Hudaco

INTEGRATED REPORT 2019

CONTENTS

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, 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.

Refers to additional information in the report

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

HIGHLIGHTS AND CHALLENGES

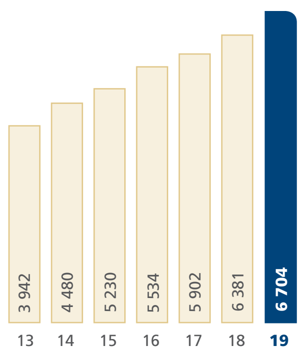
- Turnover up **5%** to **R6.7 billion**
- Operating profit up **7%** to **R701 million**
- Headline earnings per share up **5%** to **1 355 cents**
- Comparable earnings per share up **4%** to **1 240 cents**
- Final dividend up **8%** to **410 cents per share**
- Return on equity **17%**
- Cash generated from operations **R853 million**

- **Diversification strategy** continued to pay off
- **New BEE structure** implemented for benefit of black employees
- **Synergies achieved** in engineering consumable businesses
- **Growth** in **export** business
- **BEE status declined to level 4** on new interpretation of dti Codes
- **Economy** devoid of growth
- Still little **project business**

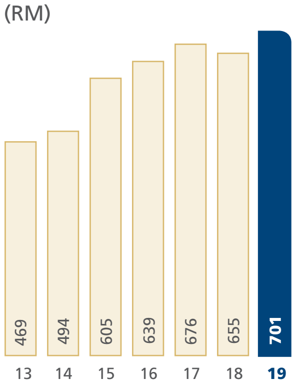
RESULTS IN BRIEF

30 November	2019	2018
Turnover (Rm)	**6 704**	6 381
Operating profit (Rm)	**701**	655
Comparable earnings (Rm)	**392**	379
Headline earnings (Rm)	**429**	408
Attributable earnings (Rm)	**429**	381
Comparable earnings per share (cents)	**1 240**	1 198
Headline earnings per share (cents)	**1 355**	1 289
Dividends per share (cents)	**600**	570

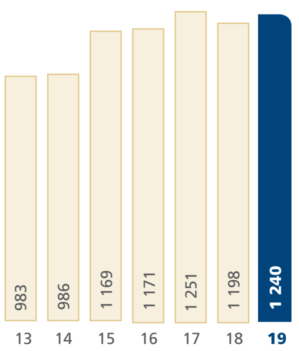
TURNOVER
(RM)



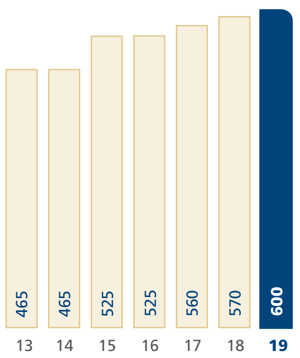
OPERATING PROFIT
(RM)



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 2018 to 30 November 2019. The group's financial year ends on 30 November, and unless otherwise indicated or described, the information included in this report refers for the years ended 30 November 2019 and 30 November 2018. The previous IAR covered the period 1 December 2017 to 30 November 2018. 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.

6

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 73 to 83
Black economic empowerment status report	Codes of Good Practice, issued by the Department of Trade and Industry (dti)	Page 41
Environmental impact and employee report	Various relevant guidelines including those contained in the global reporting initiative (GRI) G3 indicators	Pages 41 to 44 and 48 to 57
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 84 to 123

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 group secretary 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 industrial, automotive 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 (R189 million in dividends) and earnings retained for future growth of R283 million;
- Contributed to societal growth by buying goods and services (R4.8 billion), paying taxes (R282 million) and employment (R1.1 billion);
- Market capitalisation of R3.4 billion as at 30 November 2019; and
- Provision of credit to customers of R1.2 billion as at 30 November 2019.

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 3 999 jobs with improved diversity, with 22% of senior managers being black and 31% being women;
- R8.7 million spent on direct training for ongoing skills and development;
- Granted 45 bursaries to permanent employees; and
- Sponsored four MBA graduates.

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 R302 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

- R0.8 million spent on education and skills development of family members of employees;
- Loans and contributions of R4 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

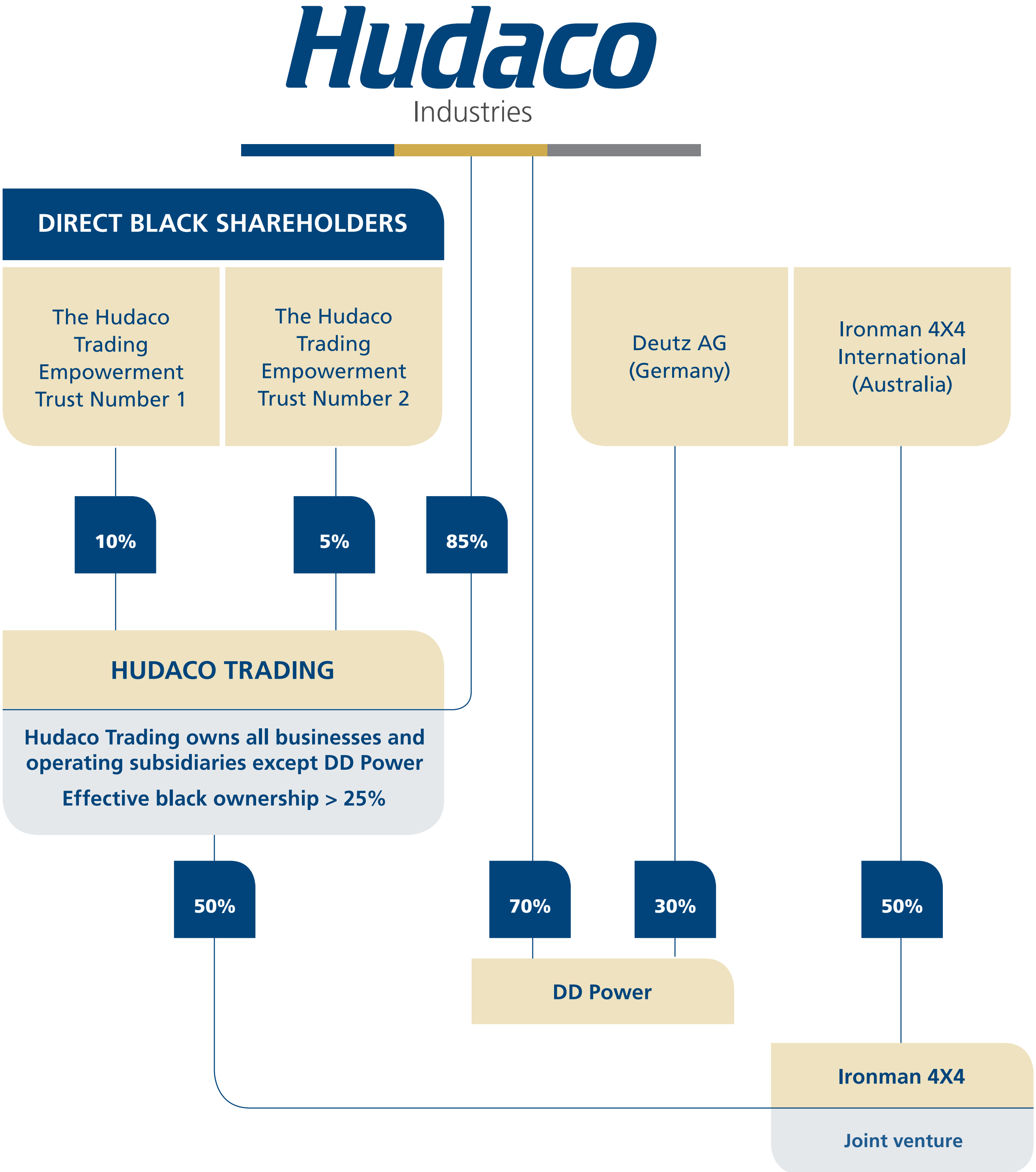
Recent years have seen Hudaco make several significant acquisitions, including Filter and Hose Solutions, Global Communications, the Dosco group, MiRO and Partquip. The latter serves the automotive aftermarket and is now the group's largest single business. Many smaller businesses have also been acquired. 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 over 125 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 4 000 people and has a market capitalisation of about R3.4 billion. With the contraction of mining and manufacturing in South Africa in the past few years, Hudaco's diversification strategy has served it well and 60% of its profits are now derived from sectors where activity is more closely aligned to levels of consumer spending. Its shareholders include many blue-chip players in the South African investment industry and black employees now have an equity interest in the main operating subsidiary.

ABRIDGED GROUP STRUCTURE



GROUP AT A GLANCE

CONSUMER-RELATED PRODUCTS

31

PRINCIPAL ACTIVITIES	BUSINESSES
Automotive aftermarket products	**Abes Technoseal, Partquip and A-Line Wheels**
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 and also designs, builds and manages 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.
Security and communication equipment	**Elvey Security Technologies, Pentagon, TPA Security Distributors, Commercial ICT, MiRO, 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 wireless networking, VoIP, video products, professional mobile radio equipment and radio systems integrator, 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, Ubiquiti, Mikrotik Cambium, Grandstream and other intrusion, surveillance and data networking equipment and solutions, Kenwood, Barrett, JVC, Sharetel, Mitel and ATel communication equipment.

ENGINEERING CONSUMABLES

36

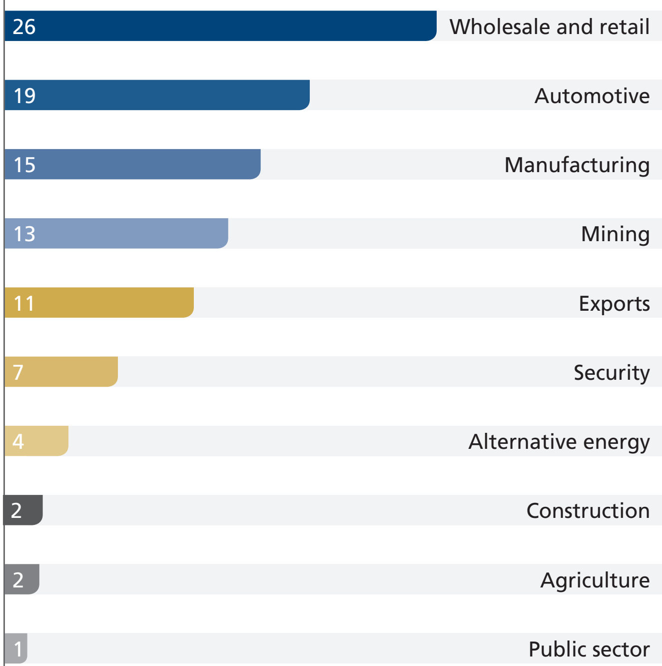
PRINCIPAL ACTIVITIES	BUSINESSES
Diesel engines and spares	**Deutz Dieselpower**
The distribution of Deutz diesel engines and Deutz spares and the provision of service support.	Represents Deutz AG – one of the world's leading independent manufacturers of diesel engines.
Bearings and belting	**Bearings International, Brewtech Engineering, Belting Supply Services and Bauer**
The distribution of bearings, chains, belting, industrial hose, seals, geared motors, 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, Habasit belting and Bauer geared motors.
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	**Berntel, 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 and Varispeed**
The distribution of variable speed drives, electrical cabling, plugs, sockets and related products to the manufacturing, mining and agricultural aftermarkets.	Distribute Yaskawa variable speed drives, sophisticated cabling and accessories and manufacture electrical plugs, sockets, connectors and flame-proof lighting.

