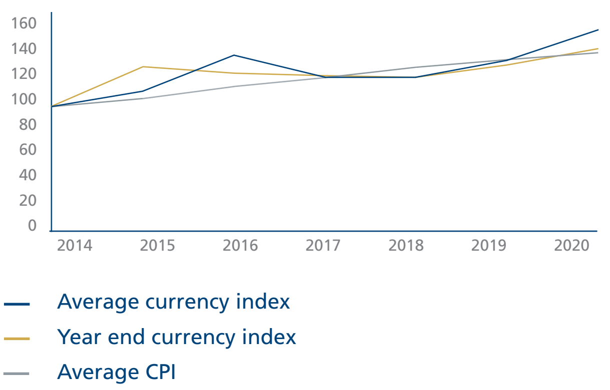
Impact of changes in foreign exchange rates

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 R190 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. A rating downgrade to junk status and the Covid-19 lockdown meant that 2020 saw significant volatility of the Rand yet again, with the US dollar costing R14.66 at the beginning of the year and R15.40, 5% weaker, at the end but with an extreme of R19.26 and much of the year spent above R17.00.

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 continues to make pricing a challenge and margins were kept under pressure, particularly in the weak economic environment that the region has experienced, driven primarily by the stringent initial lockdown, the rating downgrade to junk status by the third international rating agency, the political uncertainty, particularly international, and the fragility of our electricity supply. The graph below 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 14% more in 2020 than in 2019 but there were fluctuations of about 36% between highs and lows during the year.

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



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. All foreign currency liabilities are hedged by the time ownership of the asset passes to Hudaco. In addition, on average about 30% of orders on suppliers are also hedged to guard against spikes in exchange rates. An important driver of the extent to which orders are hedged is 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.

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 have adopted a cluster shared services approach this year have 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

During 2019, the two B-BBEE trusts that own 15% of Hudaco Trading Proprietary Limited adopted new trust deeds with all black South African employees of Hudaco Trading who have more than three years' service as the beneficiaries. We were delighted that, in February 2020, the trustees of those trusts distributed R6 million to qualifying black employees, with about 1 800 employees each receiving R3 350.

Secondary listing on A2X

A secondary listing for Hudaco shares on the A2X exchange commenced on 5 May 2020. 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

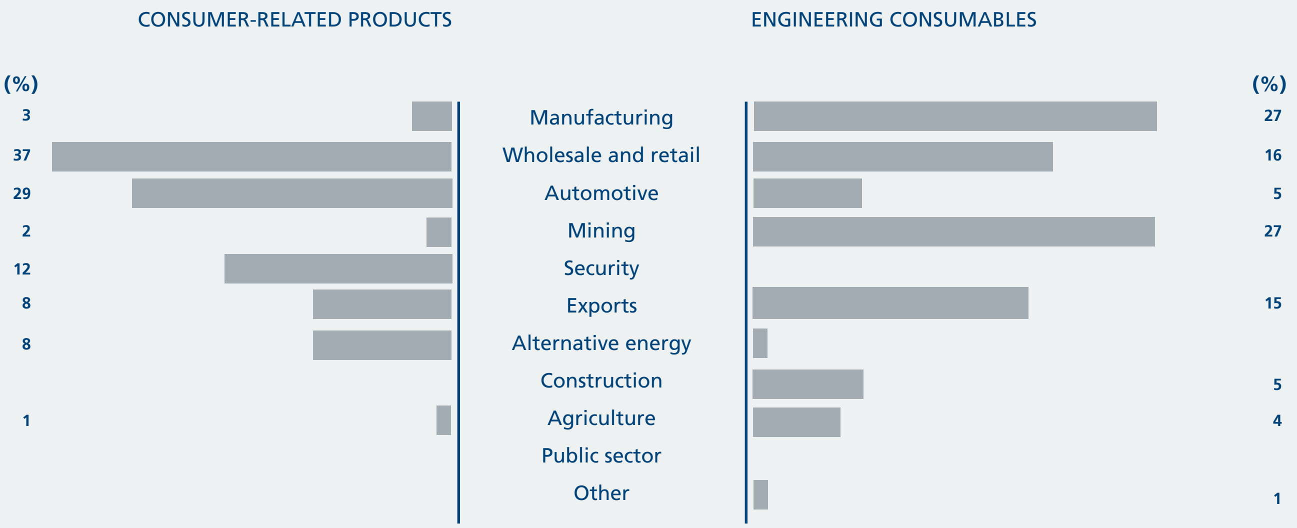
R million	2020	2019
Turnover	**6 254**	6 704
Less: Cost of materials, facilities and services from outside	**4 415**	4 793
Value added	**1 839**	1 911
Capital items	**48**	31
Income from joint venture	**1**	3
Other income	**35**	
Total wealth created	**1 923**	1 945
Distributed to:		
Employees – salaries, wages and other benefits	**1 182**	1 133
Government (gross contributions)	**576**	635
Indirect contributions, duties and levies	**(443)**	(475)
Net finance costs	**69**	103
Shareholders – dividends	**139**	189
Maintain and expand the group		
– profits (applied) retained	**(132)**	283
– depreciation, amortisation and impairment	**532**	77
Total wealth distributed	**1 923**	1 945

STATEMENT OF GROSS CONTRIBUTIONS TO THE GOVERNMENT IN SOUTH AFRICA

R million	2020	2019
Company income tax and CGT	**133**	160
Assessment rates	**6**	7
Customs and excise duty	**86**	93
Skills development levies, UIF and COIDA	**14**	20
Value-added tax not recognised as input credit	**2**	2
Direct contribution to government	**241**	282
Add the following collected on behalf of the government:		
Value-added tax (net)	**193**	187
Employees tax and UIF	**142**	166
	576	635

REVIEW OF OPERATIONS

SALES BY MARKET SECTOR – 2020



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

Inevitably, the Covid-19 pandemic and the resultant lockdown arrangements in South Africa and countries from which we source our products, had a dramatic impact on our operations and financial results in 2020, with the first six months being the hardest hit. During the initial five weeks of the lockdown, from 26 March to 3 May, which were at alert level 5 restrictions, a few of our consumer-related businesses (particularly those supplying batteries, data communication and security equipment) were classified as essential services in terms of government regulations and were allowed to operate. Many of our engineering consumables businesses, suppliers to essential service businesses such as power stations and coal mines, were also able to operate to a limited extent. However, the majority of Hudaco's customers were not classified as essential services so our businesses operated at a significantly lower level than usual during the alert level 5 period.

Once the lockdown status was eased somewhat to alert level 4 from 4 May, almost all Hudaco businesses could open for business, albeit with the requisite reduced staff complements and other health and safety requirements in terms of the regulations. Nevertheless, many of our customers were not yet operating and those that were open experienced lower levels of activity.

As news reached us in February of the virus spreading widely through the world, our first concern had been its potential impact on our supply chain, specifically on products sourced from China, Japan and Southeast Asia. Fortunately, many of our businesses had stocked up, as they normally do, in anticipation of the Chinese New Year, so with a few product exceptions, we had adequate inventories as South Africa went into lockdown. The uncertainty at that stage was whether adequate supply would be restored before our inventories were exhausted. With a few exceptions, international supply chains, however, recovered remarkably quickly and this did not remain a significant concern for too long. As events unfolded and lockdown restrictions were eased further, demand returned strongly in the second six months. Although volumes were not at quite the same levels as in the equivalent period in 2019, margins held up better.

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

The health and safety of our nearly 3 700 employees was of paramount importance. Prior to the lockdown our businesses arranged for as many employees as possible to work from home and we installed our own MiRO supplied IPVideo conferencing server for safe, secure communication amongst all our businesses and implemented virus-related safety measures for those who had to be on site. Those measures were enhanced during the initial lockdown period and were upgraded further to comply with the alert level 4 requirements set out in government regulations. The head of each Hudaco business was required to sign an extensive declaration confirming that the business complies with all the prescribed requirements.

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 included:

- remuneration cuts across the board on a sliding scale for three months, including a retirement contribution holiday for both employer and employees (further detail is set out in the employee report on page 51);
- undertaking to employees that there would be no job cuts for the three months April to June 2020;
- granting employees who were unable to work during the initial three weeks of the lockdown an additional nine working days' special paid leave;
- seeking rental concessions or deferral of rentals on those leased premises with larger rentals. In most applicable cases, suitable deferral arrangements were concluded;
- postponing or cancelling any non-critical capital expenditure not already contracted;
- minimising all discretionary or non-critical operating expenditure;
- requesting extended payment terms from overseas suppliers, particularly those in low-interest rate environments;
- refocusing capital allocation priorities away from acquisitions and potential share buy-backs to working capital; and
- agreeing with our bankers that facilities that had been marked as uncommitted would be firmed up as available for use.

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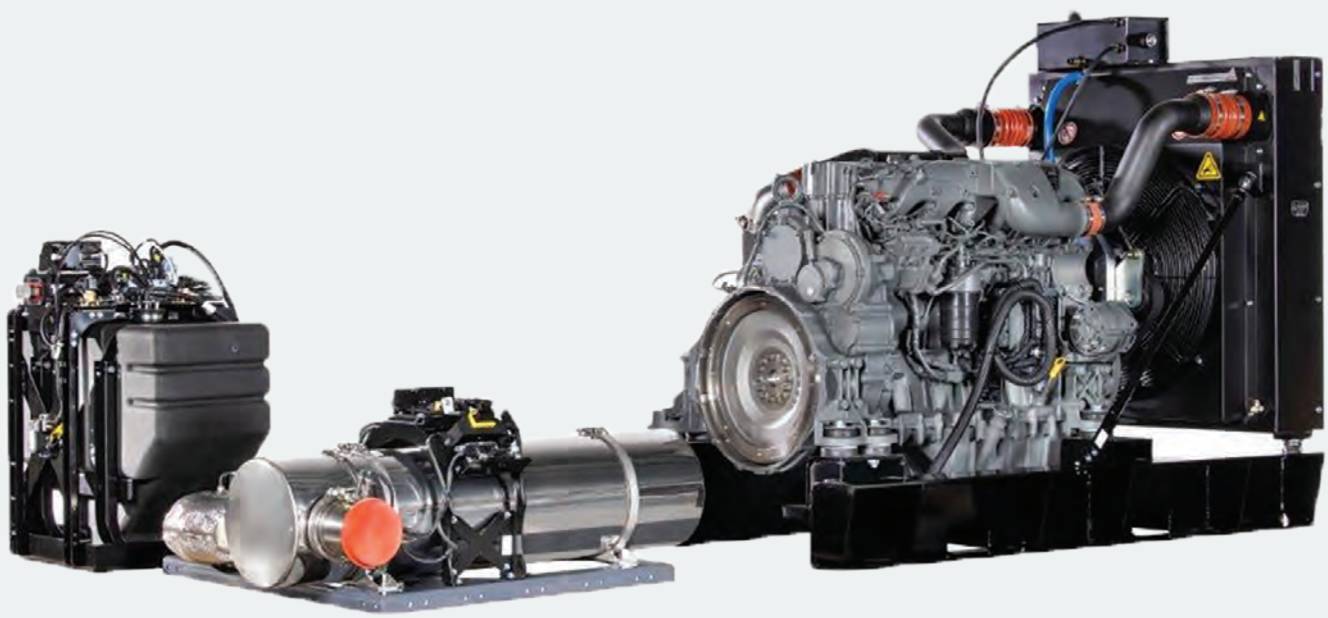
With the devastating effect that the extended lockdown had on the economy and our operations, we identified opportunities to achieve long-term savings and synergies through rationalisation of elements of certain businesses whose cost structures were expected to be out of line with future sales levels. More specific information on the rationalisation initiative is provided in the sections below on the various businesses.



REVIEW OF OPERATIONS continued

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.

Consumer-related 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 and oil seals.
- 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 is a value-added distributor of IP convergence technologies including wireless networking, VoIP and physical security solutions.
- The Elvey Security group, which comprises Elvey Security Technologies, Elvey Projects, Commercial ICT and SS Telecoms, distributes intruder detection, access control security communication and related CCTV equipment, supplies and installs integrated security and life safety solutions, offering system design and integration into surveillance, access control, fire detection systems and VoIP, and provides voice and data solutions, including PBX communication management software and telephone management.
- 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 and Specialised Battery Systems distribute traction, automotive, stand-by and solar battery systems and provide comprehensive forklift battery management services to distribution centres and warehouses.

Refer to page 48 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 now comprises 11 businesses. In 2020, it made up 54% of Hudaco's sales and 67% of operating profit. In 2019, this segment contributed 53% of Hudaco's sales and 60% of group operating profit.

Consumer spending has continued to be under pressure with the impact of Covid-19 and the consequential lockdown being felt throughout the economy. Jobs have been lost, many people took pay cuts at least for a period and generally no increases were granted this year. The result is that discretionary spending has been impacted considerably. Nevertheless, although sales in this segment were down by 16% in the first half of the year, they bounced back strongly such that sales in the second six months exceeded those of the equivalent period in 2019 by 1%. Margins held up well in the second half, being 1.8% points above the second half of 2019, albeit down for the full year.

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

The steady decline in both new car and light commercial vehicle sales seen in the past few years was accelerated by the impact of Covid-19, each reflecting a staggering decline of about 30%. According to November 2020 vehicle registration statistics, the vehicle parque for these sectors remained fairly steady at approximately 10.5 million vehicles, although it did reduce marginally by about 15 000 units. The ratio of new vehicle to used vehicle sales edged closer to 1 in 5, compared with 1 in 4 in previous years.

The loss of almost two full months of trading obviously impacted total unit sales, however the implementation of cost-saving initiatives, together with the protection of margins, ensured that the impact on operating profit was less severe than the numbers above suggest it could have been. We appear to have successfully weathered the storm thus far and continue to strive to remain both relevant and front of mind when it comes to customers' sourcing and procurement processes.

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.

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 the fact that this business had to contend with the impact of trading restrictions in both the automotive and leisure markets, it still managed to make a positive contribution to operating profit.

Abes Technoseal supplies clutch kits, Bougicord ignition leads and rotary shaft seals to the automotive aftermarket and hydraulic and pneumatic seals to the industrial and construction equipment markets. The second half of the year produced respectable results due to the introduction of non-clutch parts for the automotive parts and accessories markets. A new range of Korean car parts should ensure that the business is well positioned for growth in 2021.

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 everyday use and used mainly by manufacturing or installation businesses and is a market leader in lithium-ion battery technology. The continual improvement in battery technology has resulted in 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. After lockdown restrictions were eased, the business recovered very well indeed and delivered solid second half results, albeit off reduced volumes.

FTS Boltworld is a leading distributor of industrial fasteners and is growing market share by leveraging off the Rutherford branch network in Johannesburg, Cape Town and Durban, as well as now exporting into Africa. It also has a branch in Klerksdorp. This year it successfully launched a pre-packed DIY fastener range under the Handylad brand.

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.

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.

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	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 prepacked fasteners.	Sole distributor since 2018

Security and communication equipment:

Elvey Security Technologies, Elvey Projects, Commercial ICT, Global Communications and SS Telecoms

Of all Hudaco's businesses, the security and communication businesses have had to contend with the most upheaval over the past year. The combined turnover in these businesses for the second half of 2020 was 19% down on that of the equivalent period in 2019. The economic pressure driving customers to lower cost products, the scarcity of project business and the changing technological landscape have all impacted these businesses. As a result, Hudaco has implemented a restructuring programme to reduce the cost base and to position the business model for the new environment. The security and communication businesses have been amalgamated into the expanded Elvey group. Elvey, Commercial ICT, Global Communications, and SS Telecoms now go to market through the national infrastructure of 16 branches, several agencies and sub-distributors. Although the product and solution offerings remain similar to previous years, the back-office consolidation is designed to ensure a far more efficient business, running at reduced cost and delivering an improved service to a larger customer base.

The Elvey and TPA branch infrastructure is now fully integrated as Elvey Security Technologies with the full product range available in each branch. The project business, Pentagon, has been integrated into the major Elvey branches in Greenstone, Cape Town, and Durban and will now go to market as Elvey Projects. The export business performed satisfactorily in 2020, under the circumstances, and continues to grow its customer base.

Commercial ICT again delivered steady growth in its annuity income stream. It has become a preferred IT supplier to businesses in the Hudaco group and is currently providing IT support, network/infrastructure support and software licensing to several of the group's businesses.

The integration of Global Communications into the Elvey group has simplified its route to market and has reduced the cost of serving its customer base. The mobile radio solution market is still under pressure due to the weak economic environment, a decline in spend specifically from the national defence force and customers migrating to GSM-based technologies. Global Communications in the Elvey stable can now deliver better service to a wider customer base and still generate respectable returns for stakeholders. Global Communications' focus will continue to be to expand within the African market, as well as to secure additional service contracts with the customer base, and drive sales to focus on building new NEXEDGE and DMR networks. Global Communications will continue to invest in its strategy to build new networks as this will secure the future sales of mobile and handheld devices.

SS Telecoms is a small value-added distributor providing consumer and enterprise products and solutions, including broadband, specifically LTE, LTE-A, and mobile products for operators, as well as enterprise IPBX solutions from premise based to cloud technology platforms, industry specific and vertical digital solutions. It also provides cloud voice and data services with installation, support, and repair services. After a few difficult years, this business performed better during 2020, by supplying network devices for internet service providers (ISPs) and we believe that the integration into the Elvey group will enable it to benefit from the national footprint of the branch infrastructure, the export reach into Africa and the reduced cost of the shared services model.

The security and communication businesses will continue to respond appropriately to the challenges in the industry and remain focused on supplying and expanding a unique range of security and communication technologies and solutions, supplementing it with superior service, training, and top-class technical support. An enhanced e-commerce platform is a key focus going forward.

PRINCIPAL BRANDS: SECURITY AND COMMUNICATION EQUIPMENT		
Texecom	A leading manufacturer of alarm systems from the UK.	Sole distributor since 2018
Permaconn	A leading designer and manufacturer of alarm communication products from Australia.	Sole distributor since 2017
Kenwood	Mobile radio solutions and networks.	Sole distributor since 1987
Honeywell	World leader in building management, fire, access control solutions.	Distributor since 2020
Optex	Japanese intrusion detection devices.	Distributor since 1987
Aiphone	Japanese intercom systems.	Sole distributor since 2019

PRINCIPAL BRANDS: SECURITY AND COMMUNICATION EQUIPMENT (continued)		
	Global video surveillance products from China.	Distributor since 2011
	A manufacturer of network video surveillance solutions from Sweden.	Distributor since 2018
	A leading manufacturer of integrated security and life safety solutions from Germany.	Distributor since 2011
	Canadian manufacturer of intrusion detection products.	Distributor since 1990
	South African manufacturer of access control systems.	Distributor since 2011
	A manufacturer of a full suite of access control products from the Netherlands.	Distributor since 2018
	A designer and manufacturer of integrated video management system (VMS) software and servers from Canada.	Distributor since 2018
	Tetra digital radio infrastructure.	Sole distributor since 2002
	HF and VHF tactical communication equipment.	Distributor since 2010

Data networking equipment: MiRO

The Covid-19 pandemic created opportunities for MiRO, which is positioned as a value-added stocking distributor of IP-based communication technologies. The business performed well on the back of the increased demand for wireless and fibre home connectivity, video conferencing, touchless access control and network upgrades for internet service providers and enterprises.

MiRO delivered top-line growth for the year, notwithstanding lockdown, and improved its margins. The business remains on a growth trajectory and has increased its efforts to provide connectivity solutions for all applications, from metro to rural, wireless to fibre.

The demand for enterprise connectivity solutions decreased during the initial stages of the lockdown but, as most businesses started to deploy a mix of in-office and work-from-home employee strategies, the demand for enterprise connectivity returned to normal levels. With the return of employees to their offices and the increase in demand for video conference calls, many businesses had to upgrade their legacy IP networks to cope with the new network bandwidth requirements. As networking experts with long-standing partnerships with major global networking vendors, MiRO could deliver the connectivity and communication solutions required.

MiRO increased its accessibility and customer support through launching a fully integrated B2B/B2C e-commerce platform mid-2020. Although the e-commerce platform delivered impressive results almost immediately, the relevance of the platform should increase even further as business procurement and consumer purchasing pivots to online.

PRINCIPAL BRANDS: DATA NETWORKING EQUIPMENT		
	Wireless data communication products from USA.	Distributor since 2008
	Wireless products and routers from Latvia.	Distributor since 2006
	Wireless broadband solutions from USA.	Master distributor since 2016
	Complete VoIP telephony solutions.	Distributor since 2005

Batteries: Deltec, Specialised Battery Systems and Eternity Technologies

Deltec had an exceptional year with growth from the automotive wholesale and retail sectors as well as in the energy storage market. The expansion of its lithium-based product offering for automotive, stand-by, solar and electric vehicle applications is expected to play a significant role in the future.

Specialised Battery Systems (SBS) supplies the stand-by battery systems for support infrastructure to the UPS, telecommunication, security (alarm) and solar markets. SBS maintained its market position well through all the challenges of 2020. Larger project orders within the data centre sector, together with replacement batteries for load shedding stand-by applications, ensured growth.

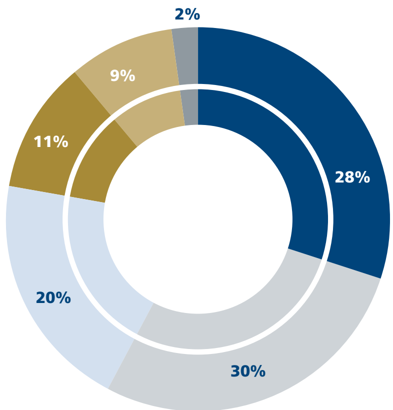
Eternity Technologies had a good start to the year but unfortunately lockdown resulted in major customers delaying capex for 2020. However, a promising pipeline should allow for recovery in 2021. The business operates in the traction, forklift and battery bay markets, supplying large warehouses that operate 24/7. Eternity's formation plant, which assembles and forms locally the complete range of 2 Volt surface motive power cells, was completed and commissioned during August 2019. Complementing the formation plant, we have an in-house copper connector facility so we can manufacture and supply a range of sizes, thereby offering much faster turnaround times and competitive prices on battery cells and components to the South African forklift market. The offering has recently been expanded through the addition of the new BSLBATT Lithium-ion product range to supply new and replacement batteries for all types of material handling equipment.

REVIEW OF OPERATIONS continued

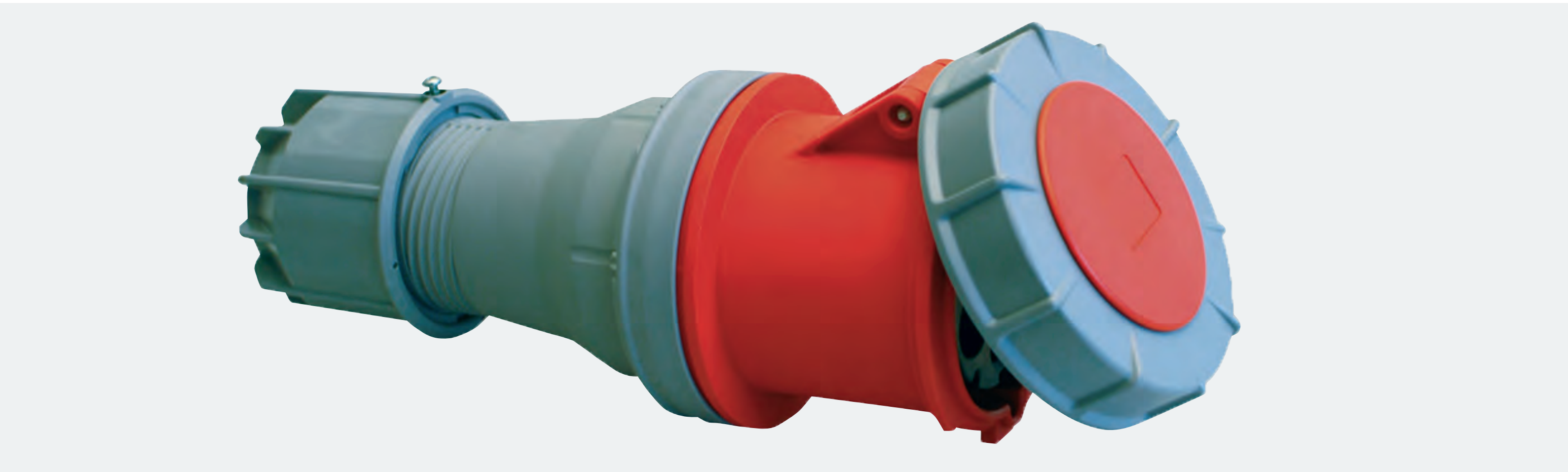
PRINCIPAL BRANDS: BATTERIES		
DELTEC BATTERIES	Sealed lead acid batteries.	Own brand since 2000
U.S. Battery	Batteries for golf carts and industrial machines.	Sole distributor since 2012
CSB BATTERY	Back-up power in UPS, telecoms security, etc.	Sole distributor since 2012
ROYAL CALCIUM BATTERY	Back-up power in UPS.	Sole distributor since 2000
CEIL	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	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

CONSUMER-RELATED PRODUCTS

SOURCE OF PRODUCTS

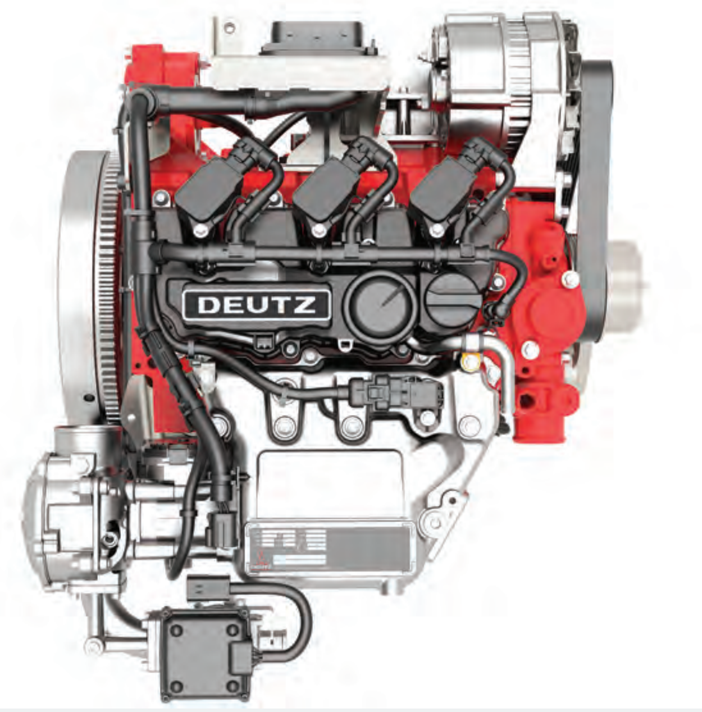


China	28%
Asia	30%
Europe	20%
South Africa	11%
North America	9%
Other	2%



Engineering consumables

The majority of businesses in this segment distribute mature industrial products to mature economic segments (mainly mining and manufacturing). These market sectors have been in decline for the last decade partly due to natural boom and bust cyclicality of resources but also recently due to investment unfriendly regulations and political posturing. The expense structure in this segment is considerably higher because of the extensive branch network and the large number of separate businesses. While a degree of rationalisation of the cost base has been contemplated for some time, the economic impact of Covid-19 made it an imperative and considerable progress has been made to this effect. In the second half of 2020, the operating margin in this segment started reflecting this progress.