KEY DRIVERS	R million	2019	2018
• Consumer spending • Building activity • Employment levels • Vehicle sales • Analogue to digital migration • Broadband, Wi-Fi and VoIP expansion	**Turnover**	**3 589**	3 491
	– Ongoing	**3 389**	3 392
	– Acquired after Dec 2017	**200**	99
	Operating profit	**421**	462
	– Ongoing	**391**	451
	– Acquired after Dec 2017	**30**	11
	Average net operating assets	**2 126**	1 935
	Number of permanent employees	**1 713**	1 596

KEY DRIVERS	R million	2019	2018
• GDP growth • Mining activity • Mining investment • Mining mechanisation • Manufacturing activity • Electricity usage management	**Turnover**	**3 120**	2 910
	– Ongoing	**3 097**	2 910
	– Acquired after Dec 2017	**23**	
	Operating profit	**284**	246
	– Ongoing	**282**	246
	– Acquired after Dec 2017	**2**	
	Average net operating assets	**1 869**	1 821
	Number of permanent employees	**2 120**	2 111

GROUP

SALES BY MARKET SECTOR – 2019 (%)



KEY DRIVERS	R million	2019	2018
• Exchange rates • Acquisitions	**Turnover**	**6 704**	6 381
	– Ongoing	**6 481**	6 282
	– Acquired after Dec 2017	**223**	99
	Operating profit	**701**	655
	– Ongoing	**669**	644
	– Acquired after Dec 2017	**32**	11
	Average net operating assets	**3 992**	3 781
	Number of permanent employees	**3 858**	3 732

SEVEN-YEAR REVIEW

R million	2019	2018	2017	2016	2015	2014	2013
GROUP STATEMENT OF INCOME							
Turnover	**6 704**	6 381	5 902	5 534	5 230	4 480	3 942
Profit before interest and tax	**731**	632	656	645	600	495	441
Net finance costs less dividends received	**103**	91	81	87	73	37	16
Profit before taxation	**628**	541	575	558	527	458	425
Taxation excluding tax settlement	**160**	144	156	148	141	128	120
Profit before tax settlement	**468**	397	419	410	386	330	305
Settlement of tax dispute						312	
Income from joint venture	**3**	3	3	3	3		
Profit for the year	**471**	400	422	413	389	18	305
Non-controlling interest	**42**	19	25	25	20	15	11
Attributable earnings	**429**	381	397	388	369	3	294
Shares in issue (000) (weighted average)	**31 646**	31 646	31 646	31 646	31 646	31 646	31 646
Earnings per share (cents)							
– comparable	**1 240**	1 198	1 251	1 171	1 169	986	983
– headline	**1 355**	1 289	1 256	1 222	1 163	6	928
– basic	**1 355**	1 202	1 254	1 226	1 164	8	930
Dividends per share (cents)	**600**	570	560	525	525	465	465
GROUP STATEMENT OF FINANCIAL POSITION							
Property, plant and equipment	**302**	277	270	256	261	257	214
Investment in joint venture	**12**	9	9	7	7		
Goodwill	**1 512**	1 505	1 480	1 243	1 001	730	619
Intangible assets	**23**	49	70	68	69	36	39
Deferred taxation – net	**38**	34	13	26	15	1	10
Inventories	**1 720**	1 822	1 538	1 508	1 369	1 141	1 104
Trade and other receivables	**1 269**	1 278	1 156	1 046	990	856	780
Trade and other payables	**(968)**	(989)	(943)	(898)	(764)	(711)	(673)
Taxation – net	**8**	(29)	(26)	3	3	(186)	37
Net operating assets	**3 916**	3 956	3 567	3 259	2 951	2 124	2 130
Net borrowings	**(1 008)**	(1 163)	(860)	(905)	(1 016)	(413)	(204)
Employment of capital	**2 908**	2 793	2 707	2 354	1 935	1 711	1 926
Equity holders of the parent	**2 742**	2 509	2 295	2 065	1 844	1 649	1 816
Non-controlling interest	**101**	70	81	65	51	33	19
Equity	**2 843**	2 579	2 376	2 130	1 895	1 682	1 835
Amounts due to vendors on acquisitions	**65**	214	331	224	40	29	91
Total capital employed	**2 908**	2 793	2 707	2 354	1 935	1 711	1 926
GROUP STATEMENT OF CASH FLOWS							
Cash generated from trading	**794**	760	776	709	677	545	520
Decrease (increase) in working capital	**59**	(292)	(65)	37	(153)	(44)	(138)
Cash generated from operations	**853**	468	711	746	524	501	382
Taxation paid (including tax settlement)	**(196)**	(164)	(131)	(175)	(378)	(222)	(169)
Net cash from operating activities	**657**	304	580	571	146	279	213
Investment in new operations	**(114)**	(242)	(210)	(165)	(463)	(224)	(181)
Investment in property, plant and equipment	**(74)**	(51)	(47)	(30)	(31)	(58)	(32)
Disposal of preference shares							2 181
Dividends and interest received		4					50
Net cash from investing activities	**(188)**	(289)	(257)	(195)	(494)	(282)	2 018
Share-based payments	**(22)**	(18)	(16)	(5)	(24)	(20)	(7)
(Decrease) increase in long-term borrowings	**(96)**	339	(35)	(90)	603	197	
Subordinated debenture repurchased							(2 181)
Finance costs paid	**(103)**	(91)	(81)	(86)	(73)	(38)	(66)
Dividends paid	**(189)**	(211)	(178)	(174)	(158)	(148)	(164)
Net cash from financing activities	**(410)**	19	(310)	(355)	348	(9)	(2 418)
Decrease (increase) in net bank overdraft	**59**	34	13	21	0	(12)	(187)

MISSION

Hudaco has been an important part of the South African business landscape for over 125 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	Measurement of success*	
SHAREHOLDERS We aim to produce superior returns for our **shareholders** by managing our business and by taking advantage of acquisitive and organic growth opportunities	The **primary** measures are **financial** and are detailed in the financial review on pages 24 to 28	24
CUSTOMERS We safeguard our strong market shares by offering quality products and have them readily available to our **customers**	**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	**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	Retention and promotion record; **reward** commensurate with performance; **success** on educational programmes; health and safety record; **support** for wellness initiatives	48
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	**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	49
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	**Success** of students on our BEE **bursary programme**, support for and success of our skills development and socio-economic development initiatives	55
ENVIRONMENT We are conscious of our responsibilities for safety and the **environment**	**Health** and **safety** record and **progress** on **goals** as set out in the **environmental impact** and **employee report** report	41 48

* *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 through 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.

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.

- 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.

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.

Distribution

Principal Activities/Product Range

- Products are distributed throughout southern Africa by our 35 businesses.
- We supply some 30 000 active customers from over 140 southern African branches (most of which are in South Africa).
- In most 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.

Consumer-related products

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

Engineering consumables

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

46

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.

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.

JOINT REPORT OF THE CHAIRMAN AND CHIEF EXECUTIVE

With Eskom's inability to supply adequate energy to our customers, the delays caused by inefficiency related congestion at the Durban port and the continued lack of capital investment by both the public and private sectors, to describe 2019 as challenging would be an understatement.

2019 overview

Considering that two of the key drivers of Hudaco's business are South Africa's GDP growth rate and the Rand exchange rate, 2019 proved to be yet another year in which the business environment was extremely difficult. With business confidence dropping to its lowest since 1985, we consider it an achievement that we were able to grow headline earnings by 5.1% to 1 355 cents and comparable earnings by 3.5% to 1 240 cents. Once again, the government did very little that it promised it would do to help grow our economy and we add our voices to those calling for urgent growth-inducing structural economic reform as a last-ditch attempt to stave off a rating downgrade.

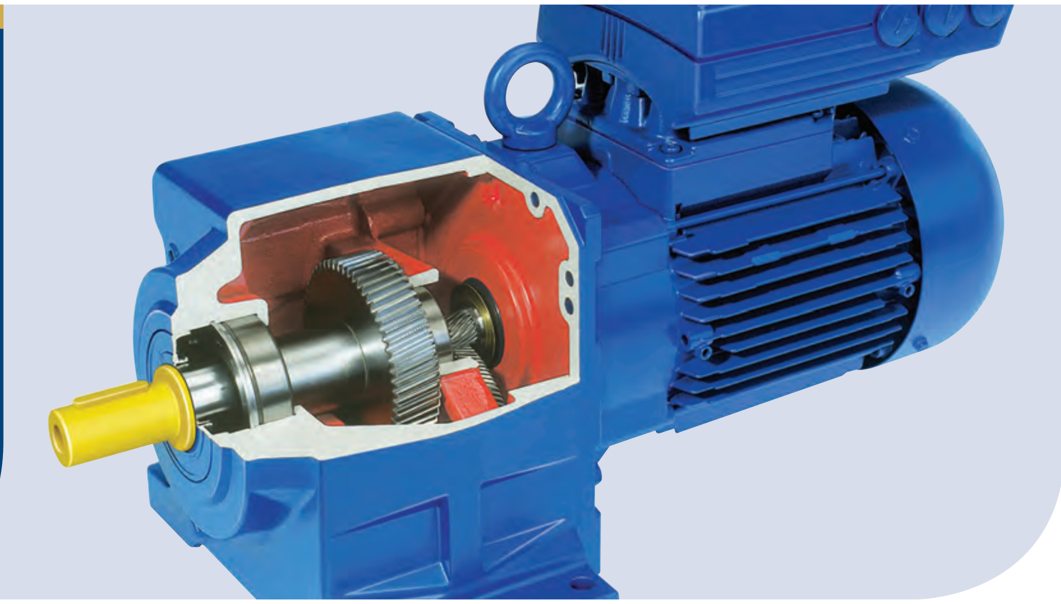
GDP declined by 3.2% in the first quarter, rebounded by 3.2% in the second and then declined by 0.6% in the third. The fourth quarter seemed no better from our perspective. With Eskom's inability to supply adequate energy to our customers, the delays caused by inefficiency related congestion at the Durban port and the continued lack of capital investment by both the public and private sectors, to describe 2019 as challenging would be an understatement.

Insofar as the currency is concerned, the best scenario for Hudaco is a gradually depreciating Rand but in 2019 the Rand was once again very volatile, which makes pricing exceptionally difficult. The currency started the year at R13.74 to the US dollar, strengthened in February to R13.30, declined as far as R15.41 in August and then closed the financial year back at R14.70. 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.

Annual turnover was up 5.1% to R6.7 billion, whilst operating profit increased 6.9% to R701 million. Turnover from ongoing operations in the consumer-related products segment was down 0.1% while operating profit decreased 13.3% whereas engineering consumables' turnover from ongoing operations increased 6.4% and its operating profit increased 14.6%. Our sales by market sector analysis reflected percentage declines in the wholesale and retail, mining and manufacturing sectors, which mirrored what seemed to be occurring in the economy.

The return on equity increased from 16.3% to 17.4% and the cash generative nature of Hudaco's businesses was clearly evident in the cash generated from operations which, at R853 million was well up from R468 million in 2018.

The final dividend has been increased to 410 cents giving us a total dividend for 2019 of 600 cents, 5.3% up on 2018. Comparable earnings cover the full dividend 2.1 times, which falls within our long-term dividend policy range of paying between 40% and 50% of comparable earnings.



Our philosophy of carefully managing the relationship between margins, inventories and costs means that businesses which find themselves currently serving low or no growth markets generally remain cash generative.

Financial position

The financial position has strengthened further with the cash generation in 2019 exceeding accounting profits. The group had R1 008 million in net bank borrowings at year end, down R155 million from R1 163 million in 2018, after R114 million was spent on paying vendors of recent acquisitions. More importantly, interest payments were covered almost seven times by operating profits, compared with our internal benchmark of at least five times. We have significant additional bank borrowing facilities available so there is still capacity for acquisitions.

Last year we committed to reducing the level of inventories, which at year end were R102 million down to R1.7 billion. The return on net operating assets including goodwill (RONA) in 2019 was 17.5%, against 17.3% in 2018.

Consumer-related products

The consumer-related products segment comprises 14 businesses. In 2019, it made up 53% of Hudaco's sales and 60% of operating profit. In 2018, this segment contributed 65% of group operating profit.

Consumer spending has clearly been under pressure with the depressed economy and an increasing unemployment rate. Discretionary spending was reduced and in some cases the consumer was moved to buy down. In spite of these challenges and increased competition the segment managed to increase sales by 2.8% to R3.6 billion, albeit on the back of acquisitions made during 2018. Unfortunately, pricing pressure meant that some business had to be done at lower margins to protect market share, which meant operating profit declined by 9.0% to R421 million. Operating profit margin was still a very healthy 11.7%.

Engineering consumables

The 21 businesses that constitute engineering consumables made up the other 47% of sales and 40% of operating profit. In 2018 this segment contributed 35% of operating profit.

Despite the decline in the mining and manufacturing and the wholesale and retail market sectors, the segment managed to grow sales by 7.2% to R3.1 billion. The businesses in this segment have been correctly sized in recent years for the depressed market conditions. An increase in export sales and the increase in turnover with minimal additional operating expenditure together with the improved efficiencies and synergies that we have been working towards resulted in a 15.5% increase in operating profit to R284 million. The operating profit margin increased to 9.1% from 8.4%. The businesses in this segment remain well poised to leverage benefits off any economic upturn that may transpire.

JOINT REPORT OF THE CHAIRMAN AND CHIEF EXECUTIVE
continued

Acquisitions

As part of our strategy, we continue to look for businesses in growth areas to further diversify and strengthen our portfolio. The past year was disappointing in terms of acquisitions, due mainly to the poor economy and general uncertainty in the country. No transactions of any consequence were concluded. While there is often a perception that it should be easier to find good acquisitions in tough market conditions, the opposite is our experience. Potential vendors of successful businesses do not lower their price expectations even though profits are under pressure, which effectively means they demand increased muliples for their businesses and Hudaco is loathe to pay more aggressive multiples.

During the year, three vendor earn-outs came to an end with the final purchase prices being slightly lower than previously estimated, resulting in a small gain of R6 million being recognised. The remaining contingent considerations for a further three transactions were re-estimated, based on current information. Although these businesses have performed very well, the tough economy has meant that they have not reached the very bullish expectations of their vendors so we now believe that they will ultimately cost a net R36 million less than previously recorded. As required by International Financial Reporting Standards, the reductions described above have resulted, somewhat counterintuitively, in a gain of R42 million being recognized in basic and headline earnings for the year but we have removed this gain from comparable earnings.

Strategic focus

Our key strategic focus remains unchanged: distributing strong international branded products requiring added value in the form of instant availability and technical input. Our philosophy of carefully managing the relationship between margins, inventories and costs means 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 offering. We will also continue to look for new markets and to grow the reach of our businesses geographically, where appropriate.

Lawsuit against Bravura and certain associates

Our action against Bravura, Cadiz and certain of their associates has been moved to the Commercial Court. Although this means a further delay, we welcome the move as this court is much better equipped to manage processes around complex corporate matters. Hudaco has brought the action to recover, *inter alia*, secret profits made on the financing arrangements around the Hudaco BEE transaction that ran from August 2007 to February 2013.

Prospects

Prospects for Hudaco will depend largely on how the economy performs in 2020. Load shedding and recent announcements of downsizing by large businesses, lead us to believe that the economy is not yet at the bottom of its current downturn. We urge the President to lead the meaningful action needed from the government on the economic front to kick-start the economy, which will hopefully translate into investment in those sectors that are traditional Hudaco markets. Our businesses are well placed, as we have seen from our 2019 results, to benefit immediately from such a scenario.

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

Engineering consumables segment

There are two main macro-economic factors that affect the performance of the engineering consumables segment:

- activity (output) in the mining and manufacturing sectors; and
- Rand strength or weakness, which impacts pricing.

This segment stands to gain the most from a government that is business friendly and free of corruption. Some meaningful progress in this direction should give rise to a degree of optimism that would likely translate into investment in those sectors of the economy in which our engineering consumables businesses operate. That would enable those of our businesses that have been in austerity mode for the past few years to thrive once again. As things stand, we do not see any significant change in the economy for the upcoming year.

Many of our businesses are well placed to benefit immediately from an optimistic scenario, while others will need to wait for a positive cycle to mature first. In the meantime, we continue to identify opportunities for synergies between our engineering consumables businesses and to implement steps to achieve those synergies. When industry is active, we will supply the replacement parts it requires.

Consumer-related products segment

The major macro-economic factors affecting the performance of the consumer-related products segment are consumer spending; light construction activity; vehicle sales; broadband, Wi-Fi and VoIP expansion; employment levels; reliability of the electricity supply; and Rand strength or weakness.

Consumer spending is clearly under severe pressure and we don't expect that to get any better in the year ahead. While that is undesirable for many of our businesses in this segment, as consumers defer purchases or buy down, there is potentially some advantage for those selling non-OEM replacement parts as consumers shun premium brands or hold onto their vehicles for longer. Growth in the data connectivity sector is expected to continue but margin pressure is likely to intensify. While an unreliable supply of electricity is not good for Hudaco in general because customers who have no power do not need as many replacement parts, our battery businesses thrive under load-shedding. The formation plant for the manufacture of forklift batteries is now fully operational so we should see an entire year of benefits from that. Our fastener business did not exploit the available opportunities for synergies adequately in 2019 so we expect those to come through more strongly in 2020. A meaningful volume of project business is likely to remain elusive.

Appreciation

As we said last year, challenging has become the new normal over the past few years given the economic conditions under which we operate. It is only through the commitment and experience of the members of the executive committee as well as management at an individual business level that the group has been able to deliver so consistently. There is excellence among our staff at all levels within the group and their contribution is valued and appreciated. Our loyal suppliers and customers are important stakeholders too and we thank them for the roles that they play in our mutual success.

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

SJ Connelly
Chairman

GR Dunford
Chief executive

30 January 2020

STRATEGIC FOCUS

2019		2020
Bring working capital back in line	Achieved	Sustain focus on working capital
Improve performance of businesses that disappointed in 2018	Partially achieved	Improve performance of businesses that disappointed in 2019
Integrate new senior executives	Achieved	Integrate Global Communications with security businesses
Extract synergies from engineering consumables businesses	Partially achieved	Extract additional synergies from engineering consumables businesses
Better align structure of executives' portfolios	Achieved	Make further acquisitions
Make further acquisitions	Not achieved	Regularly consider capital allocation
Achieve organic growth in engineering consumables businesses	Partially achieved	Grow black management pool within the group

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 3 999 people in Hudaco's 35 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. Major topics of interest this year for several categories of stakeholders included the impact of the weak economy on both trading and acquisition opportunities, prospects for economic growth in South Africa, whether there were any sectors of the economy showing promise for revival, capital allocation under current market conditions, the impact of the volatility of the Rand, prospects for growth in other African countries and progress on our legal action against Bravura and Cadiz, in which we are seeking to recover secret profits and amounts settled with SARS. 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 • 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
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

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 • 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 • 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 • Retirement fund reports and information • BEE bursary scheme communications • Wellness days and reports • Health and safety reports • Trustee elections and AGM's 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.
27 **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.	R160 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 advisors and by our own experienced acquisitions team and including earn-out and claw-back 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.
41 **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 but the overall rating has dropped to 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.	R25 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.	R20 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.	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.	R20 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

Stephen Connelly (68)

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.

Nonyameko "Nyami" Mandindi (53)

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.

Mark Thompson (67)

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), Sappi Limited Pension Fund (chairman of the audit committee) and is a trustee of a medical research foundation and a member of its investment committee.

Mark joined the board in 2017.

Dhanasagree "Daisy" Naidoo (47)

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 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

Graham Dunford (55)

NDip: Mechanical Engineering

Chief executive and executive committee chairman

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

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

He was appointed group chief executive in 2014.

Clifford Amoils (58)

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

Group financial director and member of the executive committee

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

He joined the board in 2009.

Louis Meiring (55)

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 on 14 January 2019.

EXECUTIVE COMMITTEE

GRAHAM DUNFORD (55)

NDip: Mechanical Engineering

Chief executive

31 years' service

PHYLLA JELE (41)

BA, MAP, Executive Human Resources Programme, Programme in Human Resources Management

Group executive: Transformation and human resources

Joined the group on 2 May 2019

BARRY FIELDGATE (58)

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

12 years' service

LOUIS MEIRING (55)

NDip: Electrical Engineering

Executive director

1 year's service

CLIFFORD AMOILS (58)

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

Group financial director

11 years' service

REANA VAN ZYL (53)

BProc, LLB, H Dip: Labour Law

Group secretary

11 years' service

DAVID ALLMAN (61)

S.A.I.M. Dip: Marketing Management/ Production Management

Portfolio executive: Abes Technoseal, Astore Keymak, Deltec Energy Solutions, Eternity Technologies and Specialised Battery Systems

33 years' service

Service is with Hudaco and businesses acquired.

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

CHIEF EXECUTIVE

CONSUMER-RELATED PRODUCTS

Automotive aftermarket
- Abes Technoseal
- Partquip
- A-line Wheels

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

Security and communication
- Commercial ICT
- Elvey Security Technologies
- Pentagon
- TPA Security Distributors
- Global Communications
- MiRO
- SS Telecoms

Power tools and fasteners
- Rutherford
- FTS Boltworld

ENGINEERING CONSUMABLES

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

Diesel engines and spares
- DD Power
- Deutz Dieselpower

Filtration
- Filter and Hose Solutions

Hydraulics and pneumatics
- Berntel
- 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

GROUP SERVICES

Finance
- Accounting
- Finance
- Risk
- Tax
- Treasury

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

Compliance
- Group secretarial

Africa
- Africa development

FINANCIAL REVIEW

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.

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:

- 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 2019 the gain increased basic and headline earnings per share by 115 cents, compared with 91 cents in 2018.
- Impairment of goodwill, which is also excluded from headline earnings. Reductions in vendor liabilities on earn-out payments are sometimes counter-balanced by an impairment of goodwill in the business concerned. There was no goodwill impairment in 2019 but in 2018 impairment decreased basic earnings per share by 90 cents. It was added back for headline earnings per share.
- The restructuring of the financing arrangements relating to our BEE structure on 28 February 2013. Prior to the restructure, there was a tax advantage from preference dividends that then fell away. This is relevant only to historic figures in the seven-year review in that it affected the 2013 year.

We measure our financial performance as follows:

- We target real growth in comparable earnings per share over the medium and long-term. Comparable eps for 2019 is 1 240 cents as compared to 1 198 cents in 2018. Compound growth in comparable eps over the past five years has been 4.7% from 986 cents in 2014 and 6.0% over the past 10 years, from 695 cents in 2009.
- Hudaco aims to achieve earnings growth at a rate at least in line with the earnings of the All Share Industrial Index (J257). Since 2014, earnings in the J257 showed compound growth of 2.4% and since 2009 its growth was 8.1%. To achieve this, we encourage our businesses to grow while producing a return over time exceeding the cost of capital. We have achieved nearly double the growth in the industrial index over five years but are disappointed to be about a quarter below that benchmark over 10 years. 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.

We require management to achieve the right balance between the elements of working capital, ie inventory, receivables and supplier credit.

- 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 in 2019 was 17.4%. We recognise that 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 10.4%. 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 2019 we just achieved our target as the RONTA was 30% (2018: 31%).

Capital allocation

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 ten or eleven 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, which is starting to look viable at current suppressed share prices, particularly as acquisitions are proving elusive at the moment.

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's dividends per share total 600 cents and are made up of an interim dividend of 190 cents and a final dividend of 410 cents, representing a total of 48% of comparable earnings.

FINANCIAL REVIEW continued

Cash flow

Hudaco businesses are cash generative. The general economic stagnation has inhibited the generation of cash from certain businesses but that is transient and not endemic to the business model. Other of our businesses have compensated for this with very strong cash flows.

Net cash flow from operating activities of R657 million (2018: R304 million), after releasing R59 million from working capital and paying R196 million in taxation, was very strong and once again demonstrates the cash-generative nature of Hudaco's businesses. R189 million was paid out as dividends, finance costs were R103 million and R74 million was spent on property, plant and equipment. R114 million was invested in new businesses, almost all of which was earn-out payments, share-based payment obligations of R22 million were settled and long-term borrowings were paid down by R96 million. Net short-term borrowings decreased by R59 million to R90 million.

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 2019, net borrowings amounted to R1 008 million. 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 6.64%. 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.

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.

Taxation

The group's effective rate of taxation this year is 25.5% (2018: 26.7%). There are no existing factors that would normally result in the rate varying significantly from the normal rate but the fair value adjustment on the vendor liability had the effect of reducing it by 1.9% and our BEE learnership programme reduced it by a further 1.2%.

The gross contribution to government in South Africa, comprising direct and indirect taxation, amounts to R635 million (2018: R638 million) for the year ended 30 November 2019. The composition of this figure is set out in the value-added statement on page 29.

29

Financial risk management

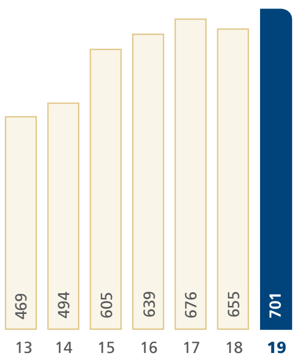
Significant financial risks in the group have been identified and are considered at each board, executive committee and audit and risk management committee meeting. These are described on pages 18 and 19. The impact of each risk is quantified and its probability is assessed. Measures are put in place 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 ways in which the group manages foreign currency risk, interest rate risk, credit risk and liquidity risk are fully set out in note 24 to the financial statements.

18

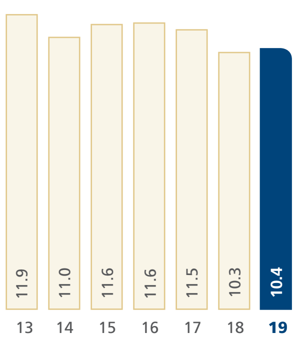
116

Each business 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. Smaller businesses are provided with appropriate support from within the group.

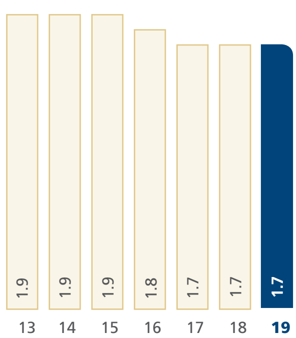
OPERATING PROFIT (RM)



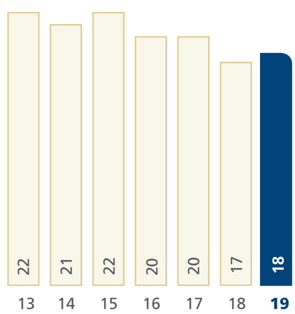
OPERATING PROFIT MARGIN (%)
OPERATING PROFIT/TURNOVER



NOA* (TIMES)
TURNOVER/AVERAGE NOA



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



** Net operating assets*

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 BEE scorecard, benchmarking and negotiation of leases for premises, employee benefits, group risk (including internal audit and IT governance), SHEQ guidance and the use of behavioural assessment software to assist in recruitment and management of personnel. Buying foreign exchange through head office is easier and cheaper for a business than dealing directly with a bank. Businesses enjoy lower bank charges, rates of interest and insurance premiums as well as better risk benefits for employees by being part of the Hudaco group.

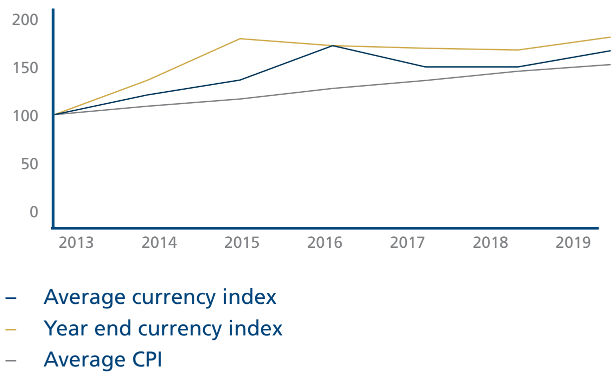
Impact of changes in foreign exchange rates

As Hudaco is predominately an importer, prices charged are linked to the Rand exchange rate. While Hudaco's sales line is affected by exchange rate movements, the group's expense line is affected by the local rate of inflation. This imbalance represents a real risk that sales could fall in response to a strengthening Rand whilst expenses, driven by local inflation, continue to rise. The result would be a margin squeeze. We estimate that a 10% strengthening of the Rand could, without management intervention, result in a 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. 2019 has yet again seen significant volatility of the Rand, although the weighted average rate against the basket of currencies that we purchase was a moderate 6% weaker at the end than at the beginning of the financial year.