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 Donaldson and other filters and filtration solutions, kits and accessories for heavy duty and automotive 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 (accessories), Proof Engineering and Ampco (manufacturers of industrial connectors and lighting), Bauer Geared 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 46% of sales and 33% of operating profit. In 2019 this segment contributed 47% of sales and 40% of operating profit. The growth in operating profit in the second half of this year, after lockdown restrictions were eased, is evidence of the leverage capacity embedded in these businesses, poised for when there is any upturn in economic activity, as well as the impact of steps taken to rationalise the expense base. The number of locations from which the businesses in this segment now operate is 101, reduced from 108 in November 2019. Sales in this segment were down by 19% in the first half of the year but they bounced back strongly in the second six months, exceeding those of the equivalent period in 2019 by 4%. Margins also improved in the second half, being 1% point above the second half of 2019, albeit down for the full year.

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 do 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 have been in decline for the last decade partly due to natural boom and bust cyclicality of resources but also recently due to investment unfriendly regulations and political posturing. The expense structure in this segment is considerably higher because of the extensive branch network and the large number of separate businesses. While a degree of rationalisation of the cost base has been contemplated for some time, the economic impact of Covid-19 made it an imperative and considerable progress has been made to this effect. In the second half of 2020, the operating margin in this segment started reflecting this progress.

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Refer to page 48 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 operates mainly in the agricultural (irrigation), mining, industrial and infrastructure segments. The already ailing construction sector experienced further contraction in 2020, underpinned by government infrastructure spend that has been on the decline since 2016. This resulted in lower project activity and weaker results for Astore Keymak. Economic activity increased in the agricultural sector, stimulated by higher demand and growing exports due to the weaker Rand. Higher gold and platinum prices also contributed to higher sales of thermoplastic products applicable to the mining sector. This required greater emphasis on improving operational efficiencies and productivity in the hose manufacturing arm, Keymak, to meet the increasing market demand both locally and in Africa and will remain a key focus area for the business in 2021.

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, which 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) had a good year. The first half year performance was impacted significantly, with the infrastructure and construction, steel, cement, and automotive sectors experiencing significant contraction. The second half of the year delivered strong growth across all major industry sectors, especially in the agricultural, FMCG and manufacturing sectors. The various business improvement initiatives initiated earlier in the year during the initial lockdown period, which included optimising the branch network and expanding its footprint through the appointment of new agents in under-represented territories, contributed positively to a strong improvement in profitability. The introduction of new product ranges, Craft bearings and ABB electrical motors, to Bearings International's portfolio is expected to support this growth trend in the year ahead. The development of a total e-commerce customer experience and further digitalisation of its operations should ensure Bearings International remains relevant in an ever-changing environment and strengthen its resilience against future crises. In the context of prevailing market conditions and the potential impact Covid-19 could have on the business segments it serves, the team felt it prudent to refine its inventory provision calculation, adopting a more conservative approach.

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 a reasonable year despite the circumstances. Although mining and manufacturing experienced a very difficult time, traditional markets such as food and beverage and the gas industry performed exceptionally well for the business in 2020. PVC conveyor belting supplied to the agricultural sector as well as hose and valves to the gas sector yielded positive results. The business has also seen growth from its 24/7 on-site splicing service, which has proved to add value for its large customers and cement customer loyalty. A focus on expanding market share in the hose fitting and rubber conveyor markets is expected to stimulate further growth in 2021.

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 specialised 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.

Brewtech's largest revenue contributor is the beverage industry so 2020 was a very difficult year in the face of the ban on the sale of alcohol during much of the lockdown period. This was partially offset by its decision earlier in the year to focus more of its efforts on the food and manufacturing sectors, resulting in the business being able to post positive results, albeit lower than in the previous year. Brewtech has a positive outlook for the year ahead and will continue to focus on diversifying and growing its market share in segments other than the beverage industry, which started delivering growth again in the latter part of 2020.

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	Rexnord Bearings and Transmission from USA.	Distributor since 2001
COOPER	Split roller bearings from UK.	Sole distributor since 1937
INTERZ	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	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 main 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).

DDP's principal activity therefore is providing support for Deutz engines through service, spare parts, reconditioning engines and the sale of replacement engines to customers as well as supplying new engines to the limited number of local OEMs in this region. Service business forms an integral part of DDP's business, so a key strategy is to continue to grow the engine population, and thereafter secure the aftermarket business. This is achieved by offering excellent support for Deutz engines wherever they are located and however they arrived in our territory.

DDP performed reasonably well in a tumultuous 2020. The South African mining market (one of DDP's main revenue contributors) generated satisfactory service business, while new engine business to the OEMs remained slow following the lockdown period. Engine sales to OEMs contracted year on year as demand shifted to aftermarket business, where DDP experienced growth from the platinum and certain gold mines which benefited post lockdown from a good recovery in commodity prices and the weaker Rand. DDP once again benefited from the robust activity in copper mining in central Africa, resulting in healthy growth in our Zambian business both within Zambia and into its neighbouring countries. Overall, our export business, mainly to sub-Saharan Africa, performed exceptionally well in 2020 as most of these countries did not have hard lockdowns and business was therefore less affected than in South Africa.

The performance in the power generation market remains positive, particularly through sales of complete generating sets and genset engines to local genset manufacturers. This trend is expected to continue, largely driven by concerns of load shedding continuing into 2021.

In the year ahead, DDP will continue to focus on diversifying and growing its market share in segments other than mining, thus reducing its reliance on this sector. The interest in diesel particulate filters (HJS product) increased in the latter part of 2020 and we expect demand to increase into 2021 as pressure increases to reduce harmful particulate emissions in confined areas, which the mining houses are taking very seriously. These filters can be either retrofitted on equipment already operating in the field or installed by the OEM during production.

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

REVIEW OF OPERATIONS continued

Filtration: Filter and Hose Solutions (FHS)

FHS is the Donaldson brand's largest engine filtration distributor in Africa. It supplies high-quality, branded filtration products primarily for the mining, construction and manufacturing industries, together with technical expertise. FHS also manufactures exhaust systems for heavy-duty and automotive applications, mainly within the mining, on-road truck and military markets.

With the multitude of challenges faced in 2020 by its critical customer sectors, particularly mining and construction, FHS focused efforts on retaining the existing customer base and attracting new revenue streams in other market sectors. Recent instability within the OEM segment also created opportunities. A lot of the new business gained was through referrals, which bears testimony to both the customer-centricity of the team and the value-added model employed. The business has maintained margins despite the downturn in the economy and pricing pressure.

The focus on generating new revenue streams includes the development of SMEs, particularly within the mining and SOE segments. During 2019, FHS built the foundation for an industrial dust and air division, which has grown substantially in a short space of time and this division will now expand into process filtration. During 2020, FHS also placed significant effort into research and development of diesel particulate filtration to address carbon emission challenges within its customer segments. The goal is to have a premium solution and become a market leader within this sphere.

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

Electrical power transmission: Powermite, Proof Engineering, Bauer Geared Motors, Varispeed and Three-D Agencies

The businesses in this portfolio are in the process of being integrated into a broader electrical cluster with a combined back office to leverage off the synergies of a shared service model. The electrical cluster includes:

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

The electrical portfolio had a reasonably good year despite the unusual challenges. Bauer has recently been incorporated into this cluster. Part of the electrical cluster formation has involved relocating the operations of several of the businesses into consolidated premises. This has already been achieved in Cape Town. Powermite, Varispeed and Three-D Agencies will be operating from one location in Johannesburg from April 2021, with greater synergies and improved value offerings to customers and employees. Durban will follow. The portfolio has already started to see the benefits of collaboration and is well positioned for future growth.

Powermite had a difficult year but it did experience growth in its export business into sub-Saharan Africa, with new customers in the mining sector. Fortunately, projects were secured in the material handling sector during 2020. We hope for similar project opportunities in 2021.

Proof Engineering, which mainly sells into the coal mining sector, was negatively impacted by the pandemic in the local market, but not impacted as much in the export market. However, lower demand for coal and a shift to alternative power sources has contributed to the decline in product and equipment requirements. This has been partially offset by growth from new coal mining projects in the African market, which we foresee continuing in 2021. The Ampco range of industrial plugs and sockets, where we are the market leaders in South Africa, has been revamped and expanded, with new technology and additional features. In addition, to assist in alleviating the shortage of available high-spec masks in the market, a sophisticated Covid-19 mask, ideal for industrial applications, has been designed and is manufactured in-house. Much of the manufacturing of Ampco products will now be outsourced locally instead of being produced in-house, thereby leveraging off the economies of scale of a larger infrastructure.

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Varispeed managed to increase its overall revenue in 2020 through continued growth in its African footprint. Locally, Varispeed managed to further expand into the mining industry through strategically targeting large mining end-users. Unfortunately, large mining and manufacturing projects were placed on hold for extended periods due to health concerns, unavailability of product and currency unpredictability. Varispeed foresees that the international market will remain under pressure until the pandemic is brought under control.

Bauer, which supplies and repairs geared and electric motors, industrial bevel helical transmissions and drive solutions directly and through Bearings International's extensive branch network, to diverse end-user segments (including utilities, mining, manufacturing and transport) had a good year. This is mainly attributed to project business, with strong growth in the mining and transport segments, despite poor market conditions. The investments made during 2019 and early in 2020 to strengthen the team, and additional actions taken to accelerate growth in the projects environment, have started to yield positive results. Services and repairs slowed as equipment maintenance in our core segments was delayed or abandoned due to lower production levels during lockdown. Bauer has, however, secured long-term maintenance and repair contracts in the utilities and manufacturing segments that should see growth in the services business for 2021.

Three-D Agencies had a difficult year, despite significant sales of electronic temperature scanners. The Contaclip range of rail-mounted terminal blocks and accessories from Germany was introduced in November 2020.

PRINCIPAL BRANDS: ELECTRICAL POWER TRANSMISSION		
YASKAWA	Variable speed drives from Japan.	Distributor since 1992
MENNEKES®	Plugs and sockets from Germany.	Sole distributor since 1974
AMPCO	Own range of electrical plugs and sockets.	Since 1974
PROOF MINING SOLUTIONS	Own range of mining connectors and lighting systems.	Since 1974
TFKable	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. Despite the SA manufacturing facility having to contend with a complete shutdown for five weeks due to lockdown and short time measures implemented in the second half of the year, GPM as a group managed to maintain its 2019 sales and improve its operating profit, due mainly to manufacturing efficiencies. In 2021, manufacturing efficiencies will remain a top priority, while the USA and UK facilities will continue to focus on growing within their respective markets. Effort will also be directed towards the Australian market.

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, it had a slow recovery as the mining industry opened up from May onwards after the initial lockdown period. Growing sales was challenging as customers cut back on maintenance to ease cash flow. A strategy to venture into the industrial and marine markets with Kawasaki products to diversify from mining, will continue. The focus in the year ahead will be predominately on growing sales of Kawasaki products into new markets, as well as continuing the growth of sales of the GPM product locally and into Africa.

Ernest Lowe is a leader in the supply of hydraulic and pneumatic products and solutions into mainly the mining and manufacturing segments. The business delivered reasonable results in 2020, despite the contraction experienced in the market. It successfully diversified its product range to provide solutions to the water infrastructure and mineral processing segments. Ernest Lowe also acquired new agencies to strengthen its position in the manufacturing sector and has added a new field-service offering to be able to sell a complete solution to its customer base. The organisation has also identified new geographical areas and counter sales opportunities that should stimulate growth in 2021.

HERS, which supplies and services hydraulic products and drivetrain components, had a reasonable year, despite the difficult trading conditions in the mining industry. April sales were limited due the national lockdown and recovery was gradual as the lockdown regulations were relaxed. Availability of adequate inventory is still a key differentiator in satisfying customer needs. Sales into southern Africa were expanded towards the end of the year through the supply of drivetrain components and spare parts, while counter sales will be implemented in the new year to further grow spare parts sales.

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
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, Bosworth, Joseph Grieveson and The Dished End Company

Ambro Steel's recovery after the initial lockdown exceeded all expectations. Diversification of the product range and a longer-term cost reduction strategy helped to produce excellent results, even against the prior year. Continued support from longstanding international suppliers ensured a sustained supply of inventory for a market severely affected by shortages.

Bosworth was unable to secure another order of the scale of the one received from Thailand in 2019 so sales and profit declined in 2020. The pulley division had a fairly healthy order book going into the initial lockdown in April and, as an essential service, it was able to continue manufacturing with little negative impact on operations. The effects of the pandemic were felt in the latter half of the year, with projects and customer orders being put on hold. Indications are that there could be an improvement in the early stages of 2021.

REVIEW OF OPERATIONS continued

The idler division, introduced in 2019, and the new wear linings division grew satisfactorily so we look forward to further growth and positive contributions from these two divisions in the future.

Joseph Grieveson is predominantly a jobbing foundry that manufactures ferrous and non-ferrous castings. Sales for the year were down only 6% and margins were maintained. The investment in casting simulation software technology continued to add value, which was reflected in improved quality management statistics. A new management team is in place and well settled. It will focus on maintaining quality while improving manufacturing efficiencies and margins, and on boosting sales through the development of new markets and customers, both locally and internationally.

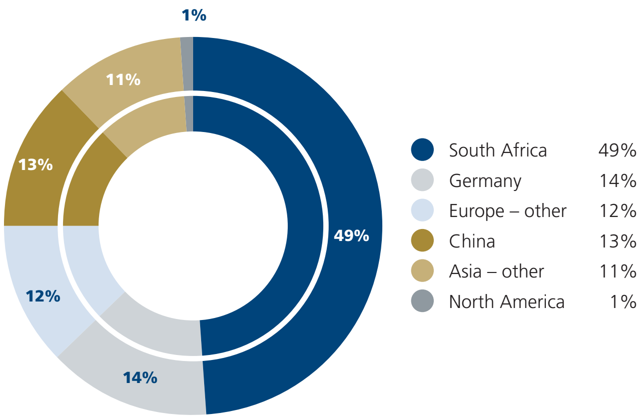
The Dished End Company specialises in manufacturing various types of dished ends, from 0.4m to 5.5m in diameter and thicknesses ranging from 4mm to 50mm. It also offers the pressing and flanging of small conical sections and a range of single pressed weld caps. It is a small business and has not yet made a full recovery from the effects of lockdown, but it has managed to maintain healthy margins, and despite the severe trading conditions, remain profitable.

PRINCIPAL BRANDS: SPECIALISED STEEL

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

ENGINEERING CONSUMABLES

SOURCE OF PRODUCTS



Africa

Doing business in Africa is complex, expensive and risky and the Covid-19 pandemic has clearly delayed our medium-term objectives. Nevertheless, we have managed to hold our own, ultimately achieving moderate sales growth. We remain cognisant of the general growth potential on the continent, particularly with the Continental Free Trade Area (CFTA) arrangements set to create one of the world's largest free trade blocs. Growth is projected to average about 2% in sub-Sahara Africa, well below previous forecasts, and the number of mining projects throughout Africa remains stagnant.

Most of our growth in export sales has been from southern and east African markets, which is where we concentrate our efforts. Hudaco Trading Kenya, initially a joint initiative by Elvey Security Technologies, MiRO and Global Communications, has gained traction more slowly than planned, with the pandemic frustrating the process for most of 2020. Our local presence has resulted in growth in sales to customers in Kenya, Uganda, Ethiopia, Rwanda, and Tanzania. More Hudaco businesses are now participating in the Kenya initiative so an increased presence and operational expansion should still lead to good returns from east Africa in the next few years, once the complexities of the pandemic are behind us.

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 early in 2021.

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 – the acquisitions we have made in recent years 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 2020, the trusts distributed R6 million to almost 1 800 black employees of Hudaco, with each beneficiary receiving R3 350. The distribution was well received by the beneficiaries.

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.

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. 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 a 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;
- provided sufficient resources to mitigate identified aspects and impacts; and
- identify and provide relevant environmental training and awareness.

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 regulatory and discuss environmental management policies and guidelines, timeously close out any deviations or noncompliance, continuously monitor performance of our operations to within guidelines and standards, 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.

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

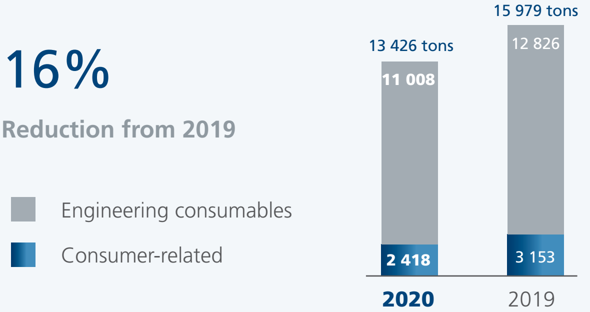
- The integrated management system (IMS) covers the group's operations (manufacturing sites, distribution centres and commercial sites) particularly for ISO 14001, ISO 9001 and OHSAS 18001/ISO 45001 compliance.
- A new SHEQ framework will drive standardisation of policies, standards and guidelines and 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 SHEQ teams at various levels.
- A greenhouse gas (GHG) emissions assessment, conducted by a third-party climate change advisory firm to determine requirements for reporting GHG emissions to the Department of Environment, Forestry and Fisheries. This is determined using technology capacity thresholds for activities listed in the GHG Reporting Regulations and the Technical Guidelines for GHG Reporting. Activities relevant to Hudaco's operations include the assessment of electricity generators, furnaces, boilers and heat treatment processes.
- The Hudaco group risk and internal audit function has incorporated EHS in its scope through the addition of a specialist EHS auditor to conduct regular EHS internal audits and provide third line assurance, in terms of Hudaco's combined assurance framework, to the social and ethics and the audit and risk management committees of the Hudaco board on the management of SHEQ risks. SHEQ audits will be conducted to determine whether the SHEQ management systems in the group conform to the requirements of the relevant International Standards (ISO 9001:2015; ISO 14001:2015 and ISO 45001:2018), laws and regulations, the group SHEQ framework and the risk mitigation actions detailed in the group SHEQ risk register (including compliance obligations). SHEQ audits will also be conducted to ensure that the SHEQ systems and processes have been effectively designed, implemented and maintained in all businesses within the group.

Performance

CO_2 Tons – Electricity consumption (scope 1 and 2)

16%

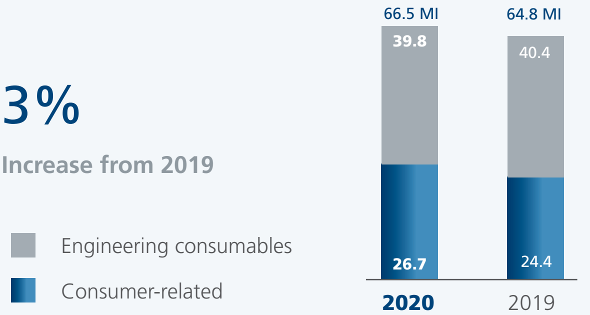
Reduction from 2019

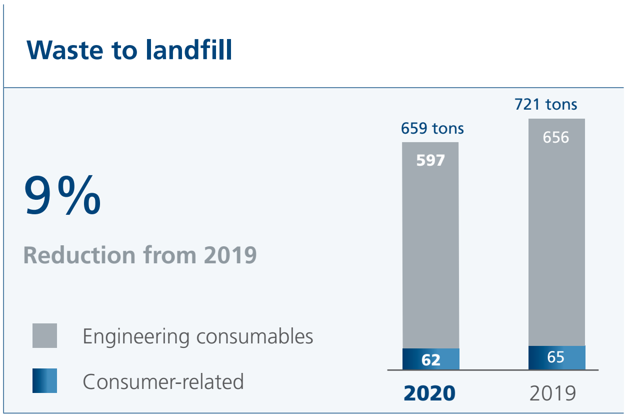


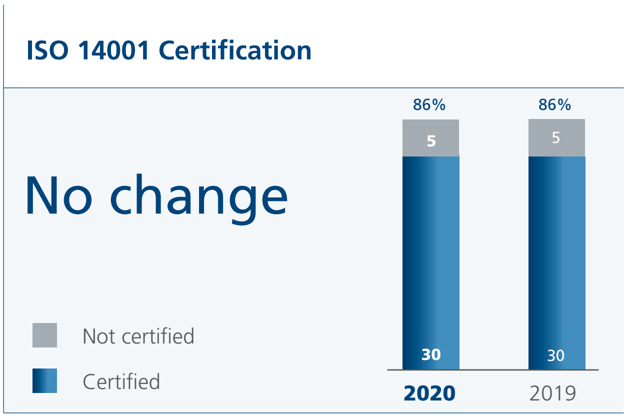
Water consumption

3%

Increase from 2019







During the year under review the Hudaco businesses had no reportable environmental issues at any of its operations and demonstrated acceptable environmental awareness and compliance with relevant legislation.

The outcome of the greenhouse gas (GHG) survey conducted based on information provided to the third-party climate change advisory firm revealed that none of the Hudaco businesses are required to register to report GHG emissions to the Department of Environment, Forestry and Fisheries or with SARS to pay carbon tax, as all the assessed technology emissions were below the thresholds defined by the GHG Reporting Regulations and the Technical Guidelines for GHG Reporting.

In addition to the GHG assessment, to provide a baseline against which to measure future improvement, Hudaco will conduct a carbon footprint assessment during 2021 in accordance with parameters set by both the GHG Protocol and ISO 14064-1 (2006), as well as the National Greenhouse Gas Reporting Regulations and accompanying Technical Guideline. Greenhouse gas emissions are reported in 3 scopes where scope 1 emissions are direct emissions, scope 2 emissions are emissions associated with purchased energy (such as electricity or heat) and scope 3 emissions are other indirect emissions. Considering the nature of our operations, we will perform accurate calculations of scope 1 and scope 2 emissions and will determine the materiality of the scope 3 emissions based on the assessment.

Electricity consumption

During 2020 a number of Hudaco's businesses implemented energy reduction initiatives, including:

- converting conventional lighting in offices, warehouses and industrial operations to LEDs;
- energy management awareness programmes focused on reminding employees to conserve energy;
- installation of transparent roof sheeting in warehouses and workshops to improve natural light and lux efficiencies;
- utilising variable speed drives to reduce start-up loads in industrial operations; and
- the installation of lighting sensors and electronic timing devices.

Water consumption

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. In 2020 our water consumption intensity was 17.5m^3/head and increased by 3% from 2019 mainly due to water leaks in some operations that were not detected during the Covid-19 lockdown period.

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.

Waste to landfill

Hudaco's approach to waste management is continuously evolving to meet changing legislation and industry practices, with total waste up 40% from 2019 due to significantly improved record keeping with an increase in recyclable waste recorded of 62% from 2019. Initiatives undertaken by the group 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. A number of projects were initiated to improve recycling of waste in some of the manufacturing operations and these are expected to be implemented during 2021.

Status of achievement of our environmental goals for 2020

In 2019 we listed six environmental goals for 2020. 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 the five businesses acquired before 30 June 2018 was postponed to 2021 due to the Covid-19 pandemic and a decision taken during lockdown to cluster, and in some instances rationalise certain activities of, businesses with similar routes to market and customer types. This reorganisation impacted three of the five businesses concerned and their activities relevant to environmental issues will be integrated into those of other businesses.
- All businesses to initiate the 3R (reduce, reuse and recycle) principles of waste management: 85% 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.
- Conduct a carbon footprint baseline: The baseline audit was initiated at the end of 2020 and is to be conducted by a third-party climate change advisory firm, with a report expected early in 2021.

- Reduce energy consumption by 10%: A reduction of 16% was achieved but mainly related to the impact of Covid-19 on the economy. We are not in a position to make a meaningful assessment of what the result would have been without Covid-19.
- Reduce waste to landfill by 10%: A reduction of 9% was achieved but mainly related to the impact of Covid-19 on the economy. A significant portion of waste to landfill is generated from sand used in casting at our foundry operations. A project was initiated during 2020 with brick manufacturers in the area to reuse the sand but as the demand for bricks has declined, we have not seen the full benefit of this initiative. We are not in a position to make a meaningful assessment of what the result would have been without Covid-19.
- Appoint a SHEQ specialist to the group audit team: The group internal audit team was strengthened with the appointment of a dedicated EHS audit specialist to conduct regular internal audits and to provide third line assurance in terms of Hudaco's combined assurance framework.

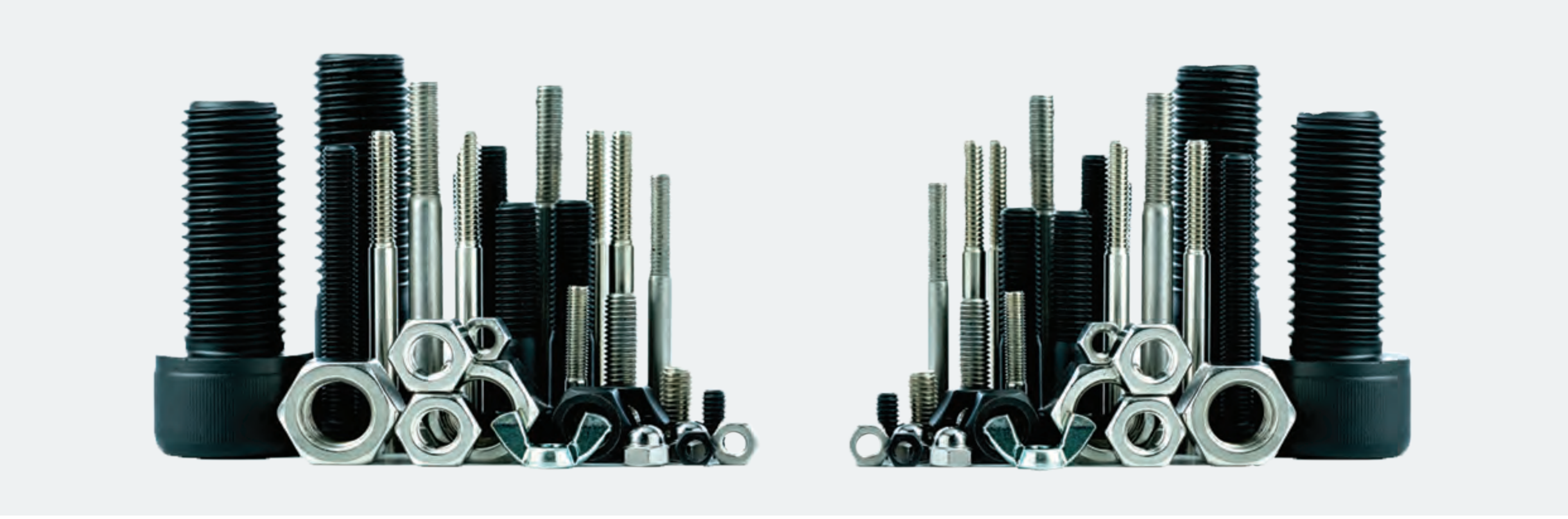
Additional opportunities for improvement and reducing the overall carbon footprint in Hudaco's supply chain have been considered by internal parties and external advisers and are considered not to be a major priority, as Hudaco has little influence on global suppliers because South Africa generally represents only a small proportion of their total sales. Furthermore, most of our premium brands are sourced from first world countries and manufactured in accordance with stringent environment standards, which generally exceed the requirements of the countries where their products are used.