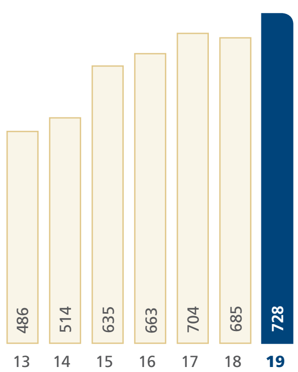
Over time, one would expect the Rand to weaken by the inflation differential between South Africa and its trading partners, allowing us to pass on imported inflation to our customers at roughly the same rate as the local inflation rate. As we are only too well aware, the Rand is volatile and does not 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 the currency continues to experience has yet again made pricing a challenge and margins have still been kept under pressure, particularly in the weak economic environment that the region has experienced, driven primarily by political uncertainty, both local and international, and the fragility of our electricity supply. The graph below shows how the weighted exchange rate 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 8% more in 2019 than in 2018 but there were fluctuations of about 16% between highs and lows during the year.

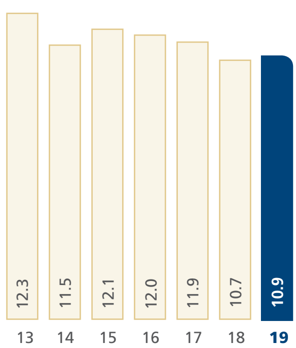
HISTORICAL MOVEMENT IN FOREIGN EXCHANGE RATES FOR HUDACO'S BASKET OF CURRENCIES



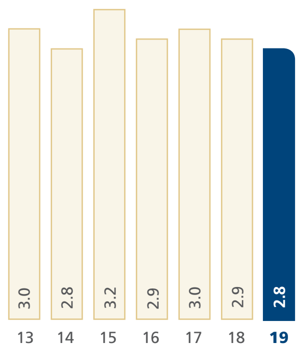
PBITA** (RM)



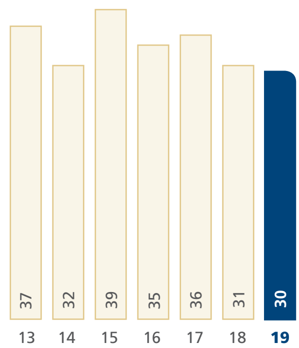
PBITA MARGIN (%)
PBITA**/TURNOVER



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



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



*** Operating profit before amortisation*

**** Net tangible operating assets*

Investment Analysts Society reporting awards: Industrial – Basic Industry category winner 2018 and 2019

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 up to 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 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 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. For more information on how IT is governed in the group, refer to the corporate governance report, specifically page 81.

81

Reporting awards

It was gratifying to win the Investment Analysts Society (IAS) reporting award for the category Industrial – Basic Industry in 2019. This was the second year in succession that Hudaco has won this category and our fifth IAS award since 2009. We see this as an affirmation that we are providing users of our integrated report with high-quality, useful information.

BEE Trusts

During 2019, the BEE 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 are delighted that, in February 2020, the trustees of those trusts resolved to make a first distribution of R6 million to qualifying black employees.

Secondary listing on A2X

The board has resolved to seek a secondary listing for Hudaco shares on the A2X exchange in 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.

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 re-invested in the group for the replacement of assets and the further development of operations.

GROUP VALUE-ADDED STATEMENT

R million	2019	2018
Turnover	**6 704**	6 381
Less: Cost of materials, facilities and services from outside	**4 793**	4 449
Value-added	**1 911**	1 932
Capital items	**31**	(23)
Income from joint ventures	**3**	3
Total wealth created	**1 945**	1 912
Distributed to:		
Employees – salaries, wages and other benefits	**1 133**	1 198
Government (gross contributions)	**635**	638
Indirect contributions, duties and levies	**(475)**	(494)
Net finance costs	**103**	91
Shareholders – dividends	**189**	211
Maintain and expand the group		
– profits retained	**283**	192
– depreciation, amortisation and impairment	**77**	76
Total wealth distributed	**1 945**	1 912

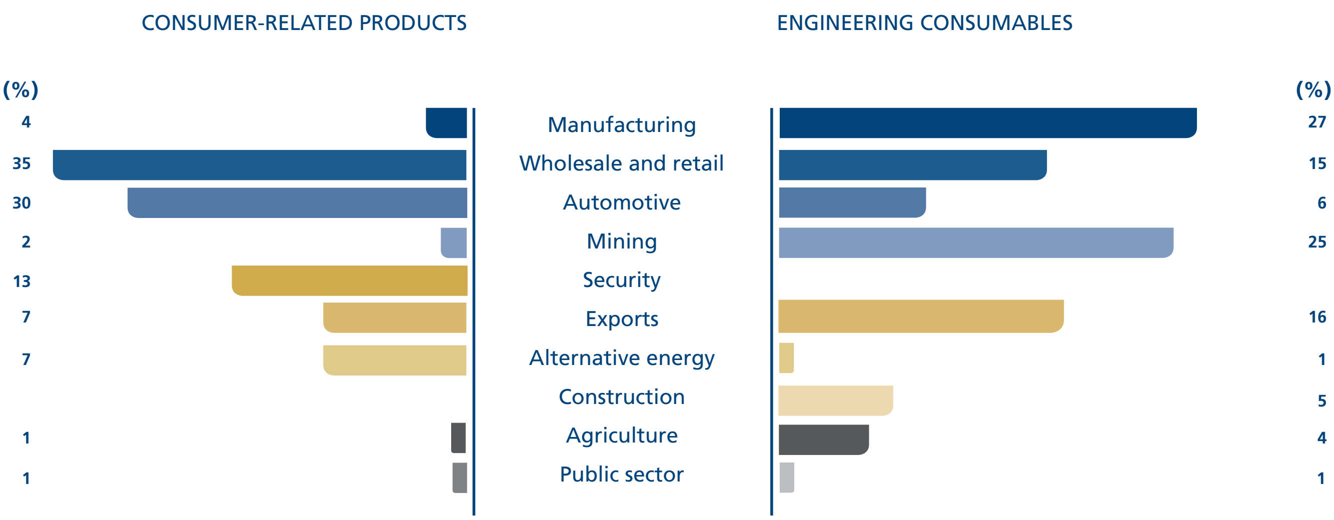
STATEMENT OF GROSS CONTRIBUTIONS TO THE GOVERNMENT IN SOUTH AFRICA

R million	2019	2018
Company income tax	**160**	144
Assessment rates	**7**	6
Customs and excise duty	**93**	117
Skills development levies, UIF and COIDA	**20**	18
Value-added tax not recognised as input credit	**2**	4
Direct contribution to government	**282**	289
Add the following collected on behalf of the government:		
Value-added tax (net)	**187**	189
Employees' tax and UIF	**166**	160
	635	638

REVIEW OF OPERATIONS

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

SALES BY MARKET SECTOR – 2019



Consumer-related products

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

This segment comprises the following main businesses and activities:

- Partquip distributes automotive spares and accessories and Ironman 4X4 accessories.
- A-Line Wheels distributes alloy and steel automotive wheels and accessories.
- Abes Technoseal distributes light and heavy-duty clutch kits, ignition leads 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.
- Elvey Security Technologies and TPA Security Distributors distribute intruder detection, access control and related CCTV equipment.
- Pentagon supplies and installs integrated security and life safety solutions, offering system design and integration into surveillance, access control, fire detection systems and VoIP.
- Commercial ICT is a small core IT systems and infrastructure provider, with exclusive agencies for communication products sold to, *inter alia*, the security industry.
- Global Communications is a designer of integrated analogue and digital telecommunications infrastructure and a distributor of Kenwood telecommunication and radio equipment.
- MiRO is a value-added distributor of IP convergence technologies including wireless networking, VoIP and physical security solutions.
- 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.
- SS Telecoms is a voice and data solution provider specialising in PBX communication management software and telephone management.

Refer to page 35 for a geographic analysis of the source of supply of the consumer-related products range.

35

REVIEW OF OPERATIONS continued

Performance

The consumer-related products segment comprises 14 businesses. In 2019, it made up 53% of Hudaco's sales and 60% of operating profit. In 2018, this segment contributed 65% of group operating profit.

Consumer spending has clearly been under pressure with the depressed economy and an increasing unemployment rate. Discretionary spending was reduced and in some cases the consumer was moved to buy down. In spite of these challenges and increased competion, the segment managed to increase sales by 2.8% to R3.6 billion, albeit on the back of acquisitions made during 2018. Unfortunately, pricing pressure meant that some business had to be done at lower margins to protect market share.

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

The past few years has seen a steady decline in both new car and light commercial vehicle sales, with 2019 reflecting 3% and 4% declines in these sectors respectively over one year and 19% and 12% declines since 2014. At the end of November this year, the vehicle parque for these sectors was approximately 10.5 million vehicles, whereas at the end of 2014 there were approximately 9.2 million vehicles. For every two new vehicles introduced into the parque, one drops out.

Whilst it seems obvious that an increasing vehicle parque should translate into a larger customer base, OEM's (original equipment manufacturers) are now offering extended maintenance plans, some up to ten years, thereby further delaying the release of appropriate vehicles into our target market.

Despite extremely tough trading conditions, an economy reflecting negative growth and consumers having substantially less spending money at their disposal, year on year Rand sales for the year were marginally up on prior year, but this was unfortunately at the expense of margin.

Partquip remains our 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 OEM's and wheel and tyre fitment centres.

Ironman 4X4, a 50% joint with Ironman 4X4 International in Australia, distributes suspension systems and accessories for 4X4 vehicles in the recreation, commercial and original equipment markets. This past year saw the successful opening and integration of a flagship retail store in Alberton.

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.

Further growth opportunities exist through the opportunity to introduce additional product lines to existing customers, using their vast distribution networks to expedite our route to market. These new products include OEM ranges becoming available to the aftermarket and spares for new evolution hybrid and electric vehicles as these vehicles reach critical mass within the car parque. Our businesses will ensure that we continue to position ourselves to capitalise on this growing demand.

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
Bougicord	Ignition cables from France.	Exclusive distributor since 2007

Power tools and fasteners: Rutherford and FTS Boltworld

Rutherford represents Makita Japan, which produces high quality (and hence high cost) 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. Whilst the volume of AC power tool sales declined, the continual improvement in Makita's DC battery technology resulted in volume 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 an excellent second tier industrial power tool range, Makita MT.

The acquisition of Boltworld was successfully bedded down in 2019 and integrated with our existing FTS fastener business. The FTS Boltworld division is now operational not only in Johannesburg but also in Durban, Cape Town and Klerksdorp. It is also considering export opportunities.

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. VI also 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

Security products: Elvey Security Technologies, TPA Security Distributors, Pentagon and Commercial ICT

Elvey's revenue showed resilience in the face of subdued consumer spending. Despite pressure on revenue and a change in our revenue mix, our bottom line remained flat when compared to previous years. This was enabled by, among others, a strategy that was launched in the last quarter of 2019 to modernise the distribution model. This project will continue to drive and deliver better service to customers, more cost effectively.

45

Commercial ICT continued to perform well and delivered steady growth in our annuity income stream. Commercial ICT also developed and launched an exciting new product in the cable theft protection space. It has been well received by the market and the first significant sales are expected early in 2020.

The integration of the TPA back office, logistics and operations into the Elvey infrastructure has been completed, but the sales side of the TPA business will remain focused on its own identity and market share, with dedicated sales and product management personnel.

Pentagon, our integrated security projects business, had a very disappointing year, with very few projects being awarded but continues to deliver a value-added service to the system integration market in southern Africa. Pentagon has focused during the past six months on repositioning its offering to provide: a complete security and building management solutions portfolio; an experienced sales force, deployed nationally; and a large team of technical sales engineers to assist with the design of complex solutions and the final commissioning of these installations.

Export into Africa continues to improve and the opening of Hudaco branches in Kenya and Namibia has strengthened our footprint in these regions. Although we continue to learn from operating in the broader African market, we remain cautiously bullish about our growth potential in Africa.

The security businesses will continue to respond appropriately to the challenges in the industry and remain focused on supplying an expanding and unique range of security technologies and solutions, supplementing it with our superior service, training and technical support. To this end, the pending integration of Global Communications with the security businesses is expected to create new opportunities for an enhanced offering to market, particulary in the project space, as well as worthwhile operational synergies.