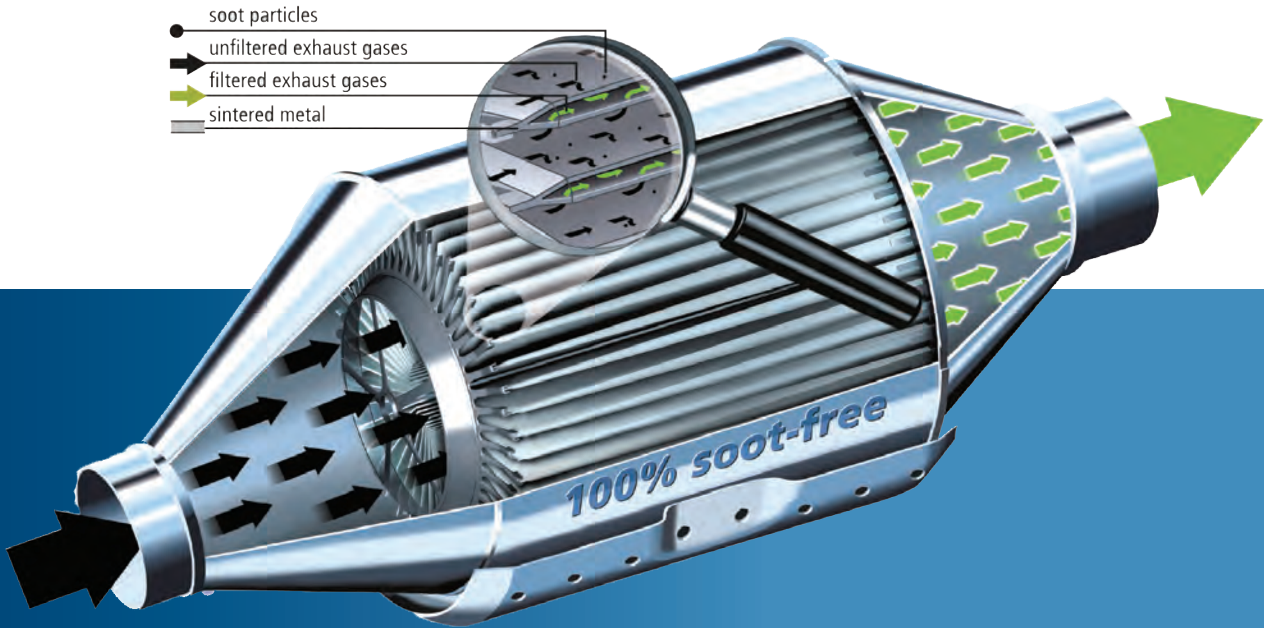
In cases where we do source less prominent product brands directly from manufacturers, we visit their manufacturing facilities as part of Hudaco's supplier approval process to assess whether there are any evident reasons, such as inappropriate labour practices or pollution, not to support that particular supplier. During 2020, the social and ethics committee approved a Business Partner Code of Conduct to assist businesses in specifying requirements of suppliers.

Similarly, there is limited opportunity for us to develop post-consumer collection, recycling or recovery of our used products as our products are either serviceable or disposed of post-use by our customers. A limited number of our products contain hazardous components such as electronic circuit boards and we rely on the end-users to dispose of them in the correct and safe manner.

During 2021 we will be critically reviewing and reassessing our objectives for the coming years so as to enable us to contribute meaningfully to creating a greener and more sustainable planet and society in which we operate. The carbon footprint baseline assessment that is currently being conducted and expected early in 2021 will be considered in formulating a carbon management and reduction plan that would include the following elements:

- setting of emission goals against which Hudaco can measure improvement;
- 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 management programmes; and
- building a database of non-financial data to support carbon footprint calculations and our sustainability reporting.





Diesel particulate free diesel engines

Deutz Dieselpower (DDP) is now an authorised distributor of HJS exhaust after treatment systems. These systems help reduce harmful emissions which are emitted from diesel engines. When diesel is combusted in a diesel engine, the process gives rise to pollutants such as soot particles (diesel particulates). If inhaled, the smaller soot particles present a health hazard.

HJS offers a range of exhaust after treatment solutions that include diesel particulate filters, which are able to remove more than 98% of the particulate matter emitted through the engine's exhaust. Diesel particulate filters (DPF) are commonly used as standard on the latest stage VI emission optimised engines, but the majority of diesel engines running in southern Africa are older technology engines and emit higher levels of diesel particulates. The DPF supplied and fitted by DDP offers the perfect solution and can be easily retrofitted on most diesel engines. Once installed they will remove more than 98% of the diesel particulates, making the diesel engine significantly more environmentally friendly.

The HJS filters are designed applying Sintered Metal Filter (SMF) technology, using special filter materials and a manufacturing process unique to HJS. This technology offers a number of advantages over traditional particulate filters allowing unrestricted inflow of exhaust gas into the filter pockets from the outside, minimising the backpressure. This also allows for high ash holding capacity, allowing longer service intervals and therefore reducing downtime and service costs. The sintered metal filter regenerates automatically when sufficient exhaust temperatures are achieved, and soot particles collected on the filter pockets are burned off to form ash. Another big advantage is that the filter can be cleaned on-site by simply removing the filter and washing with a pressure washer. Filters do not need to be exchanged or cleaned by burning in an oven, common practice with most ceramic filters.

DDP has supplied and fitted a large number of DPF systems, mainly to the underground mining industry where the reduction of diesel particulates is critical in order to ensure acceptable occupational exposure limits for people working underground. DDP plans to continue fitting diesel engines operating in confined spaces such as underground mines and warehouses with diesel particulate filters. This will help reduce the diesel particulate emissions as well as certain other harmful exhaust emissions such as carbon monoxide and hydrocarbons. This improves the overall air quality in confined spaces where people and equipment work together, offers a healthier working environment and reduces the level of harmful exhaust emissions in the environment.

DDP has recently commenced a programme to fit diesel particulate filters onto its dynamometers that are used for engine testing and run for hundreds of hours every year. Once completed, this project will remove almost 100% of the soot particles that would otherwise have been emitted, resulting in a much healthier and greener environment.

Astore Keymak relocates to new facility

Astore Keymak relocated its head office to a modern "greener" facility in Sunnyrock, Germiston. The new facility's double volume warehousing space allows for increased stock holding to improve its service delivery to the market and boasts modern sales offices and workshop facilities. The new facility is equipped with state-of-the-art loading docks, that improve efficiency and turnaround time in destuffing containers and on deliveries. It is also centrally located for easy access for customers off the N12 highway, which has already resulted in increased traffic through the trade counter.

Hudaco masks for Covid-19 protection

At the onset of the Covid-19 lockdown, the management team at Powermite identified the need for a high-quality, industrial strength mask for when employees returned to the workplace.

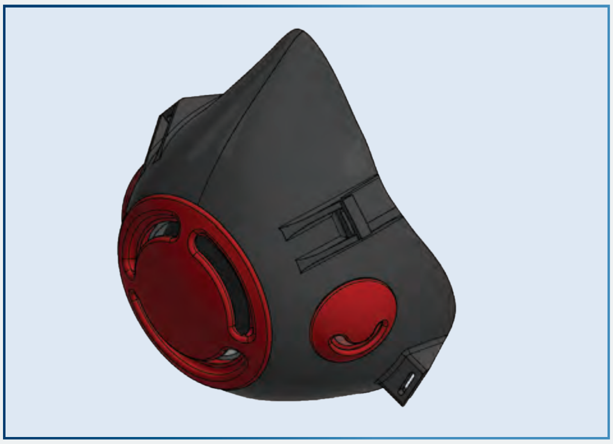
They had underutilised plastic extrusion machines available in the Ampco factory so they set out to develop a half mask which would cover the nose and mouth, affording a high degree of Covid-19 protection, especially compared to cloth masks which were being offered as an alternative to PPE masks such as FFP2 and N95 as the government had requested that these be reserved for medical front line workers.

Once they had decided on a practical design for the mask, they then used a 3D printer to replicate a mask for examination purposes and to facilitate innovation of features. Suitable material for the mask extrusion was investigated and it was determined that TPE medical graded material would be best suited, as the masks were intended to be durable, skin friendly and hygienic.

An important aspect and challenge in producing the mask was the filtration material, which would need to provide a physical barrier against droplets of five microns in size and suit the necessary requirements for Covid-19 barrier protection. Once this requirement was met, they were then able to design the breathing intake components of the mask. The filter is a cartridge type design which can easily be removed for disinfecting or replacement. Non-returnable air exhaust valves were added for exhalation, to prevent the contamination by exhaled carbon dioxide of clean air being drawn into the mask through the main cartridge. The exhaust valves also have filters to ensure the exhaled air does not contaminate other people in the vicinity of the user. Additional upper and lower removable filter linings were included in the design to absorb condensation. Finally, adjustable straps were developed to ensure that the mask fitted comfortably for long periods of use.

The range includes adult and child sized masks in a wide variety of colour combinations.

The Hudaco Covid mask is proudly South African and manufactured in our Powermite/Ampco manufacturing facility.



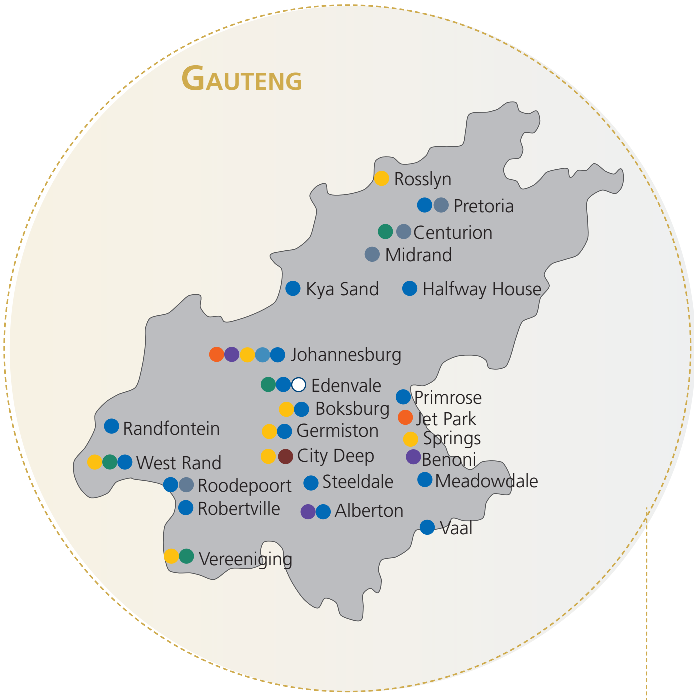
GEOGRAPHIC FOOTPRINT

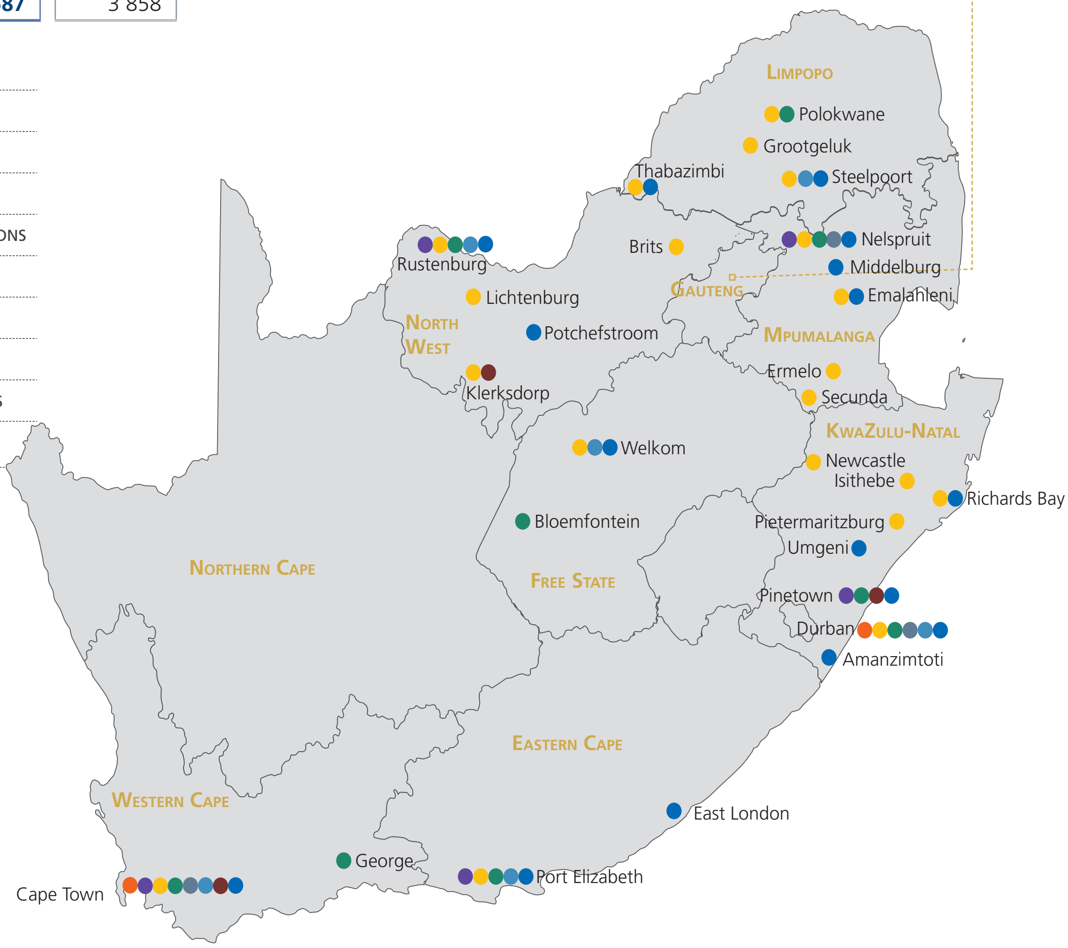
LOCATION OF BUSINESSES

	Number of permanent employees 2020	2019
Gauteng	**2 334**	2 564
Western Cape	**468**	499
KwaZulu-Natal	**414**	428
Eastern Cape	**69**	80
Mpumalanga	**92**	80
North West	**84**	79
Limpopo	**50**	54
Free State	**35**	43
Northern Cape		1
Namibia	**16**	9
UK	**7**	7
Kenya	**11**	7
Zambia	**4**	4
USA	**3**	3
	3 587	3 858

KEY

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

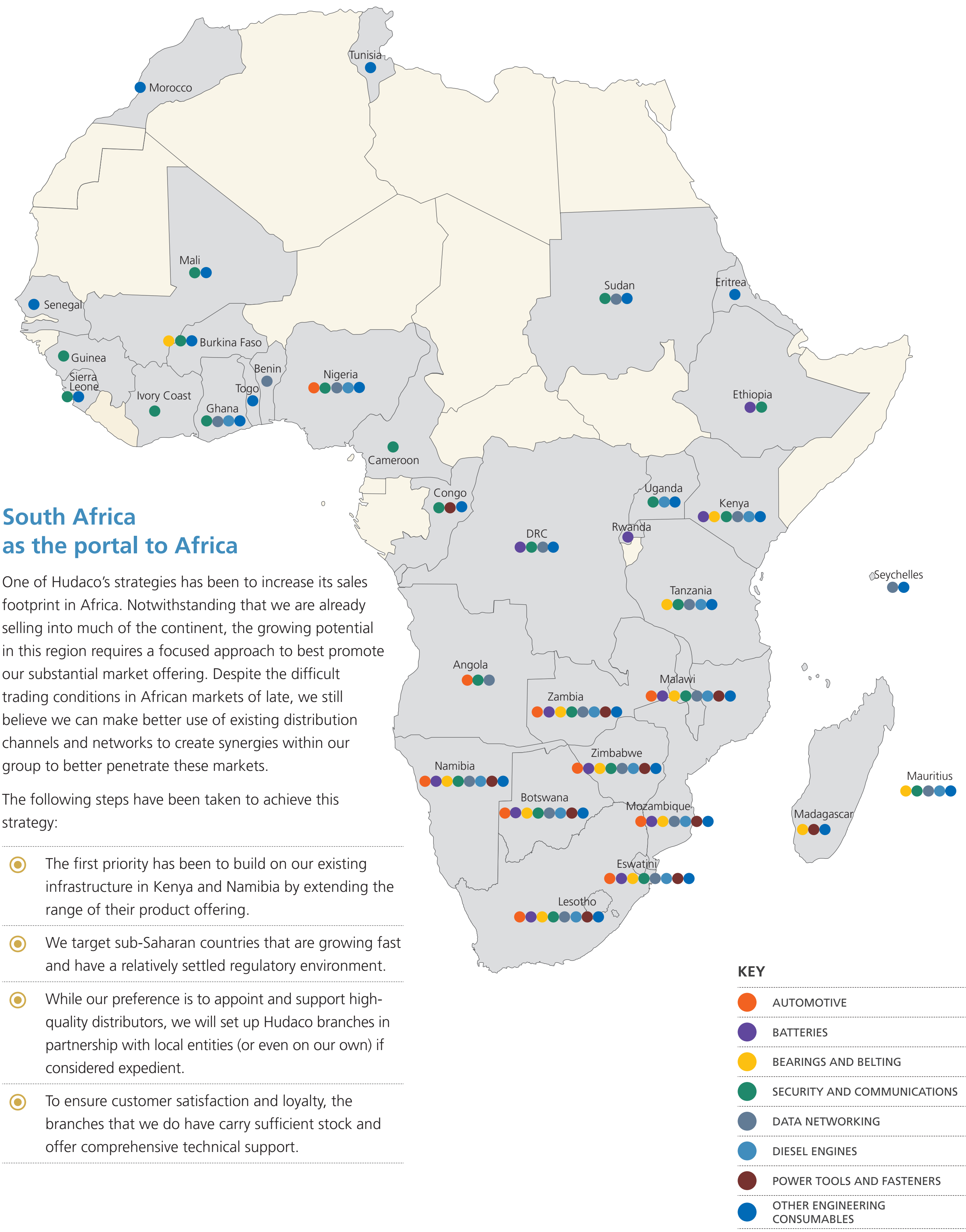




Hudaco

BUSINESS WITH AFRICA – 2020

The map below reflects the African countries into which we already sell directly or in which our local customers use the products bought from us.



South Africa as the portal to Africa

One of Hudaco's strategies has been to increase its sales footprint in Africa. Notwithstanding that we are already selling into much of the continent, the growing potential in this region requires a focused approach to best promote our substantial market offering. Despite the difficult trading conditions in African markets of late, we still believe we can make better use of existing distribution channels and networks to create synergies within our group to better penetrate these markets.

The following steps have been taken to achieve this strategy:

- The first priority has been to build on our existing infrastructure in Kenya and Namibia by extending the range of their product offering.
- We target sub-Saharan countries that are growing fast and have a relatively settled regulatory environment.
- While our preference is to appoint and support high-quality distributors, we will set up Hudaco branches in partnership with local entities (or even on our own) if considered expedient.
- To ensure customer satisfaction and loyalty, the branches that we do have carry sufficient stock and offer comprehensive technical support.

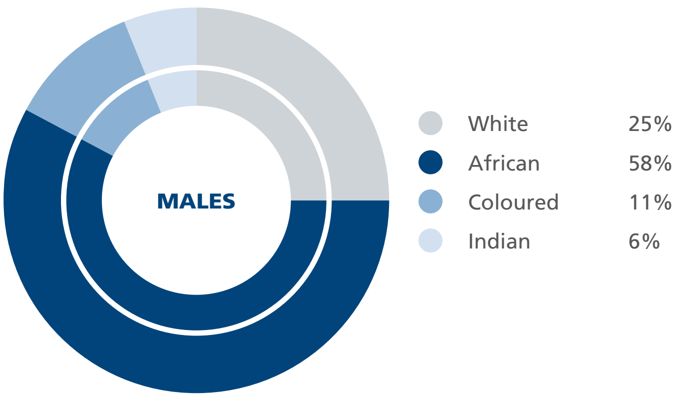
EMPLOYEE REPORT

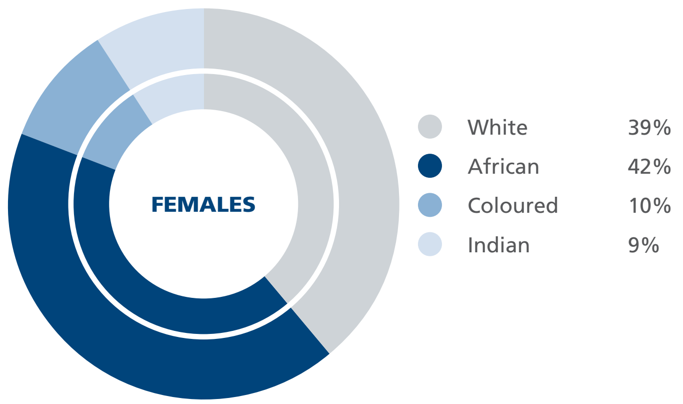
People are at the heart of our business and it is their skills, experience commitment and application that create value for the group and drive its success. Many of the business-critical skills that we require are in short supply and we recognise the importance of attracting, developing, managing, rewarding 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.

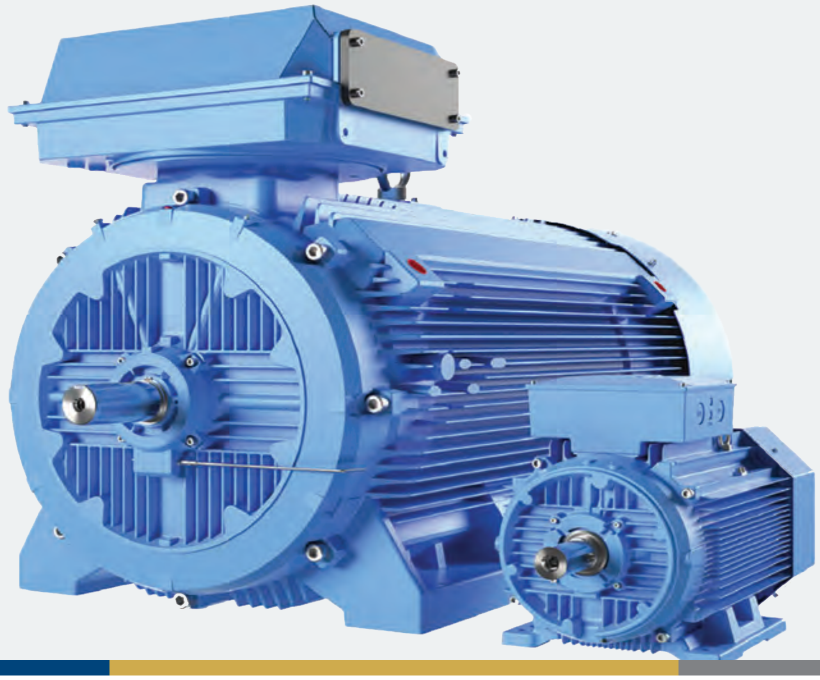
Workforce profile

	2020	2019
Total workforce	**3 694**	3 999
Less: Non-permanent employees	**107**	141
Total permanent workforce	**3 587**	3 858
Racial and gender profile		
White males	**677**	737
White females	**362**	404
African, Indian and Coloured males	**1 985**	2 154
African, Indian and Coloured females	**563**	563
Occupational level profile		
Top and senior management	**102**	109
Other management	**1 497**	1 566
Non-management	**1 988**	2 183
Management profile by gender		
Females	**458**	461
Males	**1 141**	1 214
Management profile by race		
White	**837**	905
African, Indian and Coloured	**762**	770
Non-management profile by gender		
Females	**467**	506
Males	**1 521**	1 677
Non-management profile by race		
White	**202**	236
African, Indian and Coloured	**1 786**	1 947
Disability profile by gender		
Females	**5**	6
Males	**20**	21
Disability profile by race		
White	**6**	5
African, Indian and Coloured	**19**	22





Hudaco



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.

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, we will continue to provide them with our full support.

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 – financial, emotional, physical, of their personal freedom and many more – whether for the benefit of themselves, their families, their friends or their careers. Regrettably, the presence and impact of Covid-19 did not end with the year. We recognise that the financial aspects had a big impact on many people and that the human aspects have taken a heavy toll. We sincerely hope that none of us ever have to go through anything like this again. Nevertheless, we are proud of the way in which our people rose to the various challenges and of the contributions that they made to the group under the circumstances.

Hudaco launched an integrated preparedness and response plan that ensured alignment in dealing with the risks of Covid-19 across its operations based on the international, national and local Department of Health standards and Department of Employment and Labour guidelines. We established a group Covid-19 executive response team, representing various functions, with a mandate to oversee and coordinate efforts across the group, including the development of and adherence to group protocols.

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. From a human capital perspective, these included:

- enabling as many personnel as possible to work from home;
- establishing special protocols and concessions for employees with co-morbidities and considered as high-risk and encouraging them to declare their conditions;
- carrying out extensive communication and awareness campaigns across the group;
- conducting workplace risk assessments and implementing appropriate health protocols and procedures;
- implementing shift and work schedules to improve social distancing;
- reducing the remuneration of non-executive directors, executive directors and other senior executives in the group by 33%, in line with the example set by the President and his cabinet, for the three months April to June 2020;
- instituting a retirement fund contribution holiday for both employee and employer for the three months April to June 2020. While this was applied successfully to a large majority of employees, some were members of union retirement funds that did not permit a contribution holiday;

EMPLOYEE REPORT continued

- reducing the remuneration of other employees by between 20% and 7% for the three months April to June 2020, on a remuneration level based scale. Except for the employees who were members of the union retirement funds referred to above, those who earned under R220 000 per annum and worked a full month had no reduction in take-home pay because the retirement fund contribution holiday compensated for any decrease in the rate of pay;
- undertaking to employees that there would be no job cuts for the three months April to June 2020;
- granting employees who were unable to work during the initial three weeks of the lockdown an additional nine working days' special paid leave in exchange for a requirement to take four days of annual leave. In the following two weeks of lockdown, those employees were required to take leave but were given until November 2020 to work in or repay negative leave balances; and
- providing administrative assistance to employees whose remuneration has been negatively affected and who qualified for government or UIF relief.

No general annual salary increases were awarded in 2020. Unfortunately, after the promised moratorium that ended in June, several of our businesses did have to implement retrenchments to align the operations with the new level of economic activity. The headcount in the group reduced from 3 999 at 30 November 2019 to 3 694 at 30 November 2020.

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 2020, 40 of our employees 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.

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 a key area of opportunity to improve our BEE rating is in management. Although we have made 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 with regard to transformation is 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 consequences of this policy do not result in a diminution of the high standards to which we aspire. To this end, we are delighted with the recent appointment of Chris Pillay as chief executive of Rutherford and to the executive committee.
- 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. The success being achieved by Reena Magan as managing director of Filter and Hose Solutions is a case in point.
- 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 in particular 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.
- **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 is 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. Consideration is being given to modifying the approach for junior management 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 was somewhat curtailed in 2020 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.

Three of our businesses run SETA accredited apprenticeship programmes in terms of which 19 participants are trained in various trades. An additional 162 abled learners and 30 learners with disabilities were recruited for learnership programmes run by the Maharishi Institute, ORT SA and Afrika Tikkun and they commenced their courses in 2020, for completion in 2021.

During the year under review, group expenditure on employee training amounted to approximately R8.4 million (2019: R8.7 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 clients 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 in 2020 the graduate development programme would be broadened to also include a range of disciplines such as finance, accounting, human resources and information technology. The national lockdown implemented to combat the spread of Covid-19 put paid to these plans for the year but they will be implemented at the first opportunity, which will hopefully be in 2021.

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

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. 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 introduction of new legislation, new reporting standards, listings requirements, BEE, environmental, social and governance issues, etc seems to continue unabated and all are potential distractions from the core business of running profitable businesses.

While compliance with all these requirements is compulsory, Hudaco's executives are sensitive to these 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 with regard to 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 212 152) 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.

EMPLOYEE REPORT continued

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 12 trade unions that between them have 744 (2019: 672) 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. During the year the group's social and ethics committee approved a Business Partner Code of Conduct for communication by all businesses to their suppliers.

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 had an option to join the group's negotiated Primary Care medical scheme but a recent ruling by the Council for Medical Schemes Appeal Board has put the future of the Primary Care scheme in doubt. As an interim measure, existing members are being accommodated through a partnership between the scheme and another insurer.
- **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 incentives 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 230 managers in the group. It comprises a reward for share price appreciation realised through share appreciation rights that vest between three to 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: In order 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 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 60. 60

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. 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 was expanded to include a passive investment option and the default option was changed with effect from 31 March 2020 to 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. Unless members elected to the contrary, all investments in the previous default portfolio, which offered a smoothed bonus, were switched to the new default portfolio. The move proved highly advantageous because the old portfolio declared a negative bonus of 5% the day after the switch, in the face of lower market prices. Our members whose funds were switched did not suffer the 5% reduction in value. The benefit to Hudaco employees was estimated at R10 million. 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 comes first in everything we do, so we train, equip, and empower our employees to work safely every day.

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

We have intensified our focus on preventing injuries and fatalities at our operations by refreshing our SHEQ strategy, developing a framework and aligning the SHEQ structures to the shared services models of those businesses with similar routes to market and customer types, where we have rationalised back-offices to extract synergies and provide customers access to a greater value proposition. These rationalisations also enable alignment of policies, standards and guidelines, operational risk assessment and management and the driving of cultural change towards safety at all levels.

Safety and occupational health policies

Policies define 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 certified safety management system. As part of the improvement efforts commenced during 2019, 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 2021.

Management approach and governance

Our approach to safety management is built on two key pillars:

- leadership engagement, which is underpinned by leaders being actively involved in safety audits, improvement initiatives and ensuring legal compliance; and
- preventing injuries and fatalities, which is underpinned by effective risk identification and management, a learning and engaged workforce, deployment of the 5 S workplace organisation system and standardised safety metrics to drive improvement.

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

- Our integrated management system (IMS) covers the group's operations (manufacturing sites, distribution centres and commercial sites) particularly for ISO 9001 and OHSAS 18001/ISO 45001 and ISO 14001, compliance.
- A new SHEQ framework will drive standardisation of policies, standards and guidelines and adopting best practices across the group to strengthen our 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, 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 the cluster and group SHEQ teams.
- The Hudaco group risk and internal audit function has incorporated EHS into its scope and has added to its team a specialist EHS auditor to conduct regular EHS internal audits and provide third line assurance, in terms of Hudaco's combined assurance framework, to the social and ethics and the audit and risk management committees of the Hudaco board on the management of SHEQ risks. The aims include the fast-tracking of standardisation, adoption of best practices, the deployment of the SHEQ framework and driving continuous improvement. SHEQ audits will be conducted to determine whether the SHEQ 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 SHEQ framework and to the risk mitigation actions detailed in the group SHEQ risk register (including compliance obligations). SHEQ audits will also be conducted to ensure that the SHEQ 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:

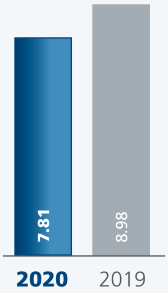
- Leading indicator – Visual leadership engagement that will measure the compliance of senior management conducting operational assessments to predefined guidelines will be initiated during 2021.
- Lagging indicators – the following two key performance indicators (KPIs) have been adopted:

EMPLOYEE REPORT continued

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

13%

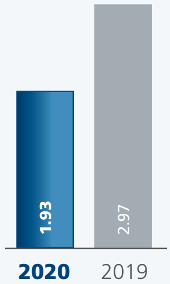
Reduction from 2019



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

35%

Reduction from 2019

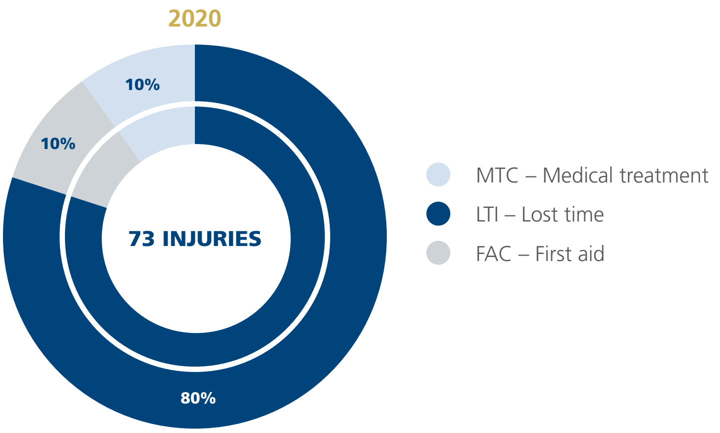


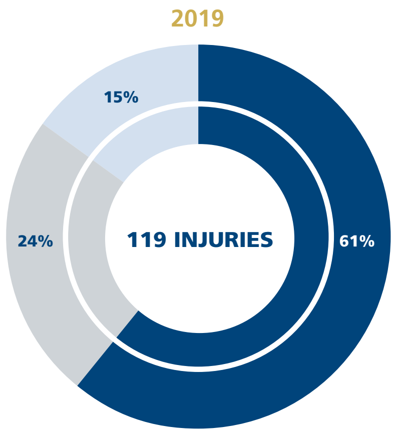
We are pleased to report that there were no fatal injuries in any of our operations during 2020. There had been one fatality in 2019 in a motor accident.

Key attributes/reasons for reduction

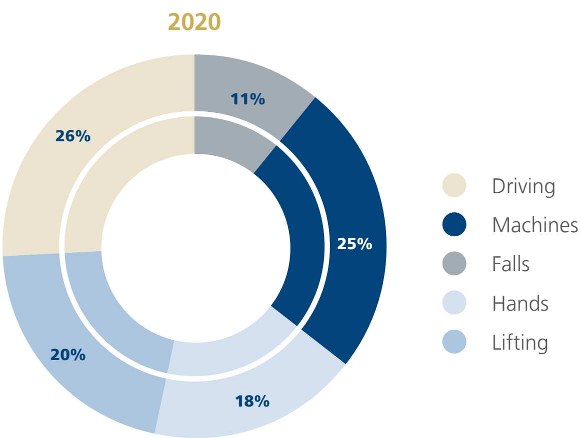
Apart from reduced working hours and remote working where possible due to the Covid-19 lockdown restrictions, there were several initiatives focused on the reduction of minor incidents, as well as safety awareness campaigns at Belting Supply Services, Bosworth, Sanderson Special Steels and Dosco. These all had positive impacts on the overall reduction of both the LTIFR and AIFR.

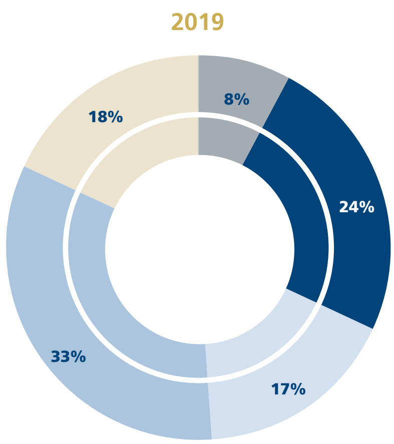
Injury classification





Injuries based on the top five hazards





Training on hazard identification and their associated risks is an integral part of the SHEQ framework and an important expectation of Hudaco from its employees. Strengthening communication will be critical during 2021 to ensure a coordinated and standardised approach to the implementation of the safety strategy across the group. This will include quarterly safety campaigns, regular safety alerts, workplace standards and employee engagement to identify safety improvement initiatives.

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 providing assistance to 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 (currently R13 300 per month), 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. 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 Primary Care (which has recently entered into a partnership arrangement with Auto & General's Flexicare medical insurance product, in response to a ruling by the Council for Medical Schemes' Appeal Board that precludes Primary Care from operating in its current form); 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 Kaelo Gap). 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 Primary Care, 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. By definition, members whose remuneration is based on total cost-to-company (senior management) do not benefit from this subsidy.

There were, on average, 1 307 employees on the medical scheme during the year to November 2020. 26 employees are currently on Primary Care, while 356 employees have chosen to be members of Vitality. Annual contributions (excluding Vitality contributions) totalled R80.9 million, of which R33.6 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 costs 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. We sincerely hope that we will be able to resume the programme in 2021. 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 include 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. Vitality age is an estimation of how much an individual's body had "aged" according to their health and health style choices. The average age of employees was 40, while the vitality age of these employees was determined to be 45. The higher the vitality age the greater the chance of medical complications. 85% of the employees had a vitality age greater than their actual age.

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. Once a month, DDP runs a mobile clinic, staffed by a qualified nurse, offering medical advice to employees not covered by medical aid.

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Covid-19 had a fundamental impact on measures required to maintain employee wellness during 2020. The measures taken from an employee wellness and safety perspective are included in the section on Covid-19 on page 51. As at 30 November, the number of cases involving employees of the group were as follows:

76	76	45
Cases	Recoveries	Isolation cases

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 R3 million (2019: R4.7 million) on various enterprise and supplier development initiatives during its 2020 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 and Bosworth provided facilities for a black woman optometrist on their premises;
- 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;
- FHS and Dosco support a recycling initiative with black-owned SMMEs; and
- Hudaco head office continued supporting a car wash and 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 managed and distributed by Hudaco's head office on behalf of business units. In 2020, Hudaco donated approximately R1 million to a variety of socio-economic development initiatives.

In partnership with Afrika Tikkun, The Almond Tree and ORT SA, Hudaco maintained a tradition of honouring Nelson Mandela Day. Because of the Covid-19 pandemic, it was 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 masks, shields and sanitisers for the children at The Almond Tree, youth webinars (How to be a cyber ninja; How to rock your future job and Polish your personal presence) hosted by ORT SA and food parcels for disadvantaged communities with Afrika Tikkun.

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. The current participants are all engineers and hold MBA qualifications. In future this programme will be restructured to provide for 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. In February 2020, the trusts distributed R6 million to approximately 1 800 beneficiaries, with each beneficiary receiving R3 350.

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 2020, 72 (2019: 77) students were granted bursaries, of whom 43 were women. Of these, 20 completed their qualifications. For the 2021 academic year, 78 students have been identified for bursaries, of whom 34 are women. Hudaco spent R2.8 million on these bursaries in 2020.

Bursary students

Pabalelo Jan Morena Masinga
Bachelor of Arts Behavioural Science

I would like to express my gratitude for your financial support during my studies towards my BA degree in behavioural science at the University of Northwest.

It was through your support that I was able to focus on my studies and eventually graduate.

I am currently employed by the Department of Higher Education since 1 December 2020 in a functional role as a trainee in employee health and wellness. I chose the field as it is relevant to my studies as I majored in psychology and employee relations. I want to eventually venture into HR mentored by my father who was the former HR and Transformation executive at Hudaco.

I would specifically like to thank the executive who believed in me initially when he interviewed me and recommended that I be considered for the bursary. May the executive team of Hudaco be given the strength to continue the good work and thank you once again. The country needs companies like Hudaco, which believes in skills development and education.

Hopefully one day I could end up also contributing to your HR department in some of the businesses within Hudaco.

Keenan Olivier
Bachelor of Commerce degree in General Management and Psychology

Firstly, I would like to take this opportunity to thank Hudaco for the scholarship they provided me to complete my Bachelor of Commerce degree at the University of the Western Cape.

Looking back, I was worried about how my life would have turned for the worse due to me not being able to afford to attend the University of the Western Cape. Through your generosity, you have opened many doors for me.

I look back to the Hudaco scholarship as the first step to many greater paths I have been able to take during my tertiary academic career in pursuit of excellence. This bursary allowed me to see the power of giving an opportunity to the next person as I went on to mentor others as well as to serve as a tutor on certain courses.

By awarding me the Hudaco scholarship, you have lightened my financial burden which has allowed me to focus on the most important aspect, that of learning. Your generosity has inspired me to help others and give back to the community. I hope one day I will be able to help students achieve their goals just as you have helped me.

Boni-ke Mtetwa
MBBCH

I am sincerely honoured and privileged to have been selected as a recipient of a Hudaco bursary for the latter three years of my university degree.

Thank you for your generosity which afforded me the opportunity to focus solely on my academics without the stresses of having to worry about my finances and the resources I needed to help in completing this degree in minimum time. I appreciate this even more because many of my classmates and friends have had to face exclusion from our institution on financial grounds, solely because their socio-economic circumstances did not allow them to afford the expenses that come with trying to attain a tertiary degree.

Having been able to complete my degree and now my first year of working as a medical doctor, I am very thankful for your thoughtful gift. Because of your scholarship I have been able to fulfil my childhood dream and my only dream, which has always been to meet people at their point of need and to render a service that contributes toward ensuring that they live a longer and, most importantly, a healthier life. Without your contribution, this would not have been possible.

Thank you again for your generosity and kindness.

Queen Kgomotso Moroane
National Diploma in Transport Management

The Hudaco bursary has allowed me to study what I love without any financial stress.

It was the best experience ever as I am the first person in my family to go to university and complete in record time, which was only possible because of the fund.

As I complete my diploma at the University of Johannesburg, I would like to extend my gratitude to Hudaco for allowing me to further my studies. Because of the bursary, now I will be able to take the transportation industry by storm. I am ready to take on the male dominated industry without fear. I am now ready to aim for opening my own freight company and to create employment. I would also like to send students like me to university in the future when my company is doing well.

Thank you again for changing my life.

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 2020 financial year, employees received approximately 61% 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:

	2020	2019
Total number of employees	**3 694**	3 999
Total compensation to employees (Rm)	**1 182**	1 133
Total compensation as a % of revenue	**19**	17

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 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 (744 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.

In 2020 the economic impact of the Covid-19 pandemic created new challenges for remuneration within the group and required a degree of agility from management and flexibility on the part of all parties, including the remuneration committee. Further detail is set out in the remainder of this remuneration report.

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 in regard to these factors, particularly concerning conditions of employment, fair pay and trends.

Over the past few years 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. Normally, the committee obtains 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. In 2020, in response to the Covid-19 pandemic, no customary annual increases were granted as is more fully explained below. The committee 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 19 March 2020, 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 83.73% of shareholders who voted. The implementation report received only 61.56% approval, and subsequent engagement with shareholders indicated that the primary reason was that a one-off working capital management incentive had been introduced in 2019 after publication of the remuneration policy so shareholders did not have the opportunity to respond thereto, although the incentive was considered to be in the best interests of shareholders. The remuneration committee has taken this criticism on board and will endeavour not to make changes that have not been put to shareholders, unless the circumstances are truly exceptional, as has been the case in 2020.

Key areas of focus and key decisions

During the year the committee focused on:

- responding to the impact on the group of the Covid-19 pandemic;
- 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; and
- reviewing the remuneration report for publication in the 2020 integrated report in the context of the King IV principles on remuneration and the JSE Listings Requirements.

Remuneration in the context of the Covid-19 pandemic

Given that the group remuneration policy received the support of 83.73% of the shareholders who voted at the annual general meeting in March 2020, in the normal course, the duty of the remuneration committee would have been to oversee implementation of the remuneration arrangements in financial year 2020 in accordance with the policy. Clearly, the unforeseen impact of the pandemic and the uncertain circumstances prevailing at the time, required the committee to consider adjustments to the policy. In an effort to ensure the sustainability of the businesses but also to incentivise the staff to perform in the circumstances, the committee felt it appropriate to oversee implementation of the following adjustments to the business-as-usual remuneration arrangements, which were fully supported by the board and the chief executive:

- accepted the offer of the executive directors, other senior executives and non-executive directors to take a pay reduction of 33% for the months of April, May and June 2020;
- instituted a retirement fund contribution holiday for both employee and employer for the three months April to June 2020. While this was applied successfully to a large majority of employees, some are members of union retirement funds that did not permit a contribution holiday;
- implemented pay reductions on all other employees of between 20% and 7% for three months on a remuneration level based scale, so that the lowest paid employees, other than the employees who are members of the union retirement funds referred to above, who worked a full month had no reduction in take-home pay because of the retirement fund contribution holiday;
- undertook to employees that there would be no job cuts for the three months April to June 2020;
- granted employees who were unable to work during the initial three weeks of the lockdown an additional nine working days' special paid leave in exchange for a requirement to take four days of annual leave. In the following two weeks of lockdown, those employees were required to take leave but were given until November 2020 to work in or repay negative leave balances;
- provided administrative assistance to employees whose remuneration had been negatively affected and who qualified for government or UIF relief;
- determined that no general salary increases would be granted in July 2020, which is when such increases would normally have been granted;
- as further discussed below, reset short-term performance targets for the 2020 financial year based on second half performance;
- increased the matching ratio for the 2021 investment opportunity in the long-term share matching retention scheme – this is also further discussed below;
- considered and decided against modifying performance criteria for the long-term share appreciation bonus scheme; and
- also decided against making any changes to the intrinsic value incentive, which was trialled in 2020, resulting in no bonuses being triggered from that source.

REMUNERATION REPORT continued

In making the above decisions, the general principles followed by the committee were:

- 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 was already evident;
- in particular, there should not be any change to the performance criteria set in terms of the share appreciation bonus scheme, on the basis that this would be unfair to shareholders; and
- 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 informed 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 is blessed with a highly competent and effective leadership team and that this was never more clearly demonstrated than:
  - in the way in which the 29 businesses in the group responded so quickly and effectively to the lockdown conditions to protect the health of employees and safeguard the sustainability of these businesses; and
  - in the sterling results produced in the post hard lockdown second half of the 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 July 2020, at the time that general salary increases would usually have been granted, the committee felt that, considering the prevailing uncertain outlook, the group should endeavour to keep the number of retrenchments as low as possible, while still cutting operating costs to align with expected trading levels for the rest of the year and conserving cash. Consequently, the committee decided that all employees should play their part by foregoing general salary increases in July 2020. Accordingly, throughout the Hudaco group there were no salary increases granted for the July 2020 to June 2021 salary cycle. Where people were promoted, some increases were permitted but at the 2019 level for the position.

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 results in the first half of the financial year, it was clear that no matter the performance in the second half, the pre-determined short-term criteria for the full year would not be met and that executives throughout the group would remain without performance-based incentives for the rest of the year. Once the hard lockdown regulations were eased and it became apparent that the businesses could operate on a more normalised basis, the committee concluded that the most constructive approach to incentivising the senior management and the staff to perform in these circumstances, would be to re-base the performance criteria to the second half performance of the group and to reduce the bonus opportunity commensurately. Accordingly, revised short-term incentives for executive directors were set on the following basis: the measurement period would be the second half of the 2020 financial year; the maximum short-term bonus opportunity for financial targets would be 50% of the original full year potential bonus in each case; the two performance criteria would be to achieve between 80% and 100% of the 2019 second half comparable earnings per share and a return on equity (after adding the goodwill write-off in the first half back to equity) of at least that achieved in the second half of 2019. It was estimated that, should these targets be met, a substantial final dividend could be paid to shareholders. The principle of making available 50% of original maximum incentives for attaining specific second half targets was extended to all senior managers in the group whose remuneration comprises a portion of formula-based short-term incentives. Personal non-financial objectives were also modified to focus individuals on actions needed to deal with Covid-19 in their businesses and its impact thereon. The general body of staff were given the opportunity to earn up to 50% of the bonuses that they would have been able to earn had it not been for the pandemic.

This approach was in line with published material on dealing with incentives in the context of the pandemic.

In the event, the group performed very well in the second half, with earnings and returns exceeding those of the equivalent period in 2019 and exceptionally strong cash generation enabling over R200 million to be returned to shareholders in the form of dividends and share repurchases and R523 million of debt to be repaid out of second half earnings. All but three of the 15 senior executives earned their full 50% maximum bonus at a total cost of R16 million and the majority of the general body of employees were paid the full 50% of their bonus opportunity.

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. The scheme has not been very effective for the approximately 230 people who participate in the scheme, particularly for the 15 senior executives to whom performance criteria apply. By way of example, in the case of the chief executive, the calculated value of the benefit to him as disclosed in the annual financial statements over the past eight years was R24 million whereas, at best, he could have benefited in an amount of about R5 million, so the disclosed benefit has been much higher than the actual benefit to him.

Here too the impact of Covid-19 on the 2020 results means that there are almost no prospects of the performance criteria being met for any tranche for which 2020 is included in the measurement period. The scheme is, therefore, unlikely to generate much benefit to the participants over the next few years and accordingly is not effective as a financial or retentive incentive. Notwithstanding the shortcomings, after careful deliberation, the committee felt that it would not be appropriate to make any retrospective changes to the previously established performance criteria.

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 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 share rules, the matching ratio is at the discretion of the committee. Apart from one previous occasion, the matching ratio has been set at 1:1. 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. Furthermore, in recent months business heads have been lost to the group through emigration and for other opportunities. This is a trend which the business can ill afford at this juncture, especially amongst the senior executive corps, which has proved itself to be highly competent and effective in steering the group through challenging times. Taking all of this into account, as well as the fact that during the 2020 financial year the senior executives took a third salary reduction for three months, were limited to 50% of their normal bonus entitlement and face the unlikelihood of much benefit flowing from the share appreciation bonus scheme in the medium term, the committee felt it appropriate to increase the matching ratio for the 2020 financial year to 2:1 on an after-tax basis, which equates to approximately 3.6:1 pre-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 four next most senior executives 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 2021.
- Dealing with the consequences of Covid-19 in a balanced and appropriate manner to align the interests of employees with those of the company and its stakeholders.
- Considering the effectiveness of the new intrinsic value incentive (which is more fully explained in the policy report) which will be trialled again this 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. At least 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 2018 by Khokhela Consulting, whom the committee satisfied itself were independent and objective, and would have been repeated in June 2020, were it not for the fact that the committee resolved not to grant salary increases in 2020 in light of the Covid-19 pandemic. The benchmarking will be done in June 2021 instead. A benchmarking exercise on non-executive directors' fees was conducted by Khokhela Consulting 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 further increase is proposed for 2021. It is intended that benchmarking be conducted again for 2022.

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 is generally 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 2020 financial year were achieved, within the context of the Covid-19 pandemic.

MR Thompson
Chairman of the remuneration committee

18 February 2021

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. In 2020, potential bonuses based on results were reduced to 50% of normal and were measured on second half performance only so as to still provide employees with an incentive to deliver high levels of performance, notwithstanding the impact of the Covid-19 pandemic on the results of the first half of the year.

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. In addition, during the Covid-19 lockdown period, employees who could not work from home were granted an additional nine days' special leave.

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, although in 2020 they were based on results for the second half of the year because of the impact of Covid-19 and the associated lockdown on the first half; 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.

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 2021, no ROE bonus will be paid if ROE is below 13% 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.

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.

For 2020, as explained in the background statement section of this report, all formula-based incentives were measured on second half performance only, as a result of the impact of Covid-19 and the associated lockdown on first half results, but only 50% of the normal amount could be earned. The incentive available for personal non-financial objectives was not reduced, but the total bonus was capped at 50% of normal.

In the previous year, 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 proposes to reintroduce 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 has been determined and, using the same methodology and capitalisation multiple, the value of the shares will be determined as at 30 November 2021.

The three executives will be entitled to receive the full 10% of their guaranteed remuneration if the intrinsic value of the shares so calculated has 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. The committee has the discretion to make any adjustments to the 2021 valuation that it deems necessary to ensure a fair comparison – such as to adjust for the impact of IFRS 16 on the cash flow proxy used in the valuation model, share buy-backs, dividends, acquisitions and disposals.

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 (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 2020 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.

Executive directors have not derived any financial benefits from share appreciation awards issued from 2012 onwards 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 (the 15 most senior people), who must be three years or more from retirement. 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 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 three years. 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 what is an extremely difficult economic climate, in which their experience will be extremely important. To achieve this, 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 2:1, which approximates 3.6:1 before tax. The rationale for this ratio is further explained in the background statement, specifically on page 60.

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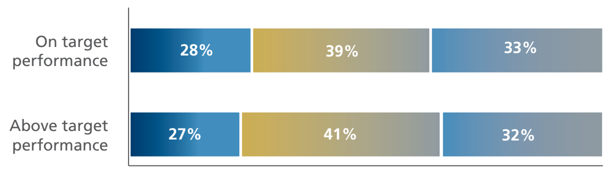
Because performance requirements of the share appreciation rights scheme described above do not apply to participants other than executives and top senior management, that scheme serves as a retention scheme for those other participants.