PRINCIPAL BRANDS: SECURITY PRODUCTS		
Axis Communications	A manufacturer of network video surveillance solutions from Sweden.	Distributor since 2018
Bosch	A leading manufacturer of integrated security and life safety solutions from Germany.	Distributor since 2011
DSC	Canadian manufacturer of intrusion detection products.	Distributor since 1990
Texecom	A leading manufacturer of alarm systems from the UK.	Sole distributor since 2018
NetworX	USA manufacturer of intrusion control panels and equipment.	Distributor since 1987
Optex	Japanese intrusion detection devices.	Distributor since 1987
Impro technologies	South African manufacturer of access control systems.	Distributor since 2011
Kantech	A manufacturer of a full suite of access control products from the Netherlands.	Distributor since 2018
exacq Technologies	A designer and manufacturer of integrated video management system (VMS) software and servers from Canada.	Distributor since 2018
alhua	Global video surveillance products from China.	Distributor since 2011
Permaconn	A leading designer and manufacturer of alarm communication products from Australia.	Sole distributor since 2017

REVIEW OF OPERATIONS continued

Communication equipment: MiRO, Global Communications and SS Telecoms

Despite pressure on the South African economy, MiRO achieved steady turnover growth for 2019. Economic pressure on consumers resulted in price-based purchasing decisions which in turn negatively impacted its gross profit. In order to protect and gain market share, MiRO selectively adjusted selling prices to stay competitive. As part of MiRO's growth strategy, a distribution centre was opened at the start of 2019, providing warehousing for their expanding range of products as well as improving their supply chain efficiency. Although the new distribution centre added to MiRO's expenses for 2019, we expect to see a positive return in 2020 and beyond.

With strong enterprise brands on board, the business continued rolling out its enterprise growth strategy, gaining new key customers in both enterprise connectivity and telecommunications verticals. MiRO's traditional fixed wireless broadband division continued to show strong growth, bolstered by new complimentary brands and a more solution-focused approach for clients. Both their fibre and IoT (Internet of Things) portfolios performed exceptionally well and contributed to the overall success in 2019.

MiRO's new product groups for 2020 include next generation SME cybersecurity, Software-Defined Networking, IoT and Unified Communications solutions. MiRO plans to continue on its steady growth path through the provision of value-added services and an improved digitalised customer experience. A strong focus on support for channel partners as well as a drive to make interacting with MiRO easier than ever before will be key focus areas for 2020. During the first half of 2020 MiRO will launch its fibre and 3G/LTE portfolios in Kenya and anticipates healthy growth for exports as a whole.

Global Communications has gone through a restructuring process aimed at stabilising the business by arresting the declining financial performance, simplifying the route to market and structure to create efficiencies and reducing the organisation's cost to serve the customer base. The restructuring process is gaining traction, evidenced by better financial performance in the second half of the year, but the results were still hampered by redundant stock and some bad debt write-offs.

The business had a very difficult year due to pressures from the regulatory landscape, a weak economic environment, a decline in spend specifically from the national defence forces and customers migrating to next-generation technologies at lower margins.

Looking forward, we expect to accelerate our expansion into the African market, as well as secure additional service contracts with the customer base and drive a sales focus on building new NEXEDGE and DMR networks. It is imperative to continue investing in key growth areas in line with our strategy to build new networks as this will ensure the future sales of our mobile and handheld devices. The business will integrate more with the businesses in Hudaco's Elvey security group to create new opportunities and take advantage of operational synergies and its distribution network.

It was another difficult year for SS Telecoms, 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.

PRINCIPAL BRANDS: COMMUNICATION EQUIPMENT

UBIQUITI NETWORKS	Wireless data communication products from USA.	Distributor since 2008
MikroTik	Wireless products and routers from Latvia.	Distributor since 2006
Cambium Networks	Wireless broadband solutions from USA.	Master distributor since 2016
GRANDSTREAM	Complete VoIP telephony solutions.	Distributor since 2005
KENWOOD	PMR equipment and radio networks.	Sole distributor for southern Africa since 1987
ROHILL	Tetra digital radio infrastructure.	Sole distributor since 2002
BARRETT COMMUNICATIONS	HF and VHF tactical communication equipment.	Distributor since 2010

Batteries: Deltec, Specialised Battery Systems and Eternity Technologies

Deltec had a very good year with growth coming from increased energy storage business and sales to the wholesale motor battery industry. In 2020 Deltec will start providing lithium-based batteries as 12V block replacements for traditional lead-acid batteries and solutions for the energy storage and electric vehicle markets.

Specialised Battery Systems supplies the stand-by battery systems for support infrastructure to the UPS, telecommunication, security (alarm) and solar markets. The batteries sold some years ago during Eskom's initial load shedding have started to require replacement, so we expect good growth in 2020.

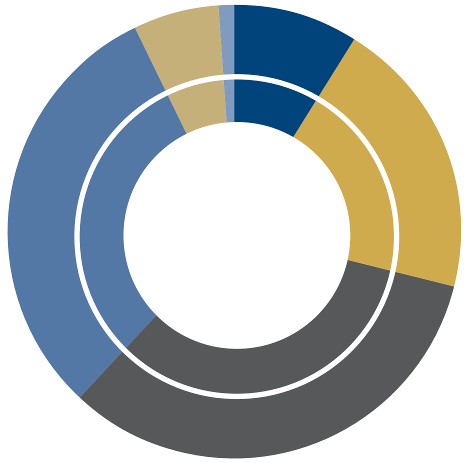
Eternity Technologies, which was acquired in August 2017, has performed within expectations and continues to grow in the traction, forklift and battery bay markets, supplying large warehouses that operate 24/7. Eternity's new formation plant was completed and commissioned during August 2019. The plant assembles and forms the complete range of 2V surface motive power cells locally.

PRINCIPAL BRANDS: BATTERIES

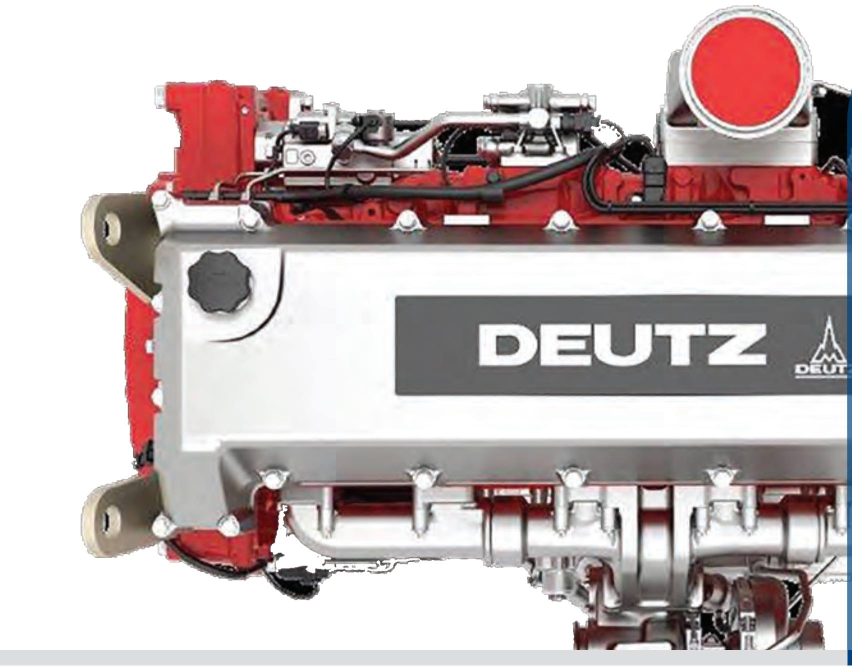
DELTEC BATTERIES	Sealed lead acid batteries.	Own brand since 2000
FULMEN BATTERIES	Sealed lead acid batteries.	Sole distributor since 2016
U.S. Battery	Batteries for golf carts and industrial machines	Sole distributor since 2012
BATTERY CSB	Back-up power in UPS, telecoms security etc.	Sole distributor since 2012
CALCIUM BATTERY ROYAL	Back-up power in UPS.	Sole distributor since 2000
CEIL TRUSTED BATTERY SYSTEMS	Back-up power (UPS) and solar systems.	Sole distributor since 2000
SEC	48V Lithium battery modules for solar systems (energy storage systems)	Sole distributor since 2018
SBS SOLAR	Custom solar systems using the SBS Solar products.	Sole distributor since 2009
Eternity TECHNOLOGIES	Full international range of British Standard Cells, DIN Standard Cells and BCI Standard Cells.	Sole distributor since 2014
Fronius	Innovative and tailor-made systems for charging batteries in intralogistics.	Sole distributor since 2013
Philadelphia Scientific	Improving the life and performance of industrial batteries.	Sole distributor since 2008

CONSUMER-RELATED PRODUCTS

SOURCE OF PRODUCTS



China	**33%**	South Africa	**9%**
Asia – other	**31%**	North America	**6%**
Europe	**20%**	Other	**1%**



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 approximately ten years partly due to natural boom and bust cyclicality of resources but also recently due to investment unfriendly regulations and political posturing. Hudaco businesses in this segment are sized correctly for current market conditions and, whilst turnover has grown moderately, profits are well up, returns are good and they generate the cash we use to diversify and expand our portfolio of businesses.

This segment comprises the following main businesses and activities:

- Bearings International, Belting Supply Services, Brewtech and Bauer have over 50 branches across southern Africa. The main brands distributed are INA, FAG and Koyo bearings, Habasit belting, Rexnord bearings, chain and sprockets and Bauer geared motors. These businesses also distribute seals, electric motors and a range of transmission products.
- Deutz Dieselpower represents Deutz AG, one of the world's leading independent manufacturers of air-cooled and liquid-cooled medium-sized compact diesel engines.
- 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.
- Mechanical power transmission comprises hydraulics and pneumatics (HERS, Dosco, GPM, Ernest Lowe and Berntel), specialised steels, pulleys and castings (Ambro Steel, Sanderson Special Steels, Bosworth, Joseph Grieveson and The Dished End Company) and pipes, fittings and hose (Astore Keymak).
- Electrical power transmission products, constituted by: Ampco, Powermite, Three-D Agencies, Proof Engineering and Varispeed.

Performance

The 21 businesses that constitute engineering consumables made up the other 47% of sales and 40% of operating profit. In 2018 this segment contributed 35% of operating profit. The growth in operating profit this year is evidence of the leverage capacity embedded in these business, poised for when there is any upturn in economic activity.

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. 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. Clearly there is if we are not alert. Also, the tougher the economic conditions, the more likely customers are to buy down. However, currently, reverse engineered machines sourced from these countries are often of inconsistent quality with spare parts often not readily available. Customers are generally reluctant to gamble by buying cheaper machines or copy parts with an unknown brand because the downtime consequences of fitting substandard parts significantly outweigh the cost saving. When manufacturers in these countries reach the appropriate quality to price standard – as they eventually will – we believe Hudaco will be a logical and sought-after local distributor. We do already 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.

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 approximately ten years partly due to natural boom and bust cyclicality of resources but also recently due to investment unfriendly regulations and political posturing. Hudaco businesses in this segment are sized correctly for current market conditions and their good returns generate the cash we use to diversify and expand our portfolio of businesses.

40

Refer to page 40 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 pipe fittings, hoses, valves and pipeline accessories in various engineered plastic materials. Astore Keymak operates in the irrigation (agricultural), mining, industrial and infrastructure sectors. The manufacturing arm Keymak has remained resilient, producing dragline (mining), irrigation and fire reel hoses, notwithstanding the challenges such as drought and land reform policies. These challenges, coupled with the recession in the construction industry, resulted in the closure of two major local thermoplastic producers. Project and infrastructure spend on water, sewage and reticulation has been much lower than expected and most systems are in critical need of upgrading. Should there be an uptick, we are perfectly placed to meet the market requirements.

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

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

Bearings International, which distributes bearings, transmission products, chains, seals, belts and geared and electric motors through its extensive branch network to diverse end-user segments (including mining, steel, manufacturing, petro-chemical, sugar, agriculture, wholesale and retail) had a good year with strong growth in the mining, agriculture and manufacturing segments despite poor market conditions. This indicates that the investments made during 2018 to bolster management and additional actions taken to accelerate the growth strategy, are now starting to yield positive results. Supply to automotive OEM's (original equipment manufacturers), a major contributor for Bearings International, reduced as new vehicle sales declined year on year. The services and infrastructure segment (mainly power utilities) showed a further decline due to lack of equipment maintenance that is evident in the inconsistency of power supply throughout the country.

Gross margins were maintained despite the volatility of the Rand and pricing pressure from end users and major competitors. Tender business has increased further year on year, which is indicative of the pressure on general industry to maintain more stable pricing on commoditised products.

Growth from Bauer – gearboxes and geared motors, showed significant growth, with initiatives taken early in 2019 to strengthen the team starting to yield positive results. Bauer has seen a recovery in the services and repairs market and believe the addition of the iMak range of gearboxes and geared motors in the latter part of 2019 will contribute strongly to even greater growth going forward.

REVIEW OF OPERATIONS continued

Belting Supply Services is a leading supplier of quality rubber and PVC belting including related products, industrial hose and Bestobell specialised valves, instrumentation and sealing products into a mature market. It experienced an improved year despite the traditional markets it supplies experiencing difficult trading conditions.

Focus on the beverage and sugar industries in 2019 yielded results, while increased market shares in the hose fitting and rubber conveyor markets are expected to strengthen the results in 2020. The 24/7 splicing service offered by Belting Supply Services assists in keeping their large customers running with minimal downtime, representing strong value add and resulting in customer loyalty.