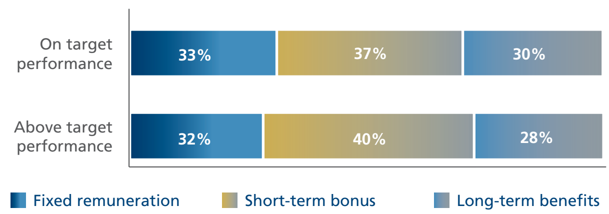
Comprehensive remuneration of the chief executive and group financial director

The breakdown of the potential comprehensive remuneration of the chief executive and group financial director in a normal year 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. 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 Consulting 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 to be proposed for shareholder approval for the period April 2021 to March 2022 have not been increased. The intention is that benchmarking to market be conducted again for the year commencing April 2022.

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 issues.

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.

This Implementation Report should be read in conjunction with the section headed "Remuneration in the context of the Covid-19 pandemic" in the Background Statement. The committee is satisfied that the remuneration policy achieved its revised objectives in the 2020 financial year, with the exception of the long-term share appreciation bonus scheme, which has not yielded the anticipated benefits.

Fair and responsible remuneration

Hudaco continues to work on its strategy for 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 executive directors and members of senior management were not granted increases on fixed guaranteed remuneration and the same was true of the general body of employees within the group.

In 2020, 1 469 675 share appreciation rights were awarded to a total of 215 people. For the share appreciation rights awarded to 15 executive directors and top senior managers to vest, performance conditions must be met. Rights awarded to the other 200 participants do not have performance conditions.

We will continue to work on assessing and understanding the elements of the pay gap and taking reasonable steps to mitigate it.

REMUNERATION REPORT continued

Executive directors' remuneration for the year ended 30 November 2020

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
2020	**5 178**	**602**	**192**	**4 887**	**10 859**	**7 469**	**18 328**
2019	5 405	705	203	5 760	12 073	8 586	20 659

Fixed guaranteed remuneration and benefits

Graham's total fixed cost-to-company remuneration remained unchanged for the year from 1 July 2020 at R6 430 000. His position was externally benchmarked against companies with a similar size, complexity and geographical spread in 2018. His pay was reduced by 33% for the months of April, May and June 2020 as one of the measures taken in response to the Covid-19 pandemic.

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 R4 886 800 (2019: R5 760 000):

2020 second half measure		Measure achieved 2020	Maximum bonus % available	Bonus % achieved
Measurement	**Target**			
Return on equity	Minimum – 11.5% (post-tax WACC) Primary – 14.5% Stretch – 20.5%	24%	27%	27%
Increase in ceps	Primary – 75% of H2 2019 Stretched – 100% of H2 2019	101.5%	36.5%	36.5%
Personal non-financial objectives			25%	24.5%
Total percentage of guaranteed fixed remuneration			88.5%	88%
Cap applied (50% of original maximum)			76%	76%

Performance-based share appreciation bonus scheme

In line with long-term incentive benchmarks for executive directors, on 27 July 2020 Graham was awarded 235 000 share appreciation bonus rights to be measured off a 10-day VWAP base of R68.37 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.

During 2020 Graham did not exercise any share appreciation bonus rights. He forfeited 20 000 rights because the performance requirements were not met.

Graham Dunford 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
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**
2019											
	681 360		137 100		10 667	807 793					
	32 000	109.26			10 667	21 333	27 Jul 12	3	Jul 15 – Jul 21	Nil	Nil
	28 000	90.80				28 000	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	1 594
	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	442
	105 000	125.10				105 000	24 Jul 17	3	Jul 20 – Jul 26	Partial	Nil
	102 000	149.51				102 000	23 Jul 18	3	Jul 21 – Jul 27	Too soon	Nil
		117.27	137 100			137 100	26 Jul 19	3	Jul 22 – Jul 28	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 2020 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 3 February 2020 when the market price was R99.97 per share, Graham committed 48 882 shares to the scheme.

14 518 rights acquired by Graham in 2017 and held for three years in terms of the share matching scheme were released from their lock-up periods and between February and April 2020 the company purchased for Graham a matching 14 518 shares in the open market at a weighted average price of R91.09 per share, the consideration totalling R1 322 516.

Based on his potential maximum short-term bonus, he is entitled to commit to the scheme further shares up to a maximum value of R4 886 800 by 3 April 2021. These shares will be matched in 2024 at a ratio of 2:1 post-tax, which approximates 3.6:1 before tax, for the reasons detailed in the background statement, specifically on page 60.

Graham Dunford holds the following positions in terms of the share matching scheme:

				Year invested			
	At 30 November 2020	2020	At 30 November 2019	2019	2018	2017	2016
Balance at beginning of year	**64 163**		77 504		15 054	14 518	47 932
Granted during year	**48 882**	48 882	34 591	34 591			
Matured during year	**(14 518)**	(14 518)	(47 932)				(47 932)
Balance at end of year	**98 527**	34 364	64 163	34 591	15 054	14 518	

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
2020	**3 010**	**398**	**180**	**2 431**	**6 019**	**3 490**	**9 509**
2019	3 114	483	201	2 550	6 348	3 947	10 295

Fixed guaranteed remuneration and benefits

Clifford's total fixed cost-to-company remuneration remained unchanged for the year from 1 July 2020 at R3 890 000. His position was externally benchmarked against companies with a similar size, complexity and geographical spread in 2018. His pay was reduced by 33% for the months of April, May and June 2020 as one of the measures taken in response to the Covid-19 pandemic.

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 R2 431 250 (2019: R2 550 000):

2020 second half measure		Measure achieved 2020	Maximum bonus % available	Bonus % achieved
Measurement	**Target**			
Return on equity	Minimum – 11.5% (post-tax WACC) Primary – 14.5% Stretch – 20.5%	24%	22%	22%
Increase in ceps	Primary – 75% of H2 2019 Stretched – 100% of H2 2019	101.5%	28%	28%
Personal non-financial objectives			25%	21.5%
Total percentage of guaranteed fixed remuneration			75%	71.5%
Cap applied (50% of original maximum)			62.5%	62.5%

Performance-based share appreciation bonus scheme

In line with long-term incentive benchmarks for executive directors, on 27 July 2020 Clifford was awarded 99 600 share appreciation bonus rights to be measured off a 10-day VWAP base of R68.37. 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.

During 2020 Clifford did not exercise any share appreciation bonus rights. He forfeited 28 000 rights because the performance requirements were not met.

Clifford Amoils 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
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 – Jul 27**	**Minimal**	**Nil**
	58 200	**117.27**				**58 200**	**26 Jul 19**	**3**	**Jul 22 – Jul 28**	**Minimal**	**Nil**
		68.37	**99 600**			**99 600**	**27 Jul 20**	**3**	**Jul 23 – Jul 29**	**Too soon**	**Nil**
2019											
	341 660		58 200	9 000	10 000	380 860					
	18 000	81.05		9 000		9 000	13 Jul 11	3	Jul 14 – Jul 20	Assured	243
	30 000	109.26			10 000	20 000	27 Jul 12	3	Jul 15 – Jul 21	Nil	Nil
	27 000	90.80				27 000	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	567
	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	209
	49 000	125.10				49 000	24 Jul 17	3	Jul 20 – Jul 26	Partial	Nil
	43 000	149.51				43 000	23 Jul 18	3	Jul 21 – Jul 27	Too soon	Nil
		117.27	58 200			58 200	26 Jul 19	3	Jul 22 – Jul 28	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 2020 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 3 February 2020 when the market price was R99.97 per share, Clifford committed 24 319 shares to the scheme.

8 590 rights acquired by Clifford in 2017 and held for three years in terms of the share matching scheme were released from their lock-up period and in March 2020 the company purchased for Clifford a matching 8 590 shares in the open market at a weighted average price of R72.99 per share, the consideration totalling R626 945.

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 431 250 by 3 April 2021. These shares will be matched in 2024 at a ratio of 2:1 post-tax, which approximates 3.6:1 before tax, for the reasons detailed in the background statement, specifically on page 60.

Clifford Amoils holds the following positions in terms of the share matching scheme:

				Year invested			
	At 30 November 2020	2020	At 30 November 2019	2019	2018	2017	2016
Balance at beginning of year	**34 062**		50 270		8 280	8 590	33 400
Granted during year	**24 319**	24 319	17 192	17 192			
Matured during year	**(8 590)**	(8 590)	(33 400)				(33 400)
Balance at end of year	**49 791**	15 729	34 062	17 192	8 280	8 590	

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
2020	**2 848**	**378**	**194**	**2 312**	**5 732**	**3 937**	**9 669**
2019	2 606	406	191	2 250	5 453	3 773	9 226

Fixed remuneration

Louis' total fixed cost-to-company remuneration remained unchanged for the year from 1 July 2020 at R3 700 000. His pay was reduced by 33% for the months of April, May and June 2020 as one of the measures taken in response to the Covid-19 pandemic. He joined the group after the most recent benchmarking exercise was conducted.

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 R2 312 500 (2020: R2 250 000):

2020 measure		Measure achieved 2020	Maximum bonus % available	Bonus % achieved
Measurement	**Target**			
Return on net tangible operating assets	Varies by business	19%	22%	16.3%
Operating profit	Varies by business Uncapped but subject to clawback		28%	27.4%
Personal non-financial objectives			25%	21.5%
Total percentage of guaranteed fixed remuneration			75%	65.2%
Cap applied (50% of original maximum)			62.5%	62.5%

Performance-based share appreciation bonus scheme

On 27 July 2020 Louis was awarded 142 000 share appreciation bonus rights to be measured off a 10-day VWAP base of R68.37. 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 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
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**
2019											
			56 000			56 000					
		117.27	56 000			56 000	26 Jul 19	3	Jul 22 – Jul 28	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 2020 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 7 February 2020 Louis purchased 21 052 Hudaco shares on the open market at R109.84 per share.

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 312 500 by 3 April 2021. These shares will be matched in 2024 at a ratio of 2:1 post-tax, which approximates 3.6:1 before tax, for the reasons detailed in the background statement, specifically on page 60.

Louis Meiring holds the following positions in terms of the share matching scheme:

				Year invested			
	At 30 November 2020	2020	At 30 November 2019	2019	2018	2017	2016
Balance at beginning of year	**16 827**						
Granted during year	**21 052**	21 052	16 827	16 827			
Balance at end of year	**37 879**	21 052	16 827	16 827			

REMUNERATION REPORT continued

Senior executives' remuneration for the year ended 30 November 2020

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
2020	**2 229**	**291**	**142**	**1 112**	**3 774**	**1 121**	**4 895**
2019	2 296	352	176	1 525	4 349	1 712	6 061

Fixed remuneration

David's total fixed cost-to-company remuneration remained unchanged for the year from 1 July 2020 at R2 850 000. His position was externally benchmarked against companies with a similar size, complexity and geographical spread in 2018. His pay was reduced by 33% for the months of April, May and June 2020 as one of the measures taken in response to the Covid-19 pandemic.

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 R1 111 500 (2019: R1 525 000).

2020 measure		Measure achieved 2020	Maximum bonus % available	Bonus % achieved
Measurement	**Target**			
Return on net tangible operating assets	Varies by business	47%	16%	16%
Operating profit	Varies by business Uncapped but subject to clawback		16%	16%
Personal non-financial objectives			14%	12%
Total percentage of deemed guaranteed fixed remuneration			46%	44%
Cap applied (50% of original maximum)			39%	39%

Performance-based share appreciation bonus scheme

In line with long-term incentive benchmarks for top senior management, on 27 July 2020 David was awarded 20 000 share appreciation bonus rights to be measured off a 10-day VWAP base of R68.37. Subject to the performance criteria, the allocation will vest three years from the allocation date. No second or third tranche was awarded 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 2020. He forfeited 8 000 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
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 – Jul 24	Partial	Nil
	32 100	102.93				32 100	20 Jul 16	3	Jul 19 – Jul 24	Partial	Nil
	28 000	125.10				28 000	24 Jul 17	3	Jul 20 – Jul 24	Minimal	Nil
	25 000	149.51				25 000	23 Jul 18	3	Jul 21 – Jul 24	Minimal	Nil
	24 000	117.27				24 000	26 Jul 19	2	Jul 22 – Jul 24	Minimal	Nil
		68.37	20 000			20 000	27 Jul 20	1	Jul 23 – Jul 24	Too soon	Nil
2019											
	176 480		24 000		3 000	197 480					
	9 000	109.26			3 000	6 000	27 Jul 12	3	Jul 15 – Jul 21	Nil	Nil
	15 000	90.80				15 000	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	325
	24 900	125.24				24 900	10 Jul 15	3	Jul 18 – Jul 24	Partial	Nil
	32 100	102.93				32 100	20 Jul 16	3	Jul 19 – Jul 24	Partial	122
	28 000	125.10				28 000	24 Jul 17	3	Jul 20 – Jul 24	Partial	Nil
	25 000	149.51				25 000	23 Jul 18	3	Jul 21 – Jul 24	Too soon	Nil
		117.27	24 000			24 000	26 Jul 19	2	Jul 22 – Jul 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 three-year investment to the value of up to 50% of his 2020 potential maximum short-term incentive bonus in Hudaco shares. David elected to commit 43%, amounting to R954 674. To achieve this, on 13 February 2020, when the open market price was R108.73 per share, David committed 8 780 Hudaco shares to the scheme.

3 000 rights acquired by David in 2017 and held for three years in terms of the share matching scheme were released from their lock-up period in March 2020 and the company purchased for David a matching 3 000 Hudaco shares in the open market at R72.99 per share, the consideration totalling R218 956.

Based on his potential maximum short-term bonus, he is entitled to commit to the scheme further shares up to a maximum value of R864 500 by 3 April 2021.

David Allman holds the following positions in the share matching scheme:

				Year invested			
	At 30 November 2020	2020	At 30 November 2019	2019	2018	2017	2016
Balance at beginning of year	**14 327**		16 364		3 537	3 000	9 827
Granted during year	**8 780**	8 780	7 790	7 790			
Matured during the year	**(3 000)**	(3 000)	(9 827)				(9 827)
Balance at end of year	**20 107**	5 780	14 327	7 790	3 537	3 000	

Barry Fieldgate – *Portfolio executive: Deutz Dieselpower, MiRO, 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
2020	**2 484**	**312**	**28**	**1 190**	**4 014**	**1 873**	**5 887**
2019	2 583	379	138	1 200	4 300	2 146	6 446

Fixed guaranteed remuneration and benefits

Barry's total fixed cost-to-company remuneration remained unchanged for the year from 1 July 2020 at R3 050 000. His position was externally benchmarked against companies with a similar size, complexity and geographical spread in 2018. His pay was reduced by 33% for the months of April, May and June 2020 as one of the measures taken in response to the Covid-19 pandemic.

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 R1 189 500 (2019: R1 200 000):

2020 measure		Measure achieved 2020	Maximum bonus % available	Bonus % achieved
Measurement	**Target**			
Return on net tangible operating assets	Varies by business	52%	16%	16%
Operating profit	Varies by business Uncapped but subject to clawback		16%	16%
Personal non-financial objectives			14%	12%
Total percentage of guaranteed fixed remuneration			46%	44%
Cap applied (50% of original maximum)			39%	39%

Performance-based share appreciation bonus scheme

In line with long-term incentive benchmarks for top senior management, on 27 July 2020 Barry was awarded 62 500 share appreciation bonus rights to be measured off a 10-day VWAP base of R68.37. 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.

Barry did not exercise any share appreciation rights during 2020. He forfeited 7 666 rights because the performance requirements were not met in full.

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
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 – Jul 27**	**Minimal**	**Nil**
	35 000	**117.27**				**35 000**	**26 Jul 19**	**3**	**Jul 22 – Jul 28**	**Minimal**	**Nil**
		68.37	**62 500**			**62 500**	**27 Jul 20**	**3**	**Jul 23 – Jul 29**	**Too soon**	**Nil**
2019											
	203 900		35 000		2 667	236 233					
	8 000	109.26			2 667	5 333	27 Jul 12	3	Jul 15 – Jul 21	Nil	Nil
	15 000	90.80				15 000	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	452
	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	133
	30 000	125.10				30 000	24 Jul 17	3	Jul 20 – Jul 26	Partial	Nil
	27 000	149.51				27 000	23 Jul 18	3	Jul 21 – Jul 27	Too soon	Nil
		117.27	35 000			35 000	26 Jul 19	3	Jul 22 – Jul 28	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 2020 potential maximum short-term incentive bonus in Hudaco shares. Barry elected to make essentially the maximum commitment of 50%, amounting to R1 173 800. To achieve this, in March 2020 Barry purchased 11 782 Hudaco shares on the open market at R99.63 per share.

3 367 rights acquired by Barry in 2017 and held for three years in terms of the share matching scheme were released from their lock-up period and in March 2020 the company purchased for Barry a matching 3 367 Hudaco shares in the open market at R72.99 per share, the consideration totalling R245 742.

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 holds the following positions in the share matching scheme:

				Year invested			
	At 30 November 2020	2020	At 30 November 2019	2019	2018	2017	2016
Balance at beginning of year	**15 622**		18 591		3 834	3 367	11 390
Granted during year	**11 782**	11 782	8 421	8 421			
Matured during year	**(3 367)**	(3 367)	(11 390)				(11 390)
Balance at end of year	**24 037**	8 415	15 622	8 421	3 834	3 367	

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
2020	**1 020**	**168**	**99**	**1 112**	**2 399**	**887**	**3 286**

Fixed guaranteed remuneration and benefits

Carl became a member of the executive committee with effect from 1 July 2020, at which date his total fixed cost-to-company remuneration was reset at R2 850 000.

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 R1 111 500:

2020 measure		Measure achieved 2020	Maximum bonus % available	Bonus % achieved
Measurement	**Target**			
Return on net tangible operating assets	Varies by business	115%	16%	16%
Increase in operating profit	Varies by business Uncapped but subject to clawback		16%	16%
Personal non-financial objectives			14%	12%
Total percentage of deemed guaranteed fixed remuneration			46%	44%
Cap applied (50% of original maximum)			39%	39%

Performance-based share appreciation bonus scheme

In line with long-term incentive benchmarks for top senior management, on 27 July 2020 Carl was awarded 58 400 share appreciation bonus rights to be measured off a 10-day VWAP base of R68.37. 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.

Carl did not exercise any share appreciation rights during 2020.

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
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	**125.10**				**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 – Jul 28**	**Minimal**	**Nil**
		68.37	**58 400**			**58 400**	**27 Jul 20**	**3**	**Jul 23 – Jul 29**	**Too soon**	**Nil**

Retention-based share matching scheme

1 032 rights acquired by Carl in 2017 and held for three years in terms of the share matching scheme were released from their lock-up period and in March 2020 the company purchased for Carl a matching 1 032 Hudaco shares in the open market at R72.99 per share, the consideration totalling R75 321.

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 111 500 by 3 April 2021.

Carl holds the following positions in the share matching scheme:

				Year invested			
	At 30 November 2020	2020	At 30 November 2019	2019	2018	2017	2016
Balance at beginning of year	**3 015**		3 325		893	1 032	1 400
Granted during year	**1 760**	1 760	1 090	1 090			
Matured during year	**(1 032)**	(1 032)	(1 400)				(1 400)
Balance at end of year	**3 743**	728	3 015	1 090	893	1 032	

Ernie Smith – *Portfolio executive: Astore Keymak, Bearings International, Belting Supply Services, Brewtech Engineering, Bosworth and executive: SHEQ 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
2020	**1 529**	**205**	**106**	**1 112**	**2 952**	**1 448**	**4 400**

Fixed guaranteed remuneration and benefits

Ernie became a member of the executive committee with effect from 1 March 2020, and his total fixed cost-to-company remuneration was reset at R2 850 000 with effect from 1 July 2020. His pay was reduced by 33% for the months of April, May and June 2020 as one of the measures taken in response to the Covid-19 pandemic.

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 R1 111 500:

2020 measure		**Measure achieved 2020**	**Maximum bonus % available**	**Bonus % achieved**
Measurement	**Target**			
Return on net tangible operating assets	Varies by business	19%	16%	16%
Increase in operating profit	Varies by business Uncapped but subject to clawback		16%	16%
Personal non-financial objectives			14%	12%
Total percentage of deemed guaranteed fixed remuneration			46%	44%
Cap applied (50% of original maximum)			39%	39%

REMUNERATION REPORT continued

Performance-based share appreciation bonus scheme

On 27 July 2020 Ernie was awarded 87 500 share appreciation bonus rights to be measured off a 10-day VWAP base of R68.37. 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 2020.

Ernie 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
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

Based on his maximum potential short-term bonus, Ernie is entitled to commit to Hudaco's retention-based share matching scheme further shares up to a maximum value of R1 111 500 by 3 April 2021.

				Year invested			
	At 30 November 2020	2020	At 30 November 2019	2019	2018	2017	2016
Balance at beginning of year	**5 855**						
Granted during year	**5 000**	5 000	5 855	5 855			
Balance at end of year	**10 855**	5 000	5 855	5 855			

Non-executive directors' remuneration

Non-executive directors' remuneration for the period ended 30 November 2020

R000 (excluding VAT)	2020	2019
SJ Connelly	**1 020**	1 062
N Mandindi	**621**	635
D Naidoo	**998**	935
MR Thompson	**625**	645
Total	**3 264**	3 277

Proposed non-executive directors' fees for 2021/2022

At Hudaco's annual general meeting to be held on 18 March 2021, shareholders will be requested to approve the non-executive directors' fees for the period 1 April 2021 until 31 March 2022 as set out below. These proposed fees are unchanged from those of the year before. An independent benchmarking exercise was last conducted by Khokhela Consulting in January 2019. It is intended to repeat the benchmarking exercise in January 2022.

	Proposed 2021/22	
R000 (excluding VAT)	**Base fee**	**Penalty for non-attendance**
Board		
Chairman of the board	1 134*	21
Lead independent non-executive	412	20
Board member	303	15
Audit and risk management committee		
Chairman of the committee	264	21
Committee member	146	15
Remuneration committee		
Chairman of the committee	185	21
Committee member	84	14
Nomination committee		
Chairman of the committee	*	
Committee member	61	10
Social and ethics committee		
Chairman of the committee	158	21
Committee member	70	12

* *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 – R31 000 and member – R22 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 practised 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.

WWW

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 framework adopted by the group articulates how decisions are made in compliance with legal and regulatory requirements.

The board's responsibilities are outlined in its charter, which the board reviews and adopts annually. The mandates, charters and terms of reference governing the board and committees are published on Hudaco's website.

WWW

The board charter, which is aligned with the recommendations of King IV, 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 continued targeted training on relevant aspects of legislation. 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 2021 include the continued application of King IV practices, implementation of the POPI Act and ensuring full compliance therewith 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. 20

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. The majority of the board members are non-executive directors, most of whom are independent. Non-executive directors bring diverse perspectives to the board deliberations and 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, property development and overall business – with some directors having chief executive experience.

CORPORATE GOVERNANCE continued

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, 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 a result of his owning 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 2021, she would have served ten years on the board.

All the other non-executive directors are 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 next page.

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 annually and any changes are submitted to the board as they occur.

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 2020, the dominant issue was the company's response to the Covid-19 pandemic. In addition, the key strategic focus remained the management of the relationship between margins, inventories and costs in a particularly difficult economic environment.

Key focus areas for 2021 include:
- continuing to respond appropriately as the impact of Covid-19 unfolds;
- sustaining focus on working capital;
- improving overall operating margins;
- extracting further synergies across businesses;
- identifying quality acquisition opportunities;
- considering capital allocation; and
- growing the black management pool.

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

Board meeting attendance 2020

	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.

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 demographic and gender diversity in its assessment.

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 gender and race diversity, 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

A number of 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 and the nomination 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 its 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 verbal 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.

CORPORATE GOVERNANCE continued

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.

The last formal board and committee assessments were conducted in October 2019. The assessments were crafted into an electronic questionnaire comprising 204 questions which incorporated clearly defined areas to be evaluated. The following areas were assessed: composition, board matters, chief executive, chairman, committees, roles and duties and meetings. The questionnaire also afforded opportunity for comments on overall performance.

The board members reviewed the summary of the combined results which, in general (overall board appraisal scored 3.6 out of 4), pointed to an efficient and effective board. However, the following areas received an average score of between 2.3 and 2.9 out of 4:

i) the establishment of a formal process to keep abreast of issues and trends affecting the organisation; and
ii) succession plan for the chairman.

During the discussion of these two areas it was conceded that a process had been established for the board to keep abreast of issues and trends affecting the organisation, albeit not a formal one. It was noted that the CEO periodically distributes industry reports, articles on influencers in Hudaco's industries, results and activities of competitors as well as results of business measurements in the board's meeting packs. All the executives are further actively involved in networking and attending conferences and industry shows both locally and internationally on an ongoing basis and trends within the Hudaco businesses itself were being tracked and reported on.

With regard to succession for the chairman, it was noted that the lead independent director would assume the chairman's role if the need arose for emergency succession, but that it was premature to identify a long-term successor.

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 2020. 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 2020

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

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The remuneration report can be found on pages 60 to 81 of this report.

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 with regard to 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;
- have an understanding of 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 2020

	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 2021 include board and committee evaluations and ensuring that appropriate succession plans are in place for senior management and 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 2020 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 2020. 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 2021 financial year. However, at its June 2020 meeting the audit committee agreed that due to the logistic challenges brought on by Covid-19, the audit firm rotation should be deferred for a year. The mandatory deadline is 2023.
- After reviewing BDO's and the designated individual partner's suitability for appointment in terms of paragraph 22.15(h) of the JSE Listings Requirements, it nominated the audit firm BDO and audit partner Vianca Pretorius for appointment by the shareholders at the forthcoming annual general meeting as the auditor for the 2021 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. In considering BDO's independence the committee considered the fact that Grant Thornton, who had been Hudaco's auditors for a period of 33 years, is now part of BDO.

- 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 2020 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. In addition, the committee conducted an evaluation of the internal audit function and is satisfied that it was 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.

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- The committee considered and noted the key audit matter as determined by BDO and described in the independent auditor's 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 BDO and audit partner Vianca Pretorius, considered the information detailed in paragraph 22.15(h) of the JSE Listings Requirements and had also consulted BDO thereon; (iv) the appointment of BDO is presented and included as a resolution at the forthcoming annual general meeting of the company to be held in March 2021.

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 internal audit 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.

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

Focus areas for 2021 include initiating the process to effect mandatory audit firm rotation in 2022; establishing a process to facilitate the introduction of the new CEO and financial director responsibility statement in the integrated report in 2021 as required by the JSE Listings Requirements; and optimising risk management at operational level.

Audit and risk management committee meeting attendance 2020

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

Financial control and risk management

The board recognises its 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.

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 in order to provide efficient and effective assurance to the group's audit and risk management committee.

Risk

The board assesses 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. Management is responsible for managing risks on a daily and operational basis. 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.

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An operational risk management committee 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.

In August 2020, the legal proceedings instituted by Hudaco against Bravura Equity Services Proprietary Limited, Cadiz Holdings Limited and certain other entities and individuals within the Bravura and Cadiz groups were settled between the parties for an amount of R35 million, paid to Hudaco as damages, by way of a contribution towards the tax settlement of the R312 million paid to SARS in 2013.

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 2021 include the following:

- continuing to align IT strategies with business strategies at individual businesses;
- 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 2020 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 (Sabelo Mkwanazi). Furthermore, the committee is entitled to invite other executives and senior managers of Hudaco to attend meetings as required in order 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 2020 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 also reviewed during October 2020.

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 18 March 2021, 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 2021 include monitoring the group's implementation of health and safety standards and environmental impact initiatives, application of Hudaco's ethical standards to the processes for recruitment and the evaluation of performance.

Social and ethics committee meeting attendance 2020

	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 (joined March 2020), Carl Rogers (joined July 2020) and Chris Pillay (joined 4 January 2021). The head of risk and internal audit and other senior executives have a standing invitation 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 2020

	Jan	Mar	Jun	Oct
GR Dunford	✓	✓	✓	✓
DL Allman	✓	✓	✓	✓
CV Amoils	✓	✓	✓	✓
BWJ Fieldgate	✓	✓	✓	✓
MP Jele	✓	✓	✓	✓
LFJ Meiring	✓	✓	✓	✓
E Smith*	✓	✓	✓	✓
C Rogers#	✓	✓	✓	✓

* Formally became a member in March 2020.
\# Formally became a member in July 2020.

Group secretary

Acorim Secretarial and Governance Services, represented by Natasha Petrides, was appointed as the group secretary of Hudaco with effect from 1 December 2020. The board is satisfied that Natasha Petrides has the requisite knowledge and experience to fulfil the duties of a group secretary.

The role of 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 2020 the board considered and was satisfied with the competence, qualifications and experience of the outgoing group secretary, Reana van Zyl for the period ended 30 November 2020. 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.

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.

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Share dealings

Hudaco has adopted a closed-period policy, which precludes directors, officers, participants 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.

The major subsidiaries do not have any directors who are not also directors of Hudaco.

Relationship with stakeholders

Hudaco's relationship with stakeholders is dealt with in the section on stakeholder engagement on pages 16 and 17.

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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. 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.

During the period under review, Hudaco did not make any donations to political parties.

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 87 to 90.

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; and
- the accounting practices and systems of internal control are appropriate, adequate and monitored effectively.

The audit and risk management committee has evaluated the group and company annual financial statements for the year ended 30 November 2020 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

18 February 2021

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 2020 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 Petrides

18 February 2021

DIRECTORS' REPORT

Reporting period

The directors have pleasure in presenting their report for the company's financial year ended 30 November 2020. The annual financial statements for the year ended 30 November 2020 were authorised for issue in accordance with a resolution of the directors on 18 February 2021. 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 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 2020 were R36 million (2019: R429 million).

The results represent basic earnings per share of 113 cents (2019: 1 355 cents). Headline earnings per share were 1 050 cents (2019: 1 355 cents) and comparable earnings per share were 800 cents (2019: 1 240 cents).

The results of the company and the group are set out in these financial statements.

Settlement of lawsuit

Hudaco was paid R35 million to settle the damages claim instituted by Hudaco against its advisers on its 2007 BEE transaction. Full details were set out in an announcement released on SENS on 31 August 2020.

Dividends

R million	2020
Dividend number 66 of 410 cents per share declared on 30 January 2020	130
The record date was 21 February 2020 and the dividend was paid on 24 February 2020	

No interim dividend was declared during 2020 due to the effect of the Covid-19 pandemic on the economy and the company's interim results as well as the imperative to preserve liquidity at a very uncertain time.

The dividend reflected above is net of the dividends on 2 507 828 shares held by a subsidiary.

On 28 January 2021 the directors declared dividend number 67 of 410 cents per share, being the final dividend in respect of the year ended 30 November 2020. The record date will be Friday, 19 February 2021 and the dividend will be paid on Monday, 22 February 2021.

Subsidiaries

Particulars of the principal subsidiaries of the company are set out on page 135 of the financial statements.

Acquisitions and disposals

The group gained voting control of Ironman 4X4 Africa RF (Pty) Ltd through a change in the shareholder agreement, effective 30 November 2020, at which date it became a subsidiary. It was previously accounted for as a joint venture. There were no further acquisitions or disposals during the financial year.

Authority to buy back shares

At the forthcoming annual general meeting in March 2021, shareholders will be asked to provide the directors with authority to purchase up to 1 656 446 (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 1 656 446 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 7.57% 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 7 September 2020 and 26 November 2020, the company repurchased 1 024 600 of its ordinary shares on-market at a total cost of R81.8 million. The buy-back was approved by shareholders at the last annual general meeting. These repurchased shares were delisted and cancelled on 8 December 2020.

Full details of the authorised and issued capital of the company at 30 November 2020 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, Stephen Connelly, Daisy Naidoo and Louis Meiring 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 27.1.

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 67 to 80.

Directors' remuneration and details of their service agreements

The remuneration of executive and non-executive directors are 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 67 to 80 and non-executive directors' remuneration on page 81.

Information on the executive directors' service agreements is set out on page 67.

Secretary

Acorim Secretarial and Governance Services, represented by Natasha Petrides, is the secretary of the company. The address of the secretary is set out on page 145. Reana van Zyl resigned as secretary with effect from 4 December 2020.

Borrowing powers

The borrowing powers of the Hudaco group are unlimited. At 30 November 2020 unutilised borrowing facilities amounted to R1 437 million, of which R420 million is uncommitted (2019: R1 084 million).

DIRECTORS' REPORT continued

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 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.

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, SAICA Financial Reporting Guides, 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 that 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 2020, which appear on pages 93 to 135, were approved by the board on 18 February 2021 and are signed on its behalf by:

SJ Connelly
Chairman

GR Dunford
Chief executive

18 February 2021

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 2020, 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 2020, 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 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 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
Impairment testing of goodwill In terms of 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 (CGUs). Due to the significant judgement and estimates used in determining the inputs and assumptions into the free cash flow model and discount rates applied, the sensitivity of the calculations to any changes in these assumptions and the increased risk of impairment due to the effect of Covid-19 and the national lockdown on the economy, it has been determined to be a key audit matter. As disclosed in note 13, goodwill decreased by R345 million as a result of impairments in the current financial year.	In evaluating the goodwill, we performed various procedures, including the following: • assessed the design and tested the implementation of key controls over the goodwill impairment assessment process; • utilised our corporate finance specialist to assess the reasonableness of the discounted free cash flow model used for the value in use calculations and to evaluate the key assumptions and inputs into the model, in particular those relating to the pre-tax discount rate adjusted for a Covid-19 risk premium, revenue growth rates and terminal growth rates against external market data; • tested the mathematical accuracy of the model; • held discussions with management to understand the key assumptions applied; • performed sensitivity analyses on the key assumptions and inputs; • considered the reasonableness of and challenged management's forecasts based on the actual performance of the business units in the past financial year, as well as changes expected to occur in each CGUs business, including potential effects of Covid-19; and • reviewed the historical budgeting accuracy of the group. We assessed the adequacy and completeness of the group's disclosures relating to goodwill for compliance with the International Financial Reporting Standards (refer note 13).

Other information

The directors are responsible for the other information. The other information comprises the information included in the document titled "Hudaco Integrated Report 2020", 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 International Financial Reporting Standards 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 35 years.

BDO South Africa Inc.

BDO South Africa Incorporated
Registered Auditors

VR de Villiers
Director
Registered Auditor

18 February 2021

Wanderers Office Park
52 Corlett Drive
Illovo, 2196

GROUP STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 November 2020

R000	Notes	2020	2019
Turnover	5	**6 253 637**	6 703 832
Cost of sales		**4 079 055**	4 263 626
Gross profit		**2 174 582**	2 440 206
Operating expenses	5	**1 664 447**	1 739 678
Operating profit	5	**510 135**	700 528
Other income – proceeds of damages claim		**35 000**	
Impairment of goodwill and intangible assets	13, 14	**(347 948)**	
Fair value adjustments	6	**47 625**	30 634
Profit before interest		**244 812**	731 162
Interest on lease liabilities	19.3	**34 301**	
Finance costs		**69 165**	103 001
Profit before taxation		**141 346**	628 161
Taxation	8	**133 196**	160 357
Profit after taxation		**8 150**	467 804
Equity-accounted income from joint venture	12	**655**	2 887
Profit for the year		**8 805**	470 691
Other comprehensive (loss) income that will subsequently be reclassified to profit or loss		**(1 693)**	1 745
Loss on fair value of cash flow hedges – current year		**(1 070)**	(1 339)
Adjustments for amounts transferred to the initial cost of inventory	16	**1 339**	3 442
Tax effect of the above		**(75)**	(589)
Exchange (loss) gain on translation of foreign operations		**(1 887)**	231
Total comprehensive income for the year		**7 112**	472 436
Profit (loss) attributable to:			
– Equity holders of the parent		**35 560**	428 930
– Non-controlling shareholders	18.5	**(26 755)**	41 761
		8 805	470 691
Total comprehensive income (loss) attributable to:			
– Equity holders of the parent		**34 627**	430 528
– Non-controlling shareholders	18.5	**(27 515)**	41 908
		7 112	472 436
Basic earnings per share (cents)	9	**113**	1 355
Diluted earnings per share (cents)	9	**113**	1 329

GROUP STATEMENT OF FINANCIAL POSITION

at 30 November 2020

R000	Notes	2020	2019
ASSETS			
Non-current assets		**1 924 035**	1 887 969
Property, plant and equipment	3.2, 10	**265 410**	274 436*
Right-of-use assets	11	**414 280**	
Investment in joint venture	12		11 681
Goodwill	13	**1 170 294**	1 511 842
Intangible assets	3.2, 14	**33 168**	50 679*
Deferred taxation	15	**40 883**	39 331
Current assets		**3 031 114**	3 056 873
Inventories	16	**1 598 499**	1 720 142
Trade and other receivables	17	**1 196 186**	1 269 156
Taxation		**2 829**	9 735
Bank deposits and balances		**233 600**	57 840
Total assets		**4 955 149**	4 944 842
EQUITY AND LIABILITIES			
Equity		**2 669 455**	2 843 668
Equity holders of the parent		**2 593 489**	2 742 491
Non-controlling interest	18.5	**75 966**	101 177
Non-current liabilities		**1 146 978**	918 784
Amounts due to bankers	19.1	**780 000**	917 900
Amounts due to vendors of businesses acquired	19.2		226
Lease liabilities	19.3	**365 776**	
Deferred taxation	15	**1 202**	658
Current liabilities		**1 138 716**	1 182 390
Trade and other payables	20	**936 203**	968 410
Bank overdraft		**97 250**	147 906
Amounts due to vendors of businesses acquired	19.2	**488**	64 317
Lease liabilities	19.3	**88 570**	
Taxation		**16 205**	1 757
Total equity and liabilities		**4 955 149**	4 944 842

** Restated – refer to note 3.2*

GROUP STATEMENT OF CASH FLOWS

for the year ended 30 November 2020

R000	Notes	2020	2019
Cash flow from operating activities			
Operating profit		**510 135**	700 528
Adjusted for:			
Equity-settled share-based payments	18.6	**31 188**	16 795
Depreciation and profit on disposal of plant and equipment	5, 10	**43 217**	41 827*
Depreciation on right-of-use assets	11	**118 955**	
Amortisation and loss on disposal of intangible assets	5, 14	**21 981**	34 908*
Decrease in working capital	23.1	**182 398**	58 697
Cash generated from operations		**907 874**	852 755
Other income – proceeds from damages claim		**35 000**	
Taxation paid	23.2	**(112 617)**	(195 858)
Net cash from operating activities		**830 257**	656 897
Cash flow from investing activities			
Additions to property, plant and equipment	10	**(37 369)**	(71 779)*
Additions to intangible assets	14	**(7 410)**	(7 648)*
Proceeds from disposal of property, plant and equipment		**5 720**	5 102
Acquisition of businesses	21	**10 363**	(7 503)
Repayment of loan by joint venture	12		8
Payments to vendors of businesses acquired	23.3	**(16 430)**	(106 318)
Net cash from investing activities		**(45 126)**	(188 138)
Cash flow from financing activities			
Repayment of non-current amounts due to bankers	23.4	**(137 900)**	(96 472)
Share-based payments settled		**(3 252)**	(21 500)
Repurchase of shares		**(81 818)**	
Repayment of lease liabilities	19.3	**(91 654)**	
Finance costs paid, including on lease liabilities		**(103 466)**	(103 001)
Dividends paid	23.5	**(138 747)**	(189 381)
Net cash from financing activities		**(556 837)**	(410 354)
Decrease in net bank balances		**228 294**	58 405
Foreign exchange translation (gain) loss		**(1 878)**	263
Net bank balances at beginning of the year		**(90 066)**	(148 734)
Net bank balances at end of the year	23.6	**136 350**	(90 066)

** Restated – refer to note 3.2*

GROUP STATEMENT OF CHANGES IN EQUITY
for the year ended 30 November 2020

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 2018	3 415	51 533	98 101	2 362 706	2 515 755	68 269	2 584 024
Comprehensive income for the year			1 598	428 930	430 528	41 908	472 436
Movement in equity compensation reserve			(149)	(4 556)	(4 705)		(4 705)
Dividends (note 22)				(180 381)	(180 381)	(9 000)	(189 381)
Balance at 30 November 2019	3 415	51 533	99 550	2 606 699	2 761 197	101 177	2 862 374
Less: Shares held by subsidiary company	(251)		(41)	(18 414)	(18 706)		(18 706)
Net balance at 30 November 2019	3 164	51 533	99 509	2 588 285	2 742 491	101 177	2 843 668
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 22)				**(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**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 30 November 2020

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 South African Institute of Chartered Accountants Financial Reporting Guides as issued by the Accounting Practices Committee and the requirements of the South African Companies Act and the JSE Listings Requirements. Except for the adoption of IFRS 16: *Leases*, 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. 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.

1.5 Income from investments

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 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 adopted IFRS 16: *Leases* on 1 December 2019, using the modified retrospective approach.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the group uses its incremental borrowing rate.

The liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability, using the effective interest method, and by reducing the carrying amount to reflect lease payments made.

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 estimated remaining cost over the balance of the vesting periods, including the current year.

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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 November 2020

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 10) 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 and joint ventures

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.

Investments in joint ventures are accounted for using the equity method in accordance with IAS 28: *Investments in Associates and Joint Ventures*. Under the equity method, on initial recognition the investment in a joint venture is recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The investor's share of the investee's profit or loss is recognised in the investor's profit or loss. Distributions received from an investee reduce the carrying amount of the investment.

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 or internally generated.

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.

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.
- 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.

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 all indefinite life intangible assets carried on the statement of financial position for impairment and all tangible 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 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

After initial recognition, contingent liabilities separately recognised in business combinations are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

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 operating segments 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:

Estimates

- Property, plant and equipment – useful lives and residual values – note 10
- Impairment of goodwill – future cash flows and determining the discount rate – note 13
- Fair value, 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

  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.
- 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 19.3
- Value of vendor liabilities – amount and timing of contingent consideration – note 19.2
- Fair value of financial instruments – estimate of the fair value of the financial instrument – note 25

The Covid-19 pandemic and its effect on the economy has been taken into account in making estimates and exercising judgement. Specific areas affected include impairment of goodwill and intangible assets, recoverability of deferred tax assets, net realisable value of inventories, expected credit loss on receivables and likelihood of extending lease renewal options.

Actual results could differ from the estimates made by management from time to time.

3. Changes in accounting policies and reclassification

During the year the group did not change any accounting policies or adopt any new accounting standards except for adopting IFRS 16: *Leases*.

3.1 Impact of adopting IFRS 16: *Leases* at 1 December 2019

The group has entered into numerous operating leases in respect of fixed property used for warehousing, offices and branch trading facilities. The leases generally have an initial three to five year term with options to renew at market-related rentals. Annual escalations ranging from 3% to 10% are common to all leases. No leases contain contingent rent provisions or covenants.

The group assesses whether a contract is or contains a lease based on the new 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 standalone prices.

As a lessee, the group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the group recognises right-of-use assets and lease liabilities for most leases – ie these leases are on-balance sheet. However, the group has elected not to recognise right-of-use assets and lease liabilities for short-term leases.

At transition, for leases classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the group's incremental borrowing rate of 8.13% as at 1 December 2019. Right-of-use assets are measured at the amount equal to the lease liability adjusted for lease straightlining balances (R12 million) as at 30 November 2019.

The group used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

– Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.

– Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

Reconciliation between the operating lease commitments disclosed in the group's 30 November 2019 financial statements and the lease liabilities at 1 December 2019:	**R000**
Operating lease commitments in respect of fixed property at 30 November 2019 as disclosed in the group's consolidated financial statements	**302 501**
Effect of renewal options reasonably certain to be exercised	**309 498**
Discounted using the incremental borrowing rate at 1 December 2019	**(146 098)**
	465 901

The group adopted IFRS 16: *Leases* using the modified retrospective approach. As a result of initially applying IFRS 16 in respect of leases that were previously classified as operating leases, the group recognised right-of-use assets of R454 million and lease liabilities of R466 million at 1 December 2019, the initial date of application.

At the end of the reporting period the group carried right-of-use assets of R414 million and lease liabilities of R454 million. For the year ended 30 November 2020, the group carried R119 million of depreciation charges, R92 million of capital repayments and R34 million of interest costs from these leases, instead of operating lease expenses.

3.2 Reclassification to the group statement of financial position and group statement of cash flows

Computer software, the carrying value of which is not material, was previously presented within property, plant and equipment and has been more appropriately reclassified to intangible assets.

There was no impact on the group statement of comprehensive income or statement of changes in equity.

The impact on the group statement of financial position was as follows:

R000	2019 as reported for the year ended 30 November 2019	2019 as reported for the year ended 30 November 2020
Property, plant and equipment	302 484	274 436
Intangible assets	22 631	50 679

3. Changes in accounting policies and reclassification continued

3.2 Reclassification to the group statement of financial position and group statement of cash flows continued

The impact on the statement of cash flows was as follows:

R000	2019 as reported for the year ended 30 November 2019	2019 as reported for the year ended 30 November 2020
Depreciation and profit on disposal of property, plant and equipment	49 380	41 827
Amortisation and loss on disposal of intangible assets	27 355	34 908
Additions to property, plant and equipment	(79 427)	(71 779)
Additions to intangible assets		(7 648)

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 material impact on the group's financial statements.

Standard	Details of amendments	Effective date
		Annual periods beginning on or after
IFRS 16 *Leases*	• Covid-19-Related Rent Concessions: Amendment providing lessees with an exemption from assessing whether a Covid-19-related rent concession (a rent concession that reduces lease payments due on or before 30 June 2021) is a lease modification.	1 June 2020
IAS 1 *Presentation of Financial Statements*	• Definition of Material: The amendments clarify and align the definition of 'material' and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards.	1 January 2020
	• 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 2022

R000	2020	2019

5. Revenue and operating profit

5.1 Turnover comprises

R000	2020	2019
Revenue from contracts with customers		
Sales of products	**6 101 249**	6 521 959
Rendering of services	**152 388**	181 873
	6 253 637	6 703 832
Timing of revenue recognition		
Goods and services transferred at a point in time	**5 947 925**	6 509 825
Goods and services transferred over time[1]	**305 712**	194 007
	6 253 637	6 703 832
[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	**5 737 032**	6 059 729
Goods and services sold outside South Africa	**516 605**	644 103
	6 253 637	6 703 832

Refer to note 28 for further disaggregation of turnover.

R000	2020	2019
5. Revenue and operating profit continued		
5.2 Operating expenses comprise		
Employee related expenses	**1 182 258**	1 133 030
Property rentals under short-term operating leases	**4 971**	
Property rentals under operating leases		134 427
Depreciation – property, plant and equipment	**45 009**	43 535
Depreciation – right-of-use assets	**118 955**	
Amortisation – intangible assets	**19 605**	33 404
Profit on disposal of plant and equipment	**(1 792)**	(1 708)
Loss on disposal of intangible assets	**2 376**	1 504
Acquisition costs – new businesses		75
Other expenses – including non-executive directors' fees	**506 892**	609 507
Allocated to cost of sales	**(213 827)**	(214 096)
	1 664 447	1 739 678
6. Fair value adjustments		
Fair value of amounts due to vendors of businesses acquired	**47 625**	46 136
Adjustment to estimated capital amounts due	**51 619**	58 231
Adjustment for time-value of money	**(3 994)**	(12 095)
Fair value of financial assets		
Financial assets at fair value through profit or loss		(15 502)
	47 625	30 634
7. Auditor's remuneration		
Audit fees – current year	**10 000**	9 632
	10 000	9 632
8. Taxation		
8.1 Taxation comprises		
South African normal taxation		
Current year	**129 813**	156 604
Prior years under provision	**1 099**	197
Deferred taxation		
Current year	**(941)**	(49)
Prior years under provision	**99**	1 175
Foreign normal taxation	**3 126**	2 430
	133 196	160 357
	%	%
8.2 Reconciliation of rate of taxation		
Normal rate	**28.0**	28.0
Impairment of goodwill and intangible assets	**68.3**	
Share-based payments	**12.9**	0.4
Non-deductible holding company and other expenses	**1.3**	0.2
Prior year under provision	**0.8**	0.2
Rate differential	**0.7**	(0.2)
Tax penalties and interest	**0.4**	
Adjustment to capital amounts due to vendors	**(10.5)**	(1.9)
Proceeds of damages claim	**(6.9)**	
Learnership allowances	**(0.8)**	(1.2)
	94.2	25.5

9. Comparable earnings, headline earnings and basic earnings per share

R000	2020	2019
Calculation of headline earnings		
Profit attributable to equity holders of the parent	**35 560**	428 930
Adjusted for:		
Impairment of goodwill and intangible assets	**347 948**	
Tax effect	**(840)**	
Non-controlling interest	**(52 066)**	
Loss (profit) on disposal of plant, equipment and intangible assets	**584**	(204)
Tax effect	**(164)**	57
Non-controlling interest	**(53)**	27
Headline earnings	**330 969**	428 810
Calculation of comparable earnings		
Headline earnings as per above	**330 969**	428 810
Adjusted for:		
Fair value adjustment on capital amounts due to and from vendors of businesses acquired	**(51 619)**	(42 729)
Non-controlling interest	**7 743**	6 409
Other income – proceeds of damages claim	**(35 000)**	
Comparable earnings	**252 093**	392 490
Earnings per share (cents)		
Basic	**113**	1 355
Diluted basic	**113**	1 329
Headline	**1 050**	1 355
Diluted headline	**1 050**	1 329
Comparable	**800**	1 240
Diluted comparable	**800**	1 217

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 31 527 048 (2019: 31 645 703) 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 31 527 048 (2019: 32 262 478) shares, being the weighted average number of shares in issue of 31 527 048 (2019: 31 645 703) plus zero (2019: 616 775) 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 R85.50 (2019: R108.08) 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.

10. Property, plant and equipment

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

R000	Freehold land	Buildings	Plant	Computer hardware*	Motor vehicles	Other assets	2019 Total
Cost							
Opening balance	19 037	73 068	204 999	64 310	128 773	72 735	562 922
Exchange differences			83	20	(63)	(11)	29
Acquisitions					1 935	18	1 953
Additions		758	41 434	6 983	17 108	5 496	71 779
Disposals			(1 140)	(4 776)	(13 271)	(1 431)	(20 618)
Closing balance	19 037	73 826	245 376	66 537	134 482	76 807	616 065
Accumulated depreciation							
Opening balance		14 165	133 818	48 808	72 007	45 007	313 805
Exchange differences			73	17	(21)	(3)	66
Acquisitions					1 429	18	1 447
Depreciation for the year		1 584	13 476	8 019	12 993	7 463	43 535
Disposals			(1 600)	(4 770)	(9 496)	(1 358)	(17 224)
Closing balance		15 749	145 767	52 074	76 912	51 127	341 629
Net book value	19 037	58 077	99 609	14 463	57 570	25 680	274 436
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.

** Computer software was reclassified to intangible assets effective 1 December 2018 (refer to note 3.2).*

11. Right-of-use assets

R000	2020
Cost	
Effect of the adoption of IFRS 16 (note 3.1) on 1 December 2019	**453 589**
Effect of reassessment of the probability that leases will be extended	**51 582**
Acquisition	**6 234**
Leases concluded during the year	**21 830**
Closing balance	**533 235**
Accumulated depreciation	
Depreciation for the year	**118 955**
Closing balance	**118 955**
Net book value	**414 280**

12. Investment in joint venture

Hudaco Trading (Pty) Ltd, a subsidiary of the group, is a 50% investor with Ironman 4X4 International of Australia in Ironman 4X4 Africa RF (Pty) Ltd, which is not material to the Hudaco group. It was the only investment in the group accounted for using the equity method in accordance with IFRS until the group gained voting control effective 30 November 2020, from which date it is accounted for as a subsidiary. The company is incorporated in South Africa and distributes recreational equipment for 4X4 vehicles as well as suspension systems for recreational, industrial and military vehicles.

R000	2020	2019
Total net assets of Ironman 4X4 Africa RF (Pty) Ltd		23 362
Proportion of ownership interests held by the group		50%
Carrying amount of investment in joint venture		11 681
Carrying amount of investment in joint venture at the beginning of the year	**11 681**	8 802
Attributable income for the year	**655**	2 887
Movement in loan account		(8)
Realised on gaining control during the year (see note 21)	**(12 336)**	
Carrying amount of investment in joint venture at the end of the year		11 681
Ironman 4X4 Africa RF (Pty) Ltd is a private company, and therefore no quoted market prices are available for its shares.		

13. Goodwill

13.1 Goodwill comprises:

	2020	2019
Goodwill at cost	**1 570 639**	1 567 239
Accumulated impairment	**(400 345)**	(55 397)
	1 170 294	1 511 842

R000	2020	2019

13. Goodwill continued

13.2 Movement for the year

R000	2020	2019
Balance at beginning of the year	**1 511 842**	1 504 743
Acquisitions during the year	**3 400**	7 099
Impairments during the year	**(344 948)**	
	1 170 294	1 511 842
The net book value of goodwill has been allocated to the following cash-generating units (CGUs):		
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**	66 973
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**	22 135
Powermite group	**5 235**	37 072
Ironman 4X4 – Hitek	**3 400**	
Elvey Security/Global Communications group		196 207
Ambro Steel group		46 571
Ernest Lowe/Berntel		11 659
Other	**7 522**	8 874
	1 170 294	1 511 842

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 gross margins 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 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 18.9% to 25.8% (2019: 16.2% to 21.9%).