Brewtech is a non-exclusive distributor for Rexnord FlatTop Europe and carries their Rexnord, Marbett and MCC ranges of chains, belts and conveyor components. Its in-house workshop manufactures parts for specific engineering applications for bakeries, food and beverage, bottling, can and glass manufacturing and poultry processing. 2019 was another difficult year for the business as it has not yet fully offset the losses from the decline in its contract business and slower than expected growth in the food and beverage segment across the country. Despite these challenges, Brewtech was still able to post positive numbers, albeit below those of the previous year. The positive outcome is partly due to slow but stable growth in sales to central and east Africa, which still hold great potential for future growth.

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
BAUER	Geared motors from Germany.	Sole distributor since 1989
INTER	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

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 its 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 equipment manufactured in other parts of the world and imported by original equipment manufacturers (OEMs) such as Sandvik, Atlas Copco, GHH and numerous others.

DDP's principal activity therefore is providing support for Deutz engines through service, spare parts, reconditioned 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 our 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 well in 2019, mainly as a result of the increase in demand from the power generation market. The South African mining market in general (one of DDP's main revenue contributors) experienced a satisfactory year in 2019 considering the challenging local business environment. New engine sales to OEMs showed reasonable growth and there was good aftermarket growth from the platinum mines which benefitted from the higher Palladium and Rhodium prices. DDP also benefitted from the robust activity in copper mining in central Africa, resulting in healthy growth in our Zambia business. Overall, our export business, mainly to sub-Saharan Africa, performed exceptionally well.

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 into 2020 as SA continues to experience ongoing power supply issues.

In the year ahead, DDP continues to focus on diversifying and growing its market share in segments other than mining, thus reducing its reliance on this sector. The new range of Deutz 9 – 18 litre in-line engines which extend the upper power output range should also create opportunities in new applications and markets in 2020. The sales of diesel particulate filters (HJS product) have been satisfactory in 2019 and we expect demand to increase in 2020 as pressure increases to reduce harmful particulate emissions in confined areas, such as underground mines and warehouses where diesel engines are utilised.

PRINCIPAL BRANDS: DIESEL ENGINES AND SPARES

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

Filtration: Filter and Hose Solutions (FHS)

FHS is Donaldson's largest engine filtration distributor in Africa. FHS supplies high quality, branded filtration products together with technical expertise and also manufactures exhaust systems for heavy duty and automotive applications.

While 2019 was not without its challenges within the mining and construction industries, FHS was able to grow sales within the current customer base as well as through securing new customers. Despite tough economic conditions and notwithstanding pricing pressure still being experienced within the mining industry, it managed to maintain margin. Much of the new business gained was through referrals, which is testimony to both the internal focus on customer centricity and the on-going emphasis on the value-added model that FHS applies.

Facing an ever-more challenging business environment, FHS continues to build resilience within its operations, with increased effort being placed on developing flexibility, which will allow the business to capture new opportunities that arise in line with a long-term strategy to diversify product lines and service new industries. Consequently, during 2019, FHS built the foundation for an industrial dust and air division, which not only has the ability to supply quality branded product, but also to offer technical advice and fulfil maintenance requirements on these industrial applications. While entry into this market has been slower than expected, FHS managed to sell over 3 000 FHS branded bags in the first year. The outlook for growth within this segment remains positive.

In the aftermarket engine business, which is heavily reliant on the mining and construction sectors, FHS has predominantly focused on contract miners in the past. However, in line with our growth strategy, FHS started targeting both junior and major miners during 2019. For major mining houses, the process has been slightly sluggish due to the extensive procurement processes within these organisations but we are cautiously optimistic that these challenges will be overcome within the first quarter of 2020.

2019 was a much improved year for FHS's exhaust manufacturing facility.

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, Varispeed and Three-D Agencies

The division 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.
- Three-D Agencies – a leading supplier of electric cable related equipment and accessories.

The division had a disappointing year as the primary market segments in which it operates (mining and manufacturing) remained depressed throughout the year.

Powermite and Varispeed experienced a substantial cutback in electrical projects in the mining, manufacturing and power utility segments, which impacted their results negatively. Proof Engineering sells mainly into the coal mining sector, which was negatively impacted by lower local and international coal demand and the shift to alternative power sources. This has been partially offset by growth from new mining projects in Africa, which we foresee continuing in the coming year. Poor industry segment performance, fierce pricing from competitors and the volatility of the Rand resulted in product margins being under pressure.

Both Powermite and Varispeed secured capital project orders towards the latter part of 2019 and both launched new product ranges, as well as solution offerings so we remain confident that 2020 will be a year of growth for these businesses.

Three-D Agencies continued to expand, with growth coming from the Uni-T range, cable ties, glands and other cable accessories.

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 DELACHAUX GROUP	Electrical feeder systems from Europe.	Distributor since 1970
UNI-T	Uni-T instruments and meters from China.	Sole distributor since 2005

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

Dosco is a leading re-manufacturer of hydraulic pumps and supplier of new hydraulic pumps, distributing the GPM, Kawasaki and Staffa brands. Dosco, operating in the difficult mining space, struggled in the second half of 2019, eroding the positive gains made in the first half of the year. A strategy to venture into the industrial and marine markets with Kawasaki products in order to diversify from mining, gained traction this year and partially compensated for the drop in Kawasaki sales into the mining sector. The focus in the year ahead will be predominately on growing sales of Kawasaki products into new markets, as well as continuing the current successful growth of sales of the GPM product locally and into Africa.

Gear Pump Manufacturing (GPM) manufactures in Cape Town and distributes high-quality hydraulic pumps for both export and local markets. It also has sales arms in the USA and the UK, which serves the European market. Due to high demand and strong sales, the manufacturing entity was able to operate at full capacity throughout the year, resulting in improved under recoveries and margins, which boosted results compared to the prior year. Moving forward we will focus on growing the European and USA markets and improving manufacturing efficiencies.

USA sales increased whilst UK sales were flat on prior year, mainly due to BREXIT uncertainties. Expenses and margins were managed very well.

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 growth despite the decline in the mining segment and recovered well from the decline experienced in 2018, with changes made to the management during the year starting to yield results. Despite downward pressure on product margins due to market conditions and volatility of the Rand, profit was up on prior year. Ernest Lowe diversified its product range into the water and process valve sectors, with new product agencies acquired to provide solutions in the water infrastructure and mineral processing segments. It also acquired the Eaton hydraulic product agency that will complement the product range and value proposition to end users and this should set the business up for further growth in 2020.

HERS had a good year and managed margins very well, despite the difficult trading conditions in the mining industry. Focusing on having the right stock and quantities, HERS continues to satisfy customer needs. Testing facilities at HERS were improved and expanded to be able to supply more products to more markets. The business gained an additional drivetrain distributorship in Dana Spicer, thereby strengthening its position as a significant supplier of drivetrain componentry to the southern African market.

PRINCIPAL BRANDS: HYDRAULICS AND PNEUMATICS

NORGREN	European pneumatic equipment.	Sole distributor since 1959
KPM Kawasaki Precision Machinery Staffa	Kawasaki Staffa radial piston motors.	Distributor since 2000
KPM Kawasaki Precision Machinery	Kawasaki axial piston pumps.	Distributor since 2000
GPM GEAR PUMP MANUFACTURING	Hydraulic, grey iron, bearing and bushing gear pumps.	Manufacturer and distributor since 1985
KESSLER+CO	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

The Ambro Steel group had a very challenging year, mainly due to the tough economy and reduction in the manufacturing sector. Turnover was marginally up thanks to a concerted effort to protect market share and not lose sales. Unfortunately, in this exceedingly competitive environment it was at reduced prices which put pressure on margins.

Thanks, in the main, to a substantial order received for the supply of conveyor pulleys to Thailand, Bosworth had a much improved year with both sales and profit up. Capital expenditure in the local mining industry remains muted so greater emphasis is being placed on the export market. In an effort to round off our product offering, we started manufacturing conveyor idlers during the year and look forward to a positive contribution from this division of the business.

Joseph Grieveson is a jobbing foundry that manufactures ferrous and non-ferrous castings. In difficult trading conditions, lower than expected sales growth was achieved but through a strong focus on improving the margin, controlling expenses and managing production quality, they were able to improve on their 2018 results. The investment in casting simulation software technology contributed to the improved bottom line. The focus in 2020 will be on further improving the margin and exploring the export market to bolster sales.

The Dished End Company, which specialises in dished end manufacturing, had another good year of growth. It produces various types of dished ends, from 0.4m to 5.5m in diameter and to thickness ranging from 4mm to 50mm. It also offers the pressing and flanging of small conical sections and a range of single pressed weld caps.

PRINCIPAL BRANDS: SPECIALISED STEEL

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

ENGINEERING CONSUMABLES

SOURCE OF PRODUCTS

South Africa	39%	Asia	9%
Germany	20%	North America	3%
Europe – other	14%	Other	2%
China	13%		

Africa

Although it was yet another tough year for us in Africa, we have managed to show positive growth in our African sales in general. Awareness among our personnel of the markets available on the continent continues to increase and we are cognizant 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. On the other hand, our experience is that doing business in African countries is expensive, complex and involves considerable risks, not least of which is getting paid by your customer and then being able to remit funds from the country concerned. While growth is projected to average about 6% in non-resource-intensive countries, the number of mining projects throughout Africa is still stagnant. Nevertheless, a number of junior miners still see opportunities in sub-Saharan Africa.

Most of our growth in export sales has been from southern and east African markets. Hudaco Trading Kenya, initially a joint initiative by Elvey Security Technologies, MiRO and Global Communications, continues to gain traction, albeit slowly. Our local presence has resulted in growth in sales to customers in Kenya, Uganda and Tanzania. More Hudaco businesses are now participating in the Kenya initiative so an increased presence and operational expansion should lead to good returns from east Africa in the next few years.

Black economic empowerment

During 2019, the group was again audited by independent verification bodies. Unfortunately Hudaco Trading dropped one level and achieved a level 4 BEE rating, mainly as a result of its preferential procurement score. This status is still 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.

While it is difficult to quantify, we are of the opinion that our BEE 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.

The restructuring of the BEE trusts was completed during 2019 and new trust deeds were adopted, which are in compliance with the BEE Codes for broad-based schemes. 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 BEE Codes.

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.

Sabelo Mkhwanazi, an MBA graduate who also holds diplomas in chemical and electrical engineering, serves as Hudaco's group SHEQ (safety, health, environmental and quality) manager. He reports directly to Mike Allnutt, the senior executive responsible for SHEQ within Hudaco.

During the past year he worked closely with the group's businesses towards ensuring:

- the implementation of renewable energy project initiatives;
- adherence to environmental legislation, standards, frameworks and codes;
- the identification, evaluation and mitigation of environmental risks within the group; and
- the implementation of environmental audits.

To monitor, *inter alia*, progress and compliance with these initiatives, a SHEQ specialist will be added to the group audit team during 2020.

Our businesses generally operate warehouses and branch networks and only a few are involved in manufacturing. The JSE has classified Hudaco as having an overall medium environmental impact. However, we believe that Hudaco has a low environmental impact and that our choice of suppliers and their locations have important consequences.

Except where there is potentially an issue, we do not screen new businesses for their environmental and social performance, nor do we formally assess suppliers. However, all of our businesses are required to be certified against environmental, health and safety, quality and social management systems for internal risk management – respectively, the ISO 14001, OHSAS 18001 (conversion to ISO 45001) and ISO 9001 standards. When we do acquire businesses without these certifications, we put in place a programme to ensure that they obtain the accreditation within an appropriate timeframe.

During the year under review the Hudaco businesses had demonstrated acceptable environmental awareness and compliance with relevant legislation.

Owing to our comparatively low purchases from global suppliers as a proportion to their total sales, our ability to influence their manufacturing methods is negligible. For example, our total annual Makita power tools purchases are approximately two days' production from Makita's factories globally. Rather, environmental and social performance of suppliers is driven by the largest markets which they supply (such as the EU and the USA). As these markets tend to be progressive leaders in the environmental and social landscape, they do have much more influence on the production standards of our suppliers than we do.

Most of our brands are manufactured according to the stringent environment standards of Japan and Europe, which generally exceed the requirements of the countries where their products are used (eg the relatively poor South African emission standards on diesel engines).

In those instances where we source unbranded products directly from manufacturers, we visit the factories concerned and assess informally whether there are any evident reasons, such as inappropriate labour practices or pollution, why we should not support that particular supplier.

Similarly, there is limited opportunity for us to develop post-consumer collection, recycling or recovery of our used products.

REVIEW OF OPERATIONS continued

Generally, our products are either serviceable (as in the case of diesel engines or power tools) or are disposed of post-use by our customers (as in the case of filters and hoses). Certain of our products contain hazardous components such as electronic circuit boards, but volumes are too small to formalise collection, recycling or disposal systems. Metal components from power tools for example are sent for recycling and contaminated water from diesel engine workshops is treated prior to disposal.

As mentioned in our previous integrated reports, and based on the fact that Hudaco's ability to influence change is minimal, our efforts regarding supply chain sustainability will be limited to information gathering alone, followed by a determination as to where and how interventions may be possible and productive.