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.

The recoverable amounts determined for the unimpaired goodwill comfortably, and in most cases, far exceeded the carrying values thereof.

14. Intangible assets

R000	Customer relationships	Trade names	Computer software	Supplier contracts	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
Disposals and write-offs			(8 317)		(8 317)
Acquisition			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)
Disposals and write-offs			(5 941)		(5 941)
Acquisition			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

R000	Customer relationships	Trade names	Computer software*	Supplier contracts	2019 Total
Cost					
Opening balance	178 956	58 189	58 232	9 287	304 664
Exchange differences			6		6
Derecognised	(130 770)	(27 844)		(9 287)	(167 901)
Additions			7 648		7 648
Disposals and write-offs			(1 820)		(1 820)
Acquisitions	1 281	100			1 381
Closing balance	49 467	30 445	64 066		143 978
Accumulated amortisation					
Opening balance	135 463	42 136	30 279	9 287	217 165
Exchange differences			6		6
Derecognised	(124 686)	(23 428)		(9 287)	(157 401)
Disposals and write-offs			(316)		(316)
Amortisation for the year	21 628	5 727	6 049		33 404
Closing balance	32 405	24 435	36 018		92 858
Accumulated impairment					
Opening balance	6 525	4 416			10 941
Derecognised	(6 084)	(4 416)			(10 500)
Closing balance	441				441
Net book value	16 621	6 010	28 048		50 679
The initial expected useful lives are set within these ranges (years):	1 – 4	1 – 7	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.

In the context of the Covid-19 pandemic, intangible assets were assessed for impairment at May 2020 and customer relationships were impaired by R3 million. Impairment tests were performed again at November 2020 and no further impairment was required.

** Computer software was reclassified from property, plant and equipment effective 1 December 2018 (refer to note 3.2).*

R000	2020	2019

15. Deferred taxation

15.1 Deferred taxation comprises temporary differences arising from:

R000	2020	2019
Capital allowances	**(29 602)**	(28 531)
Amounts due to vendors		(1 240)
Intangible assets	**(1 883)**	(6 546)
Right-of-use assets and lease liabilities	**11 146**	
Allowance for expected credit loss	**11 878**	12 523
Leave pay and bonus accruals	**38 726**	51 696
Calculated tax loss	**4 585**	5 310
Fair value of cash flow hedges	**299**	374
Other	**4 532**	5 087
Net deferred taxation asset	**39 681**	38 673
Deferred taxation is reflected on the group statement of financial position as follows:		
Deferred tax assets	**40 883**	39 331
Deferred tax liabilities	**(1 202)**	(658)
	39 681	38 673

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.

15.2 Movement for the year

R000	2020	2019
Balance at beginning of the year	**38 673**	40 157
Arising on acquisitions during the year		
Amounts due to vendors		(73)
Capital allowances	**101**	
Intangible assets		(387)
Allowance for expected credit loss	**5**	598
Leave pay and bonus accruals	**96**	93
Other	**39**	
Raised (utilised) during the year (including prior years under/over provision)		
Capital allowances	**(1 172)**	(2 556)
Amounts due to vendors	**1 240**	3 585
Intangible assets	**4 663**	7 652
Right-of-use assets and lease liabilities	**11 146**	
Allowance for expected credit loss	**(650)**	(636)
Leave pay and bonus accruals	**(13 066)**	(8 401)
Calculated tax loss	**(725)**	214
Fair value of cash flow hedges	**(75)**	(589)
Other	**(594)**	(984)
	39 681	38 673

R000	2020	2019
16. Inventories		
Merchandise	**1 541 293**	1 634 292
Raw materials and components	**22 119**	38 886
Work in progress	**35 087**	46 964
	1 598 499	1 720 142
Cost of inventory recognised as an expense in cost of sales	**3 865 228**	4 049 530
Write-down of inventory to net realisable value and losses of inventory	**81 644**	11 899
Amounts removed during the year from the cash flow hedging reserve increasing the initial cost of inventories	**1 339**	3 442

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

R000	2020	2019
Trade receivables	**1 124 201**	1 184 849
Allowance for expected credit loss	**(63 638)**	(52 804)
Other receivables	**93 064**	106 342
Pre-payments	**42 559**	30 769
	1 196 186	1 269 156
Allowance for expected credit loss		
Balance at beginning of the year	**52 804**	50 527
Exchange differences	**(29)**	(5)
Additional allowance charged to profit or loss	**30 886**	12 972
Allowance reversed to profit or loss	**(548)**	(566)
Allowance utilised	**(19 502)**	(12 260)
Acquisitions during the year	**27**	2 136
	63 638	52 804

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.

The expected impact of Covid-19 on the sustainability of customers and their ability to meet their credit obligations has been included in the forward-looking factors.

Expected credit losses on financial assets included in other receivables have been determined to be immaterial.

17. Trade and other receivables continued

The table below sets out information regarding the group's credit risk exposure on trade receivables using the aforementioned provision matrix.

Ageing of trade receivables	2020 Expected credit loss rate %	2020 Total gross carrying amount R000	2020 Expected credit loss R000	2019 Expected credit loss rate %	2019 Total gross carrying amount R000	2019 Expected credit loss R000
Less than 30 days	**1**	**655 759**	**8 197**	1	657 838	4 782
31 to 60 days	**2**	**267 018**	**4 005**	1	298 758	2 965
61 to 90 days	**3**	**81 202**	**2 030**	1	82 624	1 164
91 to 120 days	**8**	**24 194**	**1 808**	5	47 619	2 249
121 days and more	**20**	**53 705**	**10 605**	27	56 107	14 870
Specifically impaired		**42 323**	**36 993**		41 903	26 774
		1 124 201	**63 638**		1 184 849	52 804

R000	2020	2019

18. Shareholders' equity

18.1 Authorised share capital

	2020	2019
40 000 000 ordinary shares of 10 cents each	**4 000**	4 000

18.2 Issued share capital

	2020	2019
34 153 531 ordinary shares	**3 415**	3 415
Repurchase of shares	**(102)**	
2 507 828 ordinary shares held by subsidiary company – 7.3%	**(251)**	(251)
Net 31 645 703 ordinary shares	**3 062**	3 164

During the year the company repurchased 1 024 600 of its own shares for R81.8 million. These were withdrawn from the market and cancelled on 8 December 2020, reducing the number of issued shares to 33 128 931 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		25.2.1				
Balance at 1 December 2018	332	(2 064)	(1 382)	63 889	37 326	98 101
Other comprehensive income for the year		1 263	335			1 598
Decrease in equity compensation reserves				(149)		(149)
Balance at 30 November 2019	332	(801)	(1 047)	63 740	37 326	99 550
Less: Shares held by subsidiary company	(41)					(41)
Net balance at 30 November 2019	291	(801)	(1 047)	63 740	37 326	99 509
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**

18. Shareholders' equity continued

18.5 Non-controlling interest

R000	2020 Ironman 4X4 Africa RF (Pty) Ltd[(1)]	2020 Hudaco Trading (Pty) Ltd	2020 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**

R000	2019 Hudaco Trading (Pty) Ltd	2019 DD Power Holdings (Pty) Ltd
Proportion of ownership held by non-controlling interests	15%	30%
Turnover	6 668 345	309 422
Profit after tax for the year	197 163	40 623
Profit allocated to non-controlling interests for the year	29 574	12 187
Dividends paid to non-controlling interests for the year	(6 000)	(3 000)
Total comprehensive income for the year allocated to non-controlling interests	29 951	11 957
Accumulated equity allocated to non-controlling interests	54 935	46 242
Cash flow from operating activities	749 040	35 402
Cash flow from investing activities	(185 410)	(2 994)
Cash flow from financing activities	(510 074)	(28 288)
Non-current assets	3 111 472	7 872
Current assets	2 938 215	190 072
Non-current liabilities	4 038 404	739
Current liabilities	2 078 257	39 598

[(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.*

All entities are headquartered in Gauteng and operate mainly throughout South Africa.

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	2020	2019
Shares currently available to be granted in terms of the share appreciation bonus scheme in the future[(1)]	1 582	1 582
Shares potentially required to meet obligations in terms of the share appreciation bonus scheme[(2)]	432	886
Shares available	1 150	696

[(1)] *Authorised at the annual general meeting held on 19 March 2019.*

[(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 updated of which was approved by shareholders in March 2011:

	Weighted average strike price in cents		Number of rights (000)	
	2020	2019	2020	2019
Rights not taken up at beginning of the year	11 785	11 682	4 103	3 798
Rights granted during the year	6 837	11 727	1 470	883
Forfeited during the year	(10 300)	(11 437)	(147)	(434)
Rights exercised during the year	(8 637)	(9 770)	(1)	(144)
Rights not taken up at end of the year	10 485	11 785	5 425	4 103
Already exercisable	10 748	10 507	1 793	1 510
First exercisable in the financial years ending:				
November 2020		11 386		415
November 2021	12 660	12 661	638	643
November 2022	12 950	12 951	721	727
November 2023	10 025	13 122	1 025	523
November 2024	8 642	11 727	768	285
November 2025	6 837		480	
	10 485	11 785	5 425	4 103

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 the current year 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)	
	2020	2019	**2020**	2019
Rights not taken up at beginning of the year	**12 725**	10 960	**204**	223
Rights granted during the year	**9 064**	11 951	**134**	116
Rights forfeited during the year	**(13 921)**		**(11)**	
Rights exercised during the year	**(13 845)**	(91 444)	**(40)**	(135)
Rights not taken up at end of the year	**11 013**	12 725	**287**	204

41 039 of these shares are first exercisable in the financial year ending November 2021, 112 493 in the financial year ending November 2022 and the remaining 133 386 in the financial year ending November 2023.

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	27 Jul 12	12 Jul 13	25 Jul 14	10 Jul 15	20 Jul 16	24 Jul 17	23 Jul 18	26 Jul 19	**27 Jul 20**
Number of rights granted	405 433	464 250	932 080	710 300	787 420	698 950	751 410	882 870	**1 469 675**
Rights forfeited/expired	(224 469)	(188 451)	(146 432)	(150 150)	(153 800)	(95 060)	(72 870)	(7 250)	
Rights taken up	(145 298)	(158 769)	(228 967)	(71 616)	(34 260)				
Rights still outstanding	35 666	117 030	556 681	488 534	599 360	603 890	678 540	875 620	**1 469 675**
Vested rights	35 666	117 030	556 681	488 534	391 220	203 039			
Unvested rights					208 140	400 851	678 540	875 620	**1 469 675**
Exercise price (R) – strike price (10-day VWAP)	109.26	90.80	92.04	125.24	102.93	125.10	149.51	117.27	**68.37**
Share price at grant date (R)	108.49	90.30	91.92	129.63	104.21	127.40	150.00	117.96	**70.00**
Expected volatility (%)[1]	25	21	21	21	28	28	27	27	**29**
Expected dividend yield (%)	5.2	4.7	4.6	4.3	4.8	4.7	4.1	5.5	**8.3**
Risk-free rate (%)	5.9	7.4	7.6	7.8	8.1	7.7	8.1	7.3	**6.4**
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)	20.00	18.26	18.96	29.88	29.54	37.23	45.41	32.22	**13.07**

Share matching scheme

Granted during	2017	2018	2019	**2020**
Number of rights granted	39 742	48 814	115 878	**133 386**
Number of rights forfeited		(7 775)	(3 385)	
Number of rights exercised	(39 742)			
Unvested rights		41 039	112 493	**133 386**
Share price at grant date (R)	138.45	164.21	119.63	**95.10**
Expected volatility (%)[1]	28	27	27	**29**
Expected dividend yield (%)	4.7	4.1	5.5	**8.3**
Risk-free rate (%)	7.7	8.1	7.3	**6.4**
Vesting period (years)	3	3	3	**3**
Estimated fair value per right (R)	124.60	147.79	119.51	**90.64**

[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	**2020**	2019
Employee share-based payment expense included in operating profit arising from:		
Share appreciation scheme	**21 014**	8 050
Share matching scheme	**10 174**	8 745
	31 188	16 795

R000	2020	2019
19. Non-current liabilities		
19.1 Amounts due to bankers		
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**	50 000
– 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%.	**250 000**	500 000
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**	352 900
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 10.1:1 (2019: 6.8:1) and 0.9:1 (2019: 1.2:1), respectively.		
	780 000	917 900
19.2 Amounts due to vendors of businesses acquired		
Estimated amount due to the vendors of Industrial Filtration Maintenance acquired in 2019. The amount finally payable (maximum R0.5 million) is subject to adjustment based on earnings of the business, up to March 2021	**488**	488
Estimated amount due to the vendors of Eternity Technologies acquired in 2017		47 362
Estimated amount due to the vendors of The Dished End Company acquired in 2017		12 233
Amount due to the vendors of Commercial ICT acquired in December 2016		1 247
Estimated amount due to the vendors of Dosco Precision Hydraulics Mpumalanga acquired in 2019		3 213
Total fair value of liabilities	**488**	64 543
Less: Payable within 12 months	**488**	64 317
		226
These liabilities are estimated based on available information. Any adjustment is debited or credited to profit or loss when the adjustment is determined (refer to note 6).		
19.3 Lease liabilities		
Measurement of lease liabilities	**454 346**	
Less: Payable within 12 months	**88 570**	
	365 776	

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. The lease term also takes into account the likelihood of exercising a renewal option. In several cases Covid-19 has impacted the likelihood that a renewal option will be exercised.

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 4.82% 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.

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.

R000	2020	2019
19. Non-current liabilities continued		
19.3 Lease liabilities (continued)		
Balance at 1 December 2019	**465 901**	
New leases concluded during the year	**21 830**	
Acquisition	**6 687**	
Effect of reassessment of the probability that leases will be extended	**51 582**	
Interest charged to lease liability during the year	**34 301**	
Repayments of principal and interest during the year	**(125 955)**	
Balance at 30 November 2020	**454 346**	
The lease liability will be settled as follows:		
– during the year ending 30 November 2021	**88 570**	
– during the year ending 30 November 2022	**79 931**	
– during the year ending 30 November 2023	**79 379**	
– during the year ending 30 November 2024	**64 170**	
– during the year ending 30 November 2025	**48 504**	
– during the year ending 30 November 2026	**30 235**	
– during the year ending 30 November 2027	**26 108**	
– during the year ending 30 November 2028	**21 823**	
– during the year ending 30 November 2029	**14 753**	
– during the year ending 30 November 2030	**873**	
	454 346	
20. Trade and other payables		
Trade payables	**626 711**	674 734
Fair value of forward exchange contracts	**23 770**	9 988
Other payables	**285 722**	283 688
	936 203	968 410
Included in other payables are payroll and other accruals.		

21. Acquisitions

R000	Ironman 4X4 Africa (RF)	Total 2020	Total 2019
Effective date of control	30 Nov 2020		
Fair value of net assets acquired:			
Plant and equipment	2 636	**2 636**	506
Goodwill – Hitek	3 400	**3 400**	7 099
Intangible assets	4	**4**	1 381
Bank balances	10 363	**10 363**	(802)
Inventories	8 039	**8 039**	493
Trade and other receivables	2 453	**2 453**	3 531
Trade and other payables	(2 078)	**(2 078)**	(2 232)
Right-of-use assets	6 234	**6 234**	
Lease liabilities	(6 687)	**(6 687)**	
Taxation	67	**67**	
Deferred taxation	241	**241**	231
Net operating assets acquired	24 672	**24 672**	10 207
Bank balances assumed	(10 363)	**(10 363)**	802
Investment realised on gaining voting control during the year	(12 336)	**(12 336)**	
Allocated to non-controlling interest	(12 336)	**(12 336)**	
Balance owed to vendors at acquisition date			(3 506)
Net cash (inflow) outflow on acquisitions	(10 363)	**(10 363)**	7 503
Profit after tax since acquisition date included in the consolidated results for the year			1 443
Turnover since acquisition date included in the consolidated results for the year			22 599
Group profit after tax had the business combinations been included for the entire year		**9 460**	467 265
Group turnover had the business combinations been included for the entire year		**6 286 478**	6 709 845

Refer to page 94 in the directors' report for further information.

22. Dividends

	Total 2020	Total 2019
Dividends paid to equity holders of the parent were:		
Dividend number 66 of 410 cents per share declared on 30 January 2020	**140 029**	129 785
The record date was 21 February 2020 and the dividend was paid on 24 February 2020		
No interim dividend was paid during 2020		64 892
Dividends paid to subsidiary company	**(10 282)**	(14 296)
	129 747	180 381

On 28 January 2021 the directors declared dividend number 67 of 410 cents per share, being the final dividend in respect of the year ended 30 November 2020. The record date will be 19 February 2021 and the dividend will be paid on 22 February 2021. This dividend has not been included as a liability in these financial statements.

R000	2020	2019
23. Notes to the statement of cash flows		
23.1 Decrease in working capital		
Decrease in inventories	**129 682**	102 312
Amounts from cash flow hedging reserve allocated to initial value of inventories	**1 339**	3 442
Decrease (increase) in trade and other receivables	**59 555**	(22 692)
Increase in allowance for expected credit loss	**10 836**	146
Exchange differences	**29**	5
Decrease in trade and other payables	**(17 973)**	(23 177)
Fair value of current year cash flow hedges included in working capital	**(1 070)**	(1 339)
	182 398	58 697
23.2 Taxation paid		
Net amounts paid in advance (owed) at beginning of the year	**7 978**	(28 649)
Current tax charge	**(129 813)**	(156 604)
Prior year under provision	**(1 099)**	(197)
Foreign tax charge	**(3 126)**	(2 430)
Acquired during the year	**67**	
Net amounts owed (paid in advance) at end of the year	**13 376**	(7 978)
	(112 617)	(195 858)
23.3 Payments to vendors of businesses acquired		
Amounts owed at beginning of the year	**(64 543)**	(213 491)
Adjustment to fair value of amounts due to vendors of businesses acquired	**47 625**	46 136
Acquired during the year		(3 506)
Amounts owed at end of the year	**488**	64 543
	(16 430)	(106 318)
23.4 Decrease in non-current amounts due to bankers		
Advances taken up during the year	**147 100**	253 528
Repayments during the year	**(285 000)**	(350 000)
	(137 900)	(96 472)
23.5 Dividends paid		
To equity holders of the parent	**(129 747)**	(180 381)
To non-controlling shareholders	**(9 000)**	(9 000)
	(138 747)	(189 381)
23.6 Net bank balances		
Bank deposits and balances	**233 600**	57 840
Bank overdraft	**(97 250)**	(147 906)
	136 350	(90 066)

R000	2020	2019
24. Commitments		
24.1 Operating lease arrangements		
At the 2019 reporting date the group had outstanding commitments under operating leases in terms of IAS 17 in respect of fixed properties which fell due as follows:		
Within one year		116 091
Payable in second to fifth years		185 536
Payable thereafter		874
		302 501
In 2020, these commitments form part of the IFRS 16 lease liability (note 19.3).		
24.2 Property, plant and equipment		
The group has budgeted to spend R63 million to acquire property, plant and equipment in 2021, 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.		
25. Financial instruments		
Details of the group's financial instruments are set out below:		
25.1 Summary of financial instruments		
Financial assets by class:		
Trade receivables – net	**1 060 563**	1 132 045
Trade receivables	**1 124 201**	1 184 849
Allowance for expected credit loss	**(63 638)**	(52 804)
Other receivables (excluding indirect taxes)	**77 051**	89 700
Bank deposits and balances	**233 600**	57 840
	1 371 214	1 279 585
Financial assets by category:		
At amortised cost	**1 371 214**	1 279 585
	1 371 214	1 279 585
Financial liabilities by class:		
Amounts due to vendors of businesses acquired	**488**	64 543
Amounts due to bankers	**780 000**	917 900
Bank overdraft	**97 250**	147 906
Trade payables	**626 711**	674 734
Fair value of forward exchange contracts	**23 770**	9 988
Other payables (excluding payroll accruals and indirect taxes)	**128 365**	130 407
	1 656 584	1 945 478
Financial liabilities by category:		
Financial liabilities at amortised cost	**1 632 326**	1 870 947
Financial liabilities at fair value through profit or loss	**488**	64 543
Derivatives used for hedging at fair value	**23 770**	9 988
	1 656 584	1 945 478

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.

Amounts due to vendors of businesses acquired are recognised at fair value in the statement of financial position. The fair values are estimated by using a present value technique based on unobservable inputs regarding the future profitability of businesses acquired, which means they are classified as level 3 fair value measurements. The fair values are based on the best estimates of future profits at the time, discounted at fixed interest rates and are subject to maximums set contractually, which are disclosed in note 19.2. The accuracy of the estimate of future profitability is largely impacted by the duration of the earn-out periods remaining. Refer to note 23.3 for the reconciliation of the carrying amounts of this level 3 financial instrument.

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.

25. Financial instruments continued

25.2 Market risk

25.2.1 Foreign currency risk

The group imports more than 65% of its inventories and consequently has a significant exposure to currency risk. Group policy is to take forward cover on all foreign currency liabilities (which effectively changes them from foreign to local currency liabilities) and to have a mechanism in place to cover a pre-determined portion (determined from time to time and generally between 20% and 30%) for each business of orders placed but not yet shipped. Order lead times vary between a few days and 12 months. The objective is to have forward cover in place well before goods are shipped.

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 R17.4 million (2019: R23.3 million).

Cash flow hedges – at 30 November 2020 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	15.40	7 705	15.50	119 445
Pound Sterling	20.58	38	20.88	788
Euro	18.41	3 106	18.49	57 433
Japanese Yen	6.78	11 549	6.80	1 699
Total cost of contracts				179 365
Fair value – Rand equivalent of the above contracts at year end spot rates				178 295
Loss recognised directly in equity on import orders				1 070
Taxation				(300)
Attributable to non-controlling shareholders				(110)
Attributable to equity holders of the parent (note 18.4)*				660

* *To be allocated to initial cost of inventories in subsequent accounting periods.*

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.

The group does not speculate in foreign currencies and hedging is only done where we are 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 2020 and we maintained our conservative approach in our hedging policy so as not to expose the group to the continued volatility.

25.2.2 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 %	2020 R000	2019 R000
Amounts due to bankers	2022	JIBAR plus premium	**780 000**	917 900

A change of 1% in the interest rate charged on non-current borrowings will affect profit after tax by approximately R5.6 million (2019: R6.6 million) per year and profit attributable to equity holders of the parent by R4.8 million (2019: R5.6 million).

25. Financial instruments continued

25.3 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 (disregarding collateral held) to which the group is exposed is as follows:

R000	2020	2019
Trade receivables	**1 060 563**	1 132 045
Other receivables (excluding indirect taxes)	**77 051**	89 700
Bank deposits and balances	**233 600**	57 840
	1 371 214	1 279 585

25.4 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 2020 were R1 671 million.

There is no restriction on borrowing powers in terms of the memorandum of incorporation and at 30 November 2020 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 owing 2020	30 November 2021	30 November 2022
Amounts due to bankers	**780 000**	**38 467**	**780 000**
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**	

25.5 Fair value of derivative financial instruments

The loss arising on the fair value adjustment on all forward exchange contracts is set out below:

R000	2020	2019
Cash flow hedges (note 25.2.1)	**1 070**	1 339
Fair value hedges (on contracts of R329 million at year end spot rates)	**22 700**	8 649
	23 770	9 988

25.6 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 2020 it was 0.9 times (2019: 1.2 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 2020 it was 7.4 times (2019: 6.8 times) operating profit and 10.1 times EBITDA (2019: 6.8:1).

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 November 2020

26. 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 R57.1 million (2019: R61.5 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.

27. Directors' interests and remuneration

27.1 Interests of directors in the share capital of the company as at 30 November 2020

The total beneficial interests of directors in the shares of the company are:

	Direct Share register (own name)		Indirect Held by associates	
	2020	**2019**	**2020**	**2019**
SJ Connelly	**274 139**	274 139	**1 680**	1 680
CV Amoils	**114 196**	105 606	**7 500**	7 500
GR Dunford	**269 182**	203 465	**647 212**	647 212
LFJ Meiring	**37 879**	16 827		
	695 396	600 037	**656 392**	656 392

The shareholdings above have not changed between 30 November 2020 and the date of the notice of the annual general meeting.

27.2 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 67 to 80 of the integrated report.

27.3 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 67 to 80 of the integrated report and non-executive directors' remuneration on page 81.

28. Segment information

R million	Group 2020	Group 2019	Head office, shared services and eliminations 2020	Head office, shared services and eliminations 2019	Consumer-related products 2020	Consumer-related products 2019	Engineering consumables 2020	Engineering consumables 2019
Statement of net income								
Turnover	**6 254**	6 704	**(13)**	(5)	**3 360**	3 589	**2 907**	3 120
EBITDA	**694**	777	**(33)**	(3)	**448**	462	**279**	318
Depreciation less recoupments								
– property, plant and equipment	**43**	42	**2**	1	**20**	18	**21**	23
– right-of-use assets	**119**		**2**		**47**		**70**	
Amortisation of intangible assets	**22**	34			**12**	23	**10**	11
Operating profit (loss)	**510**	701	**(37)**	(4)	**369**	421	**178**	284
Other income – proceeds of damages claim	**35**		**35**					
Impairment of goodwill and intangible assets	**(348)**				**(198)**		**(150)**	
Fair value adjustments	**48**	30			**40**	16	**8**	14
Profit (loss) before interest	**245**	731	**(2)**	(4)	**211**	437	**36**	298
Statement of financial position								
Property, plant and equipment	**265**	302			**88**	106	**177**	196
Right-of-use assets	**414**		**11**		**214**		**189**	
Investment in joint venture		12				12		
Goodwill	**1 170**	1 512			**686**	884	**484**	628
Intangible assets	**33**	23			**19**	18	**14**	5
Deferred taxation – net	**40**	38	**28**	26	**7**	5	**5**	7
Inventories	**1 598**	1 720			**773**	815	**825**	905
Trade and other receivables	**1 196**	1 269	**29**	(5)	**613**	684	**554**	590
Trade and other payables	**(936)**	(968)	**(55)**	(34)	**(430)**	(448)	**(451)**	(486)
Taxation – net	**(13)**	8	**97**	130	**(77)**	(78)	**(33)**	(44)
Net operating assets	**3 767**	3 916	**110**	117	**1 893**	1 998	**1 764**	1 801
Turnover comprises								
Revenue from contracts with customers	**6 254**	6 704	**(13)**	(5)	**3 360**	3 589	**2 907**	3 120
Sales of products	**6 102**	6 522	**(13)**	(5)	**3 287**	3 519	**2 828**	3 008
Rendering of services	**152**	182			**73**	70	**79**	112
Timing of revenue recognition	**6 254**	6 704	**(13)**	(5)	**3 360**	3 589	**2 907**	3 120
Goods and services transferred at a point in time	**5 948**	6 510	**(13)**	(5)	**3 328**	3 579	**2 633**	2 936
Goods and services transferred over time	**306**	194			**32**	10	**274**	184
Geographical disaggregation	**6 254**	6 704	**(13)**	(5)	**3 360**	3 589	**2 907**	3 120
Goods and services sold in South Africa	**5 737**	6 060	**(13)**	(5)	**3 177**	3 345	**2 573**	2 720
Goods and services sold outside South Africa	**517**	644			**183**	244	**334**	400
Additional information								
Average net operating assets	**4 095**	3 992	**(25)**	(3)	**2 184**	2 126	**1 936**	1 869
Capital expenditure	**45**	79	**1**		**15**	41	**29**	38
Operating profit margin (%)	**8.2**	10.4			**11.0**	11.7	**6.1**	9.1
Return on average net operating assets (%)	**12.5**	17.5			**16.9**	19.8	**9.2**	15.2
Number of permanent employees	**3 587**	3 858	**26**	25	**1 642**	1 713	**1 919**	2 120

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.