Climate change is a global concern and as importers we understand that our products generally travel long distances before they eventually reach our customers. This is a consequence of our business model and our geographic location at the southern tip of Africa. We aim to achieve economies of scale by scheduling orders efficiently and streamlining our logistics operations, thus minimising our carbon footprint. During 2020 we will also be undertaking a carbon footprint assessment with a view of formulating a carbon management plan that aligns with our overall business strategy and achieving the following goals:

- setting of emission goals against which Hudaco can be measured;
- increasing operational efficiency and reducing operating costs;
- implementation of carbon management programmes across all the Hudaco businesses;
- enhancing the level of data accuracy throughout Hudaco; and
- building a database of non-financial data which will feed the carbon footprint calculations and sustainability reporting.

Notwithstanding the factors described above impeding Hudaco's ability to substantially change our suppliers' environmental and social performance, the board continues to ensure that the company meets its responsibilities in relation to its environmental impacts.

As previously reported, a social and ethics committee has been established in each business. These committees are required to convene at least twice a year to discuss activities and projects that will enhance their respective business' environmental performance and initiatives.

During 2019 some of Hudaco's businesses reduced their energy consumption (and in some instances implemented renewable energy projects) by means of:

- changing from conventional lighting to LED lighting technologies;
- installing transparent roof sheeting in offices, warehouses and workshops and thereby improving the natural light and lux efficiency;
- utilising automated switching devices such as motion lighting sensors and electronic timing devices; and
- implementing energy management awareness programmes requiring employees to switch off their air conditioners, lights and other electrical systems when vacating offices.

Powermite, a manufacturer of leading branded products such as Ampco industrial plugs and sockets as well as Proof mining connectors achieved resounding energy savings of approximately 18% per month after converting all conventional lighting to LED energy savings fittings.

Bearings International installed a large grid tie solar system at their head office premises in Boksburg. Designed and installed by Specialised Battery Systems, the solar system works in conjunction with the main electricity grid and will be reducing the kWh demand on the energy supply grid. It is anticipated that Bearings International will be saving approximately 50% of its current electricity usage. Some group businesses have also installed solar powered standalone outdoor light fittings.

Other initiatives undertaken by the group businesses included the identification and management of waste streams as some of our businesses have waste streams from processes conducted. Collections are sub-contracted to accredited recycling companies and include recyclable material such as packaging and scrap metals.

For office paper and cardboard, a shredding project initiative is currently being finalised. It is anticipated to reduce waste disposal to landfill including the re-use of waste material.

Additional types of materials have been identified for recycling and initiatives will be implemented within those businesses where materials have been classified into specific waste streams.

OVERALL ISO 14001 CERTIFICATION PROGRESS

Certification achieved 69%
Certification in progress 31%

ELECTRICITY KWH SPLIT BY REPORTING SEGMENTS

Engineering consumables 77%
Consumer-related products 23%

Transparent roof sheeting at Powermite

Grid tie solar system installation at Bearings International

Hudaco businesses are working together to save costs and reduce their environmental impact.

Bearings International has installed a large grid tie solar system at its head office in Boksburg. Designed and installed by Specialised Battery Systems, the 90 kilowatt solar system consists of 270 Jinko 335W solar modules and three Fronius 27kVA 3 phase inverters.

A grid tie solar system works in parallel with the main electricity supply or grid. The inverters convert the DC power produced by the solar modules directly into AC power and supply it straight to the load. This reduces consumption from the grid. If the solar system produces less power than required, the grid will supply the shortfall. This type of system is aimed at reducing costs and emissions. A grid tie solar system works in conjunction with the grid and is not a load shedding solution unless used in tandem with generator or battery support.

The system at Bearings International has a peak output of 80kWp (kilowatt peak) and will provide around 1.4MWh (megawatt hours) of power annually, about 50% of the business' current usage. The system will also be integrated with the existing generator so it will be able to supply power during load shedding, thereby reducing generator running costs.

In addition, the system will lead to carbon footprint reduction of approximately 99 tons per year.

With electricity and carbon tax savings, as well as an accelerated depreciation allowance, the system should pay for itself in well under two years.

ENVIRONMENTAL POLICY STATEMENT

HUDACO is committed to:

- implementing, maintaining and regularly reviewing the ISO 14001:2015 environmental management system at all businesses.
- complying with applicable environmental legislation from a national, provincial and municipal perspective.
- openly communicating the company's environmental policy and performance to all employees.
- ensuring businesses conduct internal audits and inspections to monitor compliance with the environmental ISO 14001:2015 standard.
- ensuring businesses investigate any environmental incidents to determine the causes and to take corrective action to prevent recurrences.
- ensuring businesses identify and implement mitigating measures for environmental aspects and impacts.
- ensuring management provides sufficient resources to mitigate identified aspects and impacts.
- ensuring the businesses identify and provide relevant environmental training and awareness.

ENVIRONMENTAL GOALS 2020 – 2022

2020

- All businesses acquired before 30 June 2018 to achieve ISO14001:2015 certification
- All businesses to initiate the 3R (Reduce, Recycle, Re-use) principles of waste
- Conduct a carbon footprint baseline analysis
- Reduce energy consumption by 10%
- Reduce waste to landfill by 10%
- Appoint a SHEQ specialist to the group audit team

2021

- Finalisation of the implementation of the 3R principles of waste
- Reduce waste to landfill by 20%
- Reduce energy consumption by 20%
- Carbon footprint reporting

2022

- Carbon footprint compliance

New battery manufacturing plant for Eternity Technologies

Eternity Technologies, which supplies batteries for electric materials-handling equipment such as electric forklift trucks, cleaning machines and access platforms, has recently opened an advanced state-of-the-art battery cell assembly and formation plant at its premises in Benoni. Previously, Eternity Technologies used to import its batteries from Eternity LLC in the United Arab Emirates but now it manufactures them here in South Africa under licence from Eternity LLC, to the highest approved standards. The Eternity Technologies plant, which was commissioned in August 2019 and can manufacture about 200 000 2V cells per annum, has the latest high technology manufacturing equipment from Germany, Austria, Italy, the US and the UK.

Not only does the plant help to create local jobs and contribute to the South African economy but it is also cost efficient and assists in reducing the carbon footprint and helps preserve the environment. Importing batteries fully assembled is expensive and inefficient because they are both heavy and classified as hazardous, so may not be stacked on board a ship. Now, Eternity has to import only about 60% of the components and they may be stacked on board a ship. The balance of the components are made locally in the formation plant and assembled on site. This also means that the business can reduce stock holding because it can now produce products for customers to specification, as and when needed. The market focus remains on surface motive power, but Eternity now also has the opportunity to supply batteries to the mining industry.

As the leading forklift battery supplier to the local retail market, Eternity Technologies offers a full lead-acid battery monitoring and maintenance facility management service to some of South Africa's largest retailers. This includes monitoring the electrolyte levels of the batteries, temperature changes, and charge and discharge cycles to prolong battery life, using internationally developed battery monitoring software.

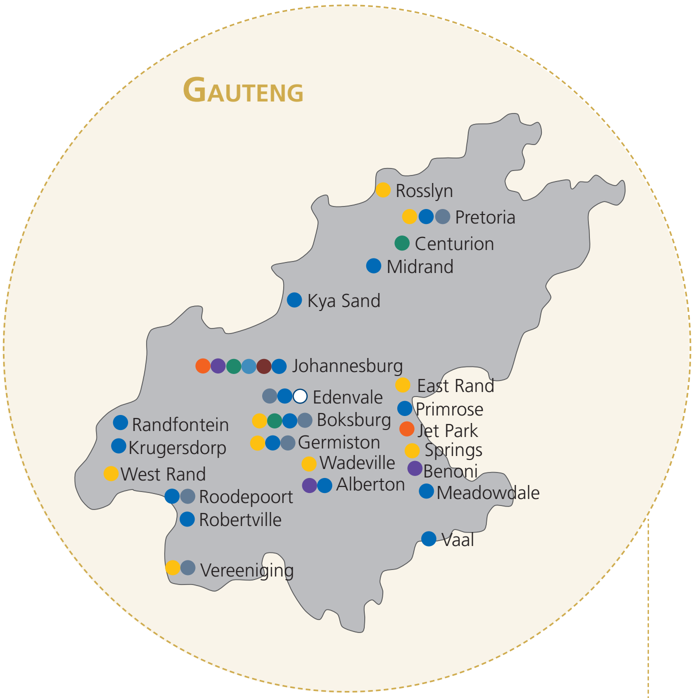
Innovative cable theft alert system

A cable theft monitoring and alert system, together with associated software, has been designed in-house and manufactured locally by Commercial ICT, part of the Elvey group. This was achieved off the back of many years of industry experience and by integrating technologies from three disciplines – electrical, IT networking and electronic security – into a single product. The system, which is IoT (Internet of Things) based and works in conjunction with Commercial ICT's superior wireless communication system by Permaconn, allows power cables and electrical infrastructure to be monitored remotely in existing security control rooms. If there is any interference with the cables, the technology alerts the control room immediately. The product has been extremely well received both locally and internationally since it was launched in early 2019 and has tremendous scope in environments susceptible to cable theft.

GEOGRAPHIC FOOTPRINT

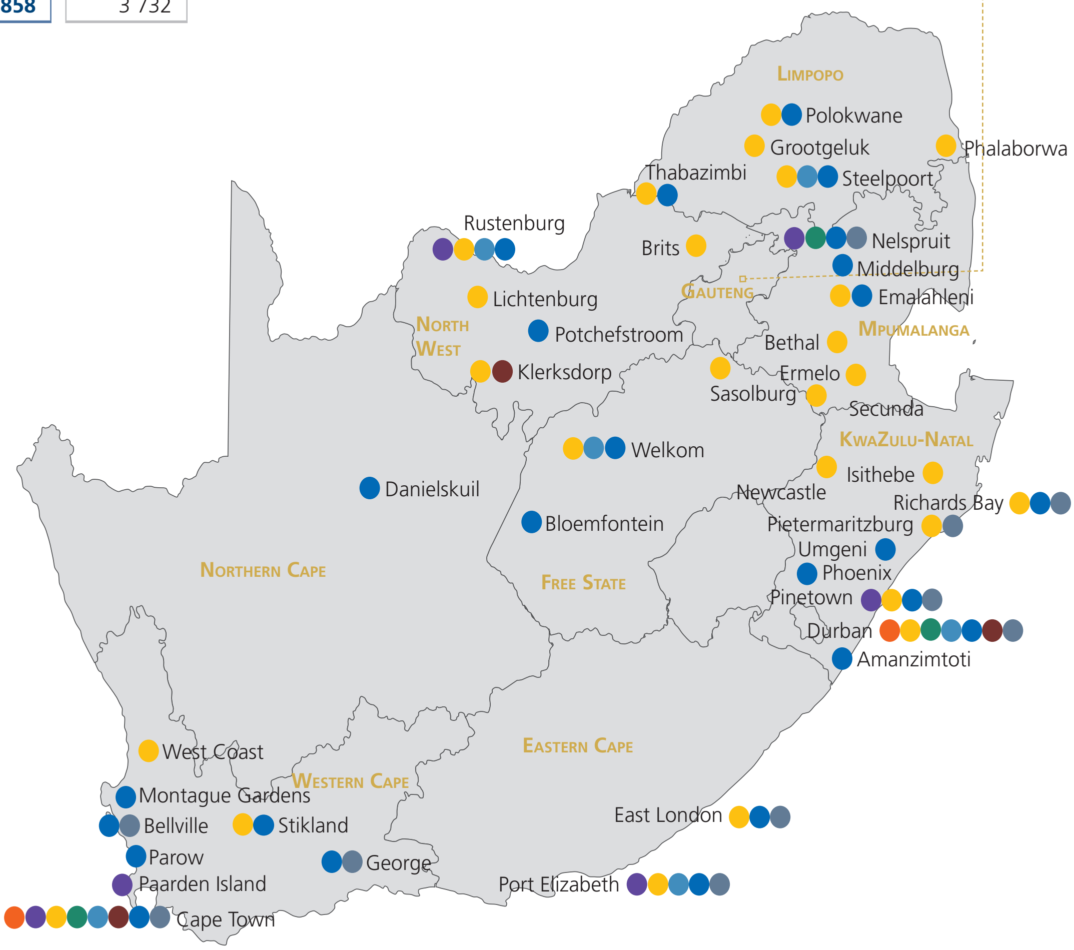
LOCATION OF BUSINESSES

Number of permanent employees	2019	2018
Gauteng	**2 564**	2 463
Western Cape	**499**	498
KwaZulu-Natal	**428**	407
Eastern Cape	**80**	85
Mpumalanga	**80**	75
North West	**79**	70
Limpopo	**54**	48
Free State	**43**	55
Northern Cape	**1**	3
Namibia	**9**	8
UK	**7**	7
Kenya	**7**	6
Zambia	**4**	4
USA	**3**	3
	3 858	3 732