29. 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, joint ventures 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.

Hudaco has no material joint venture partners. 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	2020	2019
Compensation of key management personnel (excluding non-executive directors)		
Short-term employee benefits	**38 552**	37 412
Value of long-term incentives awarded during the year	**20 543**	20 748
	59 095	58 160

In addition to the above, key management personnel exercised share appreciation rights during 2019 with a difference between the market price at exercise date and the strike price amounting to R0.4 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 67 to 80 of the integrated report and non-executive directors' remuneration on page 81.

Shareholdings of the directors are set out in note 27.

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	2020	2019
Ambro Steel	**Feb 23**	**3 389**	3 603
Bauer	**Nov 21**	**2 296**	2 281
Dosco Precision Hydraulics	**Apr 22**	**1 871**	1 743
Gear Pump Manufacturing	**Jun 21**	**2 565**	2 375
Joseph Grieveson	**Jun 21**	**2 873**	3 103

COMPANY FINANCIAL STATEMENTS
for the year ended 30 November 2020

Hudaco Industries Limited

STATEMENT OF FINANCIAL POSITION
at 30 November 2020

R000	2020	2019
ASSETS		
Non-current assets		
Interest in subsidiaries (note 1)	**92 275**	92 275
Current assets	**636 902**	8
Amounts owed by subsidiaries (note 1)	**636 797**	
Receivables	**105**	8
Total assets	**729 177**	92 283
EQUITY AND LIABILITIES		
Shareholders' equity	**727 463**	78 795
Current liabilities	**1 714**	13 488
Amounts owed to subsidiaries (note 5)		12 274
Payables and taxation	**1 714**	1 214
Total equity and liabilities	**729 177**	92 283

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 30 November 2020

R000	2020	2019
Dividends received from subsidiaries		
– Hudaco Investment Company (Pty) Ltd	**875 000**	
– Hudaco Trading (Pty) Ltd		34 000
Operating costs	**(4 485)**	(4 414)
Profit after taxation	**870 515**	29 586

STATEMENT OF CHANGES IN EQUITY
for the year ended 30 November 2020

R000	Share capital	Share premium	Special reserve account	Retained income	Shareholders' equity
Note	3				
Balance at 1 December 2018	3 415	51 533	332	188 606	243 886
Profit after taxation				29 586	29 586
Dividends to shareholders				(180 381)	(180 381)
Dividends to subsidiary				(14 296)	(14 296)
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 30 November 2020	**3 313**		**332**	**723 818**	**727 463**

Hudaco Industries Limited

STATEMENT OF CASH FLOWS
for the year ended 30 November 2020

R000	2020	2019
Cash generated from operating activities		
Dividends received	**875 000**	34 000
Operating costs paid	**(4 485)**	(4 414)
Decrease in working capital	**403**	118
Cash flow from operations	**870 918**	29 704
Dividends paid	**(140 029)**	(194 677)
Net cash retained (applied)	**730 889**	(164 973)
Cash flow from investing activities		
(Advances on) repayments of loans to subsidiary companies	**(636 797)**	152 699
Cash flow from financing activities		
Repurchase of shares	**(81 818)**	
(Repayments of) advances on loan from subsidiaries	**(12 274)**	12 274
Net cash movement	**–**	–

NOTES TO THE COMPANY FINANCIAL STATEMENTS
for the year ended 30 November 2020

R000	2020	2019
1. Interest in subsidiaries		
Shares at cost less amounts written off	**92 275**	92 275
Loans to subsidiaries	**636 797**	
	729 072	92 275

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 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. The maximum exposure in this regard is approximately R2.5 billion and the exposure is R0.8 billion at year end.

3. Share capital

	2020	2019
3.1 Authorised share capital		
40 000 000 ordinary shares of 10 cents each	**4 000**	4 000
3.2 Issued share capital		
34 153 531 ordinary shares	**3 415**	3 415
Repurchase of shares	**(102)**	
	3 313	3 415

During the year the company repurchased 1 024 600 of its own shares. These were withdrawn from the market on 8 December 2020, reducing the number of issued shares to 33 128 931 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 25 of the consolidated annual financial statements on pages 128 and 129 of this report.

5. Amounts owed to subsidiary

	2020	2019
This loan is unsecured, interest-free and repayable on demand.		12 274

PRINCIPAL SUBSIDIARIES
at 30 November 2020

		Interest of holding company					
		Group's effective interest		Book value of shares		Loans owing (to) by	
	Issued share capital Rand	2020 %	2019 %	2020 R000	2019 R000	2020 R000	2019 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	**636 797**	(12 274)
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	**636 797**	(12 274)

(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 146 to 149 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 2020

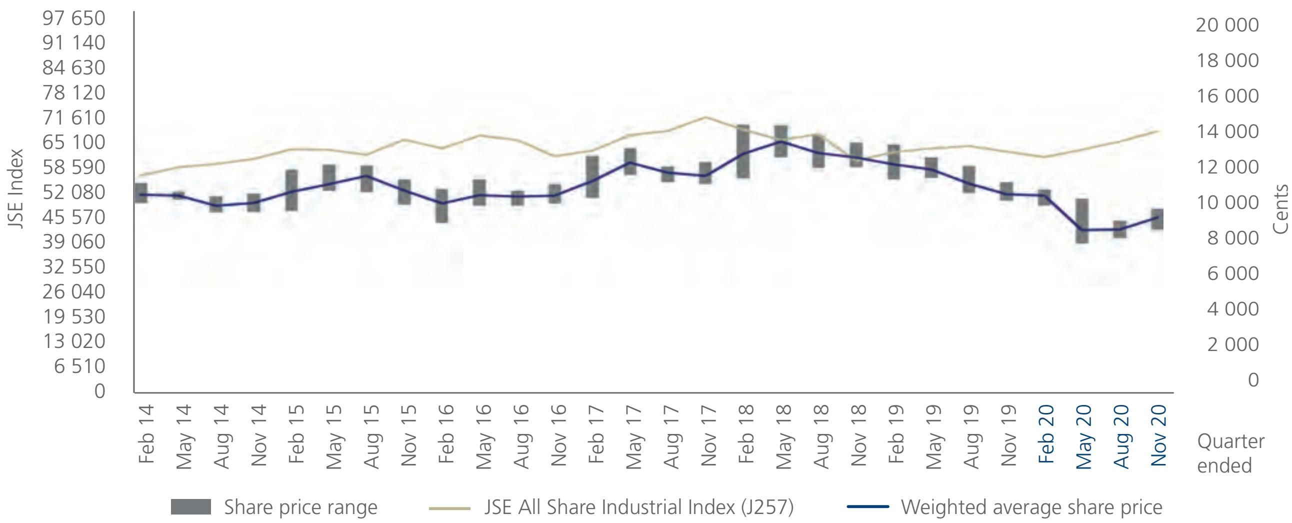
Shareholder analysis	Number of shareholders	Number of shares	% of issued shares
Portfolio size			
1 – 1 000 shares	2 956	**986 538**	3.22
1 001 – 5 000 shares	1 086	**3 290 962**	10.75
5 001 – 10 000 shares	187	**5 913 637**	19.31
10 001 – 100 000 shares	46	**13 156 994**	42.97
Over 100 000 shares	4	**7 272 972**	23.75
Total[(1)]	4 279	**30 621 103**	100.00
Category			
Banks and nominee companies	44	**2 683 588**	8.76
Financial institutions and pension funds	510	**22 293 424**	72.80
Individuals	3 654	**5 135 337**	16.77
Other corporate bodies	71	**508 754**	1.67
Total[(1)]	4 279	**30 621 103**	100.00
Shareholder spread			
Public shareholders	4 251	**29 073 617**	94.95
Non-public shareholders	28	**1 547 486**	5.05
Total[(1)]	4 279	**30 621 103**	100.00

Major shareholders		
Beneficial shareholders holding more than 3%		
Public Investment Corporation GEPF	**3 008 220**	9.82
Old Mutual Life Assurance	**1 732 795**	5.66
PSG Flexible Fund	**1 139 663**	3.72
Fund managers holding more than 3%		
Public Investment Corporation	**3 119 474**	10.19
PSG Asset Management	**2 961 031**	9.67
Foord Asset Management	**1 976 994**	6.46
Old Mutual Investments	**1 963 865**	6.41
Ninety One	**1 581 224**	5.16
Bateleur Capital	**1 365 659**	4.46
Aylett & Co Fund Managers	**1 174 315**	3.83

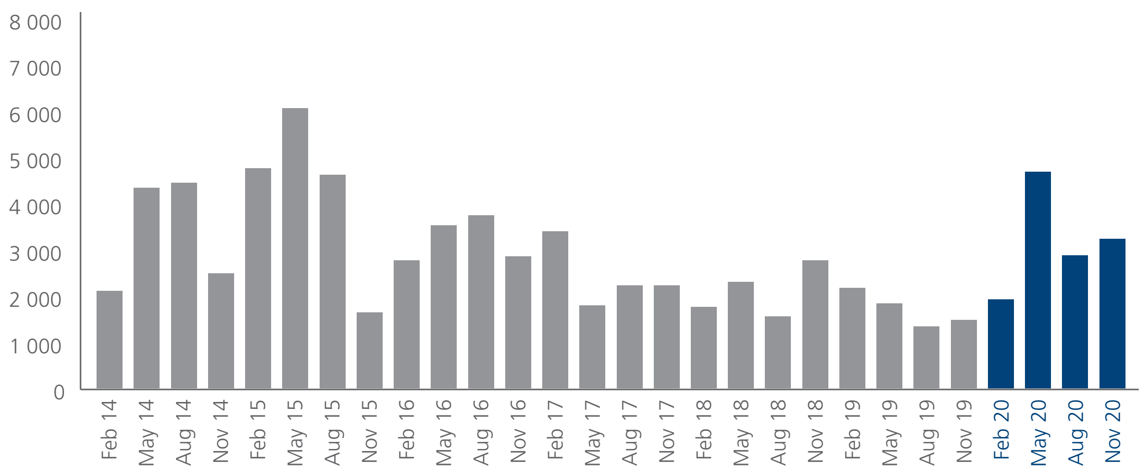
(1) *Excludes 2 507 828 shares held by a subsidiary company and the 1 024 600 shares that were repurchased during the year and cancelled on 8 December 2020.*

SHARE INFORMATION

Share price history



Volume of shares traded (000)



JSE statistics	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**
Market price (cents)	**8 550**	10 808	14 200	13 600	10 850	10 701	9 590
NAV per share (cents)	**8 470**	8 666	7 927	7 252	6 525	5 827	5 210
Number of shares in issue (000)*	**30 621**	31 646	31 646	31 646	31 646	31 646	31 646
Market capitalisation (Rm)*	**2 618**	3 420	4 494	4 304	3 434	3 386	3 035
Price:earnings ratio (times)	**8.1**	8.4	10.9	11.0	9.3	9.2	10.3
All Share Industrial Index PE ratio (J257)	**33.6**	22.9	19.9	30.4	27.0	22.6	21.6
Dividend yield (%)	**3.8**	4.2	3.2	3.1	4.8	4.9	4.8
All Share Industrial Index dividend yield (J257) (%)	**1.6**	2.3	2.3	1.9	2.5	2.3	2.2
Annual trade in Hudaco shares							
Number of transactions recorded	**33 184**	22 314	24 072	29 245	20 903	36 271	22 549
Volume of shares traded (000)	**13 424**	6 882	8 440	9 714	12 995	17 211	13 475
% of issued shares traded*	**44**	22	27	31	41	54	43
Value of shares traded (Rm)	**1 041**	863	1 272	1 234	1 341	2 007	1 354

* *Excludes 2 507 828 treasury shares and 1 024 600 shares repurchased during 2020 and have been withdrawn from the market on 8 December 2020.*

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 36th annual general meeting (AGM) of Hudaco Industries Limited

Notice is hereby given that the 36th AGM of shareholders of the company for the year ended 30 November 2020 will be held at 11:00 on Thursday, 18 March 2021 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)	**2021**
Record date for determining which shareholders are entitled to receive the AGM notice	Friday, 12 February
Notice posted to shareholders on or about	Thursday, 18 February
Last day to trade to be eligible to participate and vote at the AGM	Tuesday, 9 March
Record date for attending and voting at the AGM(3)	Friday, 12 March
AGM to be held at 11:00	Thursday, 18 March
Results of AGM to be released on SENS on	Thursday, 18 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, 12 February 2021, and the record date for purposes of determining which shareholders of the company are entitled to participate and vote at the AGM is Friday, 12 March 2021. Accordingly, only shareholders who are recorded as such in the register maintained by the transfer secretaries of the company on Friday, 12 March 2021, 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 2020, distributed as required.

Copies of the integrated report which contains the full audited consolidated annual financial statements for the year ended 30 November 2020 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 SJ Connelly;
2.2 Ordinary Resolution Number 1.2: Re-election of Ms D Naidoo; and
2.3 Ordinary Resolution Number 1.3: Re-election of Mr LFJ Meiring.

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 in 2. It is the view of the board that re-election of the candidates referred to in 2 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 BDO South Africa Incorporated (BDO) 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 2021 is Ms V Pretorius.

The audit and risk management committee of the company has concluded that the appointment of BDO 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 BDO 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, subject to the passing of Ordinary Resolution Number 1.2;

4.2 Ordinary Resolution Number 3.2: To elect Ms N Mandindi as member; and

4.3 Ordinary Resolution Number 3.3: To elect Mr MR Thompson as member.

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 2021 until 31 March 2022, be and it is hereby approved as set out below:

	Proposed 2021		2020	
R (excluding VAT)	**Base fee**	**Penalty for non-attendance**	**Base fee**	**Penalty for non-attendance**
Board				
Chairman of the board	**1 134 000***	**21 000**	1 134 000*	21 000
Lead independent director	**412 000**	**20 000**	412 000	20 000
Board member	**303 000**	**15 000**	303 000	15 000
Audit and risk management committee				
Chairman of the committee	**264 000**	**21 000**	264 000	21 000
Committee member	**146 000**	**15 000**	146 000	15 000
Remuneration committee				
Chairman of the committee	**185 000**	**21 000**	185 000	21 000
Committee member	**84 000**	**14 000**	84 000	14 000
Nomination committee				
Chairman of the committee	*****		*	
Committee member	**61 000**	**10 000**	61 000	10 000
Social and ethics committee				
Chairman of the committee	**158 000**	**21 000**	158 000	21 000
Committee member	**70 000**	**12 000**	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 – R31 000 (2020: R31 000) and member – R22 000 (2020: 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 2021 until 31 March 2022. 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 81 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 64 to 67 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 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 67 to 80 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 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 1 656 446 (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 1 656 446 (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 119.

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 1 656 446 (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 1 656 446 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. 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, 12 March 2021.

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, 16 March 2021. 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 10:00 on Tuesday, 16 March 2021 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 Petrides – Acorim Secretarial and Governance Services
Company secretaries

18 February 2021

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 36th 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, 18 March 2021 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 SJ Connelly			
1.2 D Naidoo			
1.3 LFJ Meiring			
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 (subject to the passing of Ordinary Resolution Number 1.2)			
3.2 N Mandindi			
3.3 MR Thompson			
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 1 656 446 of the ordinary shares (5% of the shares in issue)			
Ordinary Resolution Number 4: General authority to directors to allot and issue up to 1 656 446 authorised but unissued ordinary shares (5% of shares in issue)			
Ordinary Resolution Number 5: Signature of documents			

Signed at ______________ on ______________ 2021

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, 16 March 2021, 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 10:00 on Tuesday, 16 March 2021 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, 2196
Tel: +27 11 325 6363
Email: natashap@acorim.co.za
Website: www.acorim.co.za

Transfer secretaries

Computershare Investor Services (Pty) Ltd
Rosebank Towers, 15 Biermann Avenue
Rosebank, 2196
(PO Box 61051, Marshalltown, 2107)

Tel: + 27 11 370 5000

Auditors

BDO South Africa Incorporated
Wanderers Office Park
52 Corlett Drive, Illovo
(Private Bag X60500, Houghton, 2041)

Bankers

Absa Bank Ltd
FirstRand Bank Ltd
Nedbank Ltd
The Standard Bank of South Africa Ltd

Sponsor

Nedbank Corporate and Investment Banking
135 Rivonia Road, Sandton, 2196
(PO Box 1144, Johannesburg, 2000)

SHAREHOLDERS' DIARY

Financial year end	30 November
Annual general meeting	18 March 2021
Reports and financial statements	
Preliminary report and final dividend announcement	28 January 2021
Abridged financial statements and notice of annual general meeting (mailed to shareholders)	18 February 2021
Interim report and interim dividend announcement	last week in June 2021
Dividend payment details	
Payment of final dividend	22 February 2021
Payment of interim dividend	third week in August 2021

GROUP DIRECTORY

DIVISION	BUSINESS NAME	PRINCIPAL ACTIVITIES	ADDRESS
CONSUMER-RELATED PRODUCTS			
Power tools and fasteners	Rutherford	Distributor of Makita 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
	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
	SS Telecoms	Supplier of voice and data solutions, specialising in PBX communication management software and telephone management.	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
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	Importer and 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	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	Supplier 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
	Specialised Battery Systems	Importer and 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	Importer and 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.	389 Elsecar Road Kya Sand
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

CONTACT		EXECUTIVES			
Tel Fax Email	011 878 2600 011 873 1689 info@rutherford.co.za	Chris Pillay Arusha Matadin Carol Caunter Craig Gutteridge	Chief executive Financial director Divisional director Divisional director	Johan Kok Jeanie Manson Melissa Swart	Divisional director Logistics director Financial manager
Tel Fax Email	011 878 2600 011 873 1689 info@rutherford.co.za	Chris Pillay Arusha Matadin	Chief executive Financial director	Melissa Swart	Financial manager
Tel Fax Email	011 401 6700 011 401 6753 sales@elvey.co.za	Michael Lotter Carlos Esteves Dave Waywell	Chief executive Financial director Key accounts director	Ernest Malett Zane Greeff Thyphrus Baloyi	Sales director Product director Operations executive
Tel Email	010 590 6177 sales@commercialict.co.za	Michael Lotter	Managing director	Carlos Esteves	Financial director
Tel Fax Email	087 310 0400 011 661 0387 info@globalcomms.co.za	Michael Lotter Carlos Esteves	Managing director Financial director	Errol Baker	Non-executive director
Tel Email	012 664 4644 sales@sstelecoms.com	Michael Lotter	Managing director	Carlos Esteves	Financial director
Tel Email	012 657 0960 sales@miro.co.za	Marco de Ru Corne Wandrag	Managing director Financial director	Johnathan Newton	Sales director
Tel Fax Email	011 397 4070 011 397 4326 info@abes.co.za	Danie Venter Juan Radley	Managing director Financial director	Jayne Kyte	Logistics director
Tel Fax Email	011 634 7600 011 493 3131 info@partquip.co.za	Carl Rogers Chris de Kock	Managing director Financial director	Charmaine Rogers Lavern Jacobs	Logistics director Divisional director
Tel Fax Email	011 634 7600 011 493 3131 info@alinewheels.co.za	Carl Rogers Chris de Kock	Managing director Financial director	Charmaine Rogers Malene Rizzo	Logistics director Divisional director
Tel Fax Email	011 058 3026 086 477 4201 info@ironman4x4.co.za	Carl Rogers Chris de Kock	Managing director Financial director	Mic van Zyl	Divisional director
Tel Fax Email	011 864 7930 011 908 6154 sales@deltec.co.za	Carl Luther Marshall Moodley	Managing director Financial director	Nevish Rampersad	Sales director
Tel Fax Email	011 965 0575 011 252 6494 info@eternitytechnologies.co.za	Eliah Mutaviri Schalk Taljaard	Financial director Divisional director	Michael Whitehead Ben van der Walt	Sales director Divisional director
Tel Fax Email	011 425 3447 011 425 4433 info@special-battery.co.za	Sheldon Orren Masoabi Majingo	Managing director Financial manager	Bradley Orren	Commercial director
Tel Fax Email	011 899 0000 087 057 6122 info@bearings.co.za	Bart Schoevaerts Widor Grobbelaar	Managing director Financial director	Laura van Rooyen	Logistics director
Tel Fax Email	011 610 5600 011 610 5700 sales@belting.co.za	Piet Swanepoel Stephen Boshoff	Managing director Technical director	Tom Harrison Mark Knight	HR director Financial director
Tel Fax Email	011 708 0408 011 708 0415 sales@brewtech.co.za	Mark Vorster Deidre Brunetti	Managing director Financial manager	Kenny Cook	Divisional director
Tel Fax Email	011 923 0600 086 687 9837 info@deutz.co.za	Maurice Pringle Avinash Ramnarain	Managing director Financial director	Nathan Kitchen Steven Moss	Marketing director Sales director

GROUP DIRECTORY continued

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	Supplier of filtration solutions, customised exhaust systems, kits and accessories.	160 Francis Road Anderbolt Boksburg North
Hydraulics and pneumatics	Dosco Precision Hydraulics	Supplier 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.	69 Miller Road Industries East Germiston
Electrical power transmission	Powermite	Distributor of electric cabling, plugs, sockets, electric feeder systems and crane materials.	Linbro Business Park 47 Galaxy Avenue Frankenwald, Sandton
	Proof Engineering	Manufacturer and distributor 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
	Bauer Geared Motors	Supplier and repairer of geared and electric motors, industrial bevel helical transmissions and drive solutions.	72 Acacia Road Cnr Barbara Road Primrose, Germiston
GROUP			
Group head office	Hudaco Industries Hudaco Trading		Building 9 Greenstone Hill Office Park Emerald Boulevard Greenstone Hill Edenvale

CONTACT		EXECUTIVES				
Tel Fax Email	011 824 4242 011 824 4864 info@ambro.co.za	Rolf Lung	Managing director	David da Silva	Financial director	AmbroSteel
Tel Fax Email	021 951 5311 021 951 5316 info@sanderson.co.za	Tim Groenewald	Managing director	David da Silva	Financial director	SSS
Tel Fax Email	011 864 1643 011 908 5728 pulleys@bosworth.co.za	Gary Howell	Managing director	Shereen Pillay	Financial manager	Bosworth
Tel Fax Email	011 822 4550 011 822 1414 theo@tdec.co.za	Theo Simigiannis Noel Saunders	General manager Executive consultant	David da Silva Jennifer Graham	Financial director Financial manager	The Dished End Company
Tel Fax Email	031 507 3640 031 500 2687 sales@josgrieveson.co.za	Thomas Dunford Darryl Meyer	Chief executive Managing director	Stephen Smith	Financial manager	JOSEPH GRIEVESON
Tel Fax Email	011 892 1714 011 892 2781 info@astorekeymak.co.za	Pranesh Maniraj	Managing director	Shinead Royan	Financial manager	Astore Keymak
Tel Fax Email	087 150 6000 011 894 5832 info@fhs.co.za	Reena Magan	Managing director	Bathabile Mashigo	Financial director	FHS
Tel Fax Email	011 452 5843 011 609 7955 info@dosco.co.za	Erik van der Linde Deon Krieger	Chief executive Sales director	Trevor Dyker Elma Lottering	Procurement director Financial manager	DOSCO Precision Hydraulics
Tel Fax Email	011 898 6600 011 918 3974 corporate@elco.co.za	Erik van der Linde Zolani Miller	Chief executive Financial manager	Deon Krieger	Managing director	Ernest Lowe ELCO
Tel Fax Email	021 531 9330 021 531 7096 sales@gearpumps.co.za	Thomas Dunford Burtie Roberts Sade Carollisson	Chief executive Managing director Financial manager	Randy Pirtle Len Jacobs	General manager – USA Managing director – United Kingdom	GPM Gear Pump Manufacturing
Tel Fax Email	011 825 3690 011 825 6152 sales@hers.co.za	Erik van der Linde Kavitha Bhawanideen	Chief executive Financial director	Deon Krieger	Sales director	HERS
Tel Fax Email	011 271 0000 011 271 0265 info@powermite.co.za	Jacques van Rooyen Vivek Maharaj	Managing director Financial director	Mike Allnutt Annelie du Toit	Executive consultant Financial manager	POWERMITE
Tel Fax Email	011 824 1146 011 824 1237 sales@proofholdings.co.za	Donovan Marks	Operations director	Vivek Maharaj	Financial director	PROOF Engineering
Tel Fax Email	011 392 3804 011 392 3812 sales@three-d.co.za	Ian Downard Vanessa Naidoo	Managing director Financial manager	Mark Jenkins	Sales director	THREE-D Agencies The cable accessory company
Tel Fax Email	011 312 5252 011 312 5262 drives@varispeed.co.za	Emile Joubert	Managing director	Erika van de Velde	Financial director	VARISPEED
Tel Fax Email	011 828 9715 011 822 4135 home@gbauer.co.za	Derek Gilmore Andrew Mowat	Managing director Operations director	Milton Nyamayaro	Financial manager	BAUER
Tel Fax Email Website	011 657 5000 086 682 6779 info@hudaco.co.za www.hudaco.co.za	Graham Dunford Clifford Amoils Gary Walters Phylla Jele	Group chief executive Group financial director Acquisitions manager Transformation and human resources executive	Louis Meiring Cassie Lamprecht Rika Wessels-Bouwer Sonia Liebenberg Sabelo Mkhwanazi	Executive director Group accountant Group treasurer Head of risk and internal audit Group SHEQ manager	Hudaco

Designations in consumer-related products and engineering consumables segments referring to director denotes divisional directorships and not statutory directorships.

Hudaco