KEY

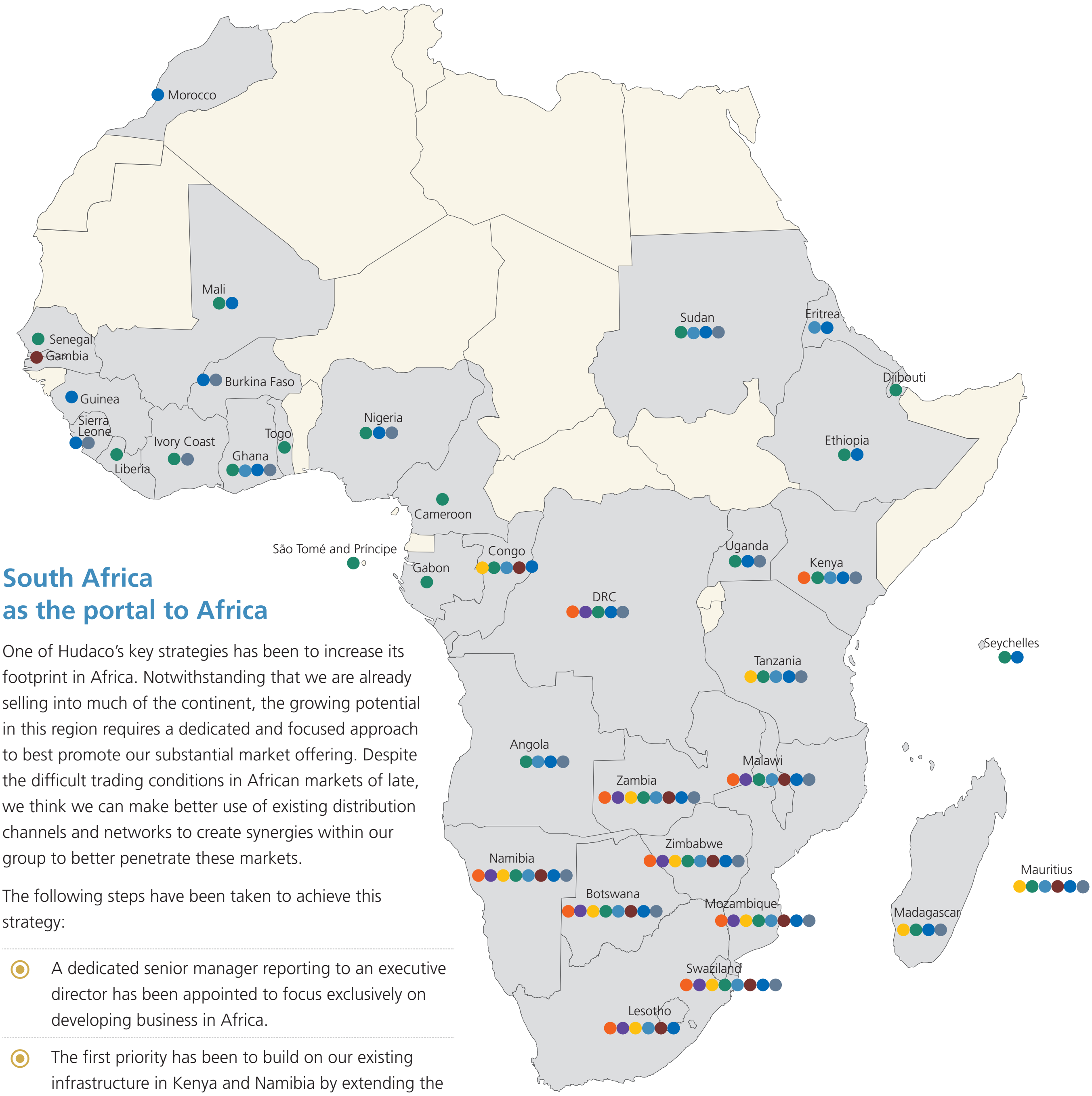
- AUTOMOTIVE
- BATTERIES
- BEARINGS
- COMMUNICATIONS
- DIESEL ENGINES
- HEAD OFFICE
- POWER TOOLS
- POWER TRANSMISSION
- SECURITY



Hudaco

BUSINESS WITH AFRICA – 2019

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.



KEY

- AUTOMOTIVE
- BATTERIES
- BEARINGS
- COMMUNICATIONS
- DIESEL ENGINES
- POWER TOOLS
- POWER TRANSMISSION
- SECURITY

South Africa as the portal to Africa

One of Hudaco's key strategies has been to increase its footprint in Africa. Notwithstanding that we are already selling into much of the continent, the growing potential in this region requires a dedicated and focused approach to best promote our substantial market offering. Despite the difficult trading conditions in African markets of late, we think 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:

- A dedicated senior manager reporting to an executive director has been appointed to focus exclusively on developing business in Africa.
- 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.

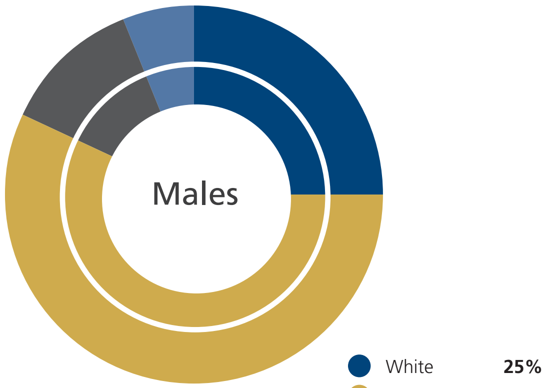
EMPLOYEE REPORT

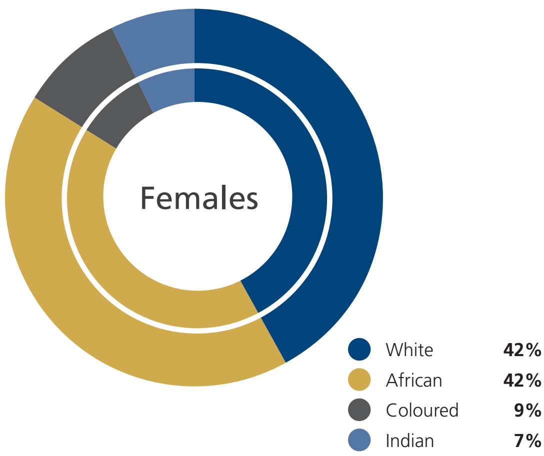
Our greatest asset, and key to success, is our people and Hudaco believes that investing in them contributes to economic and business growth. Many of the business-critical skills that we require are in short supply and we recognise the importance of attracting, developing, rewarding and retaining the best people to deliver on our business goals.

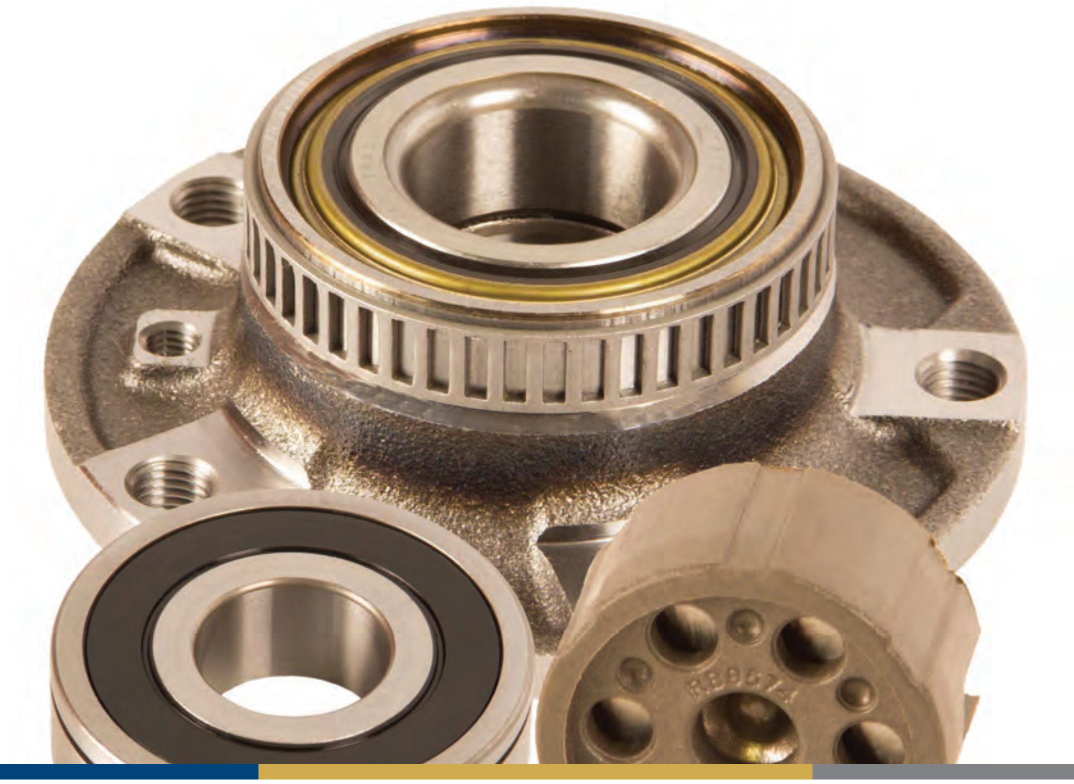
Our key focus areas include attracting and developing core skills, implementing sustainable leadership development and succession plan strategies, achieving transformation and maintaining our B-BBEE rating. However, we also continue to manage other areas important to human capital success, including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

Workforce profile

	2019	2018
Total workforce	**3 999**	4 074
Less: Non-permanent employees	**141**	342
Total permanent workforce	**3 858**	3 732
Racial and gender profile		
White males	**737**	773
White females	**404**	419
African, Indian and Coloured males	**2 154**	1 988
African, Indian and Coloured females	**563**	552
Occupational level profile		
Top and senior management	**109**	121
Other management	**1 566**	1 547
Non-management	**2 183**	2 064
Management profile by gender		
Females	**461**	465
Males	**1 214**	1 203
Management profile by race		
White	**905**	959
African, Indian and Coloured	**770**	709
Non-management profile by gender		
Females	**506**	506
Males	**1 677**	1 558
Non-management profile by race		
White	**236**	233
African, Indian and Coloured	**1 947**	1 831
Disability profile by gender		
Female	**6**	20
Male	**21**	21
Disability profile by race		
White	**5**	5
African, Indian and Coloured	**22**	36







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.

Talent management

Although members of senior management are remunerated primarily according to financial performance, they are also responsible for people management. Annual performance reviews include a rating of their achievements in the following:

- ability to appreciate and articulate the broad picture of the business relative to the sector within which they operate, as well as within Hudaco;
- achievement of budgets, plans and agreed personal objectives;
- ability to attract and retain star employees; and
- communication ability, both oral and written.

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.

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 and consultation with a view to identifying staff members with potential for growth.

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 losing talent to competitors.

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 is receiving significant priority.

EMPLOYEE REPORT continued

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 110 or so people – are monitored at exco 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.
- BEE has been incorporated into succession planning. The retirement process offers an opportunity to identify the date when positions will become vacant and allows time to develop black candidates at middle-management level and below, for these senior management posts.
- Hudaco also concentrates on a better gender balance across its workforce. Recruitment and development processes throughout the organisation focus on female as well as black recruits to ensure a balanced "pipeline of talent".

Skills development and training

Successfully taking advantage of opportunities for growth, both acquisitive and organic, depends on the quality of our people. Given the shortage of technical and engineering skills in general in South Africa and 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. Most members of the senior management team have attended master of business administration (MBA) and other master's degree courses at various universities. During 2019, four senior managers of whom three were black, were sponsored by the group to study MBA. Three of the four completed their MBA studies in 2019.
- 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, in 2018 the group again conducted a future leaders development programme (FLDP) for junior 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. The 2019 FLDP had 18 participants, of whom 13 were black.

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 learnership programme content includes financial administration, human resources administration, inventory management, end-user computing and warehousing courses, as well as technical product training.

Six of our businesses run SETA accredited apprenticeship programmes in terms of which participants are trained in various trades. An additional 112 abled learners and 40 learners with disabilities were recruited for learnership programmes run by the Maharishi Institute, ORT SA and Afrika Tikkun.

Additionally, Hudaco provides human resources support by deploying some of the engineering trainees to support the mechanical engineering laboratory of the University of Johannesburg with the objective of maintaining the international standard of qualifications awarded by its mechanical engineering department. Students of the university are offered practical training at businesses in the group, and some subsequently find full-time employment in the group. Hudaco also provides financial support to the Thuthuka Bursary Fund, which develops and trains black chartered accountants.

During the year under review, group expenditure on employee training amounted to approximately R8.7 million (2018: R11.8 million).

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 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.

In 2012, Hudaco introduced an engineering graduate development programme with the aim of addressing skills shortages in the technical side of our business. All of the 21 participants are black. Every effort is made to absorb the graduates into our employ as they qualify. Our target is to have at least 20 participants in this programme on an annual basis.

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

Growing our own talent 2019

Succession planning

A formal performance management and succession policy is in place. We continued our executive development programme where we employ five young black MBA's and give them a broad range of experience across the group with a view to ultimately integrating them into the management teams of specific businesses as opportunities arise. We continued to focus on communicating our succession plans with senior management during the year and ensuring that our training and development efforts and employment equity plans are aligned.

Corporate ethics and governance

The cost of compliance in corporate South Africa is increasing every year. The introduction of new legislation, new reporting standards, listings requirements, BEE, environmental, social and governance issues, etc are all potential distractions from the core business of running profitable businesses.

While compliance with all these requirements is compulsory, it is common for the seller of a business to be discouraged by too much corporate governance red tape. As former owners of private businesses themselves, many members of the executive of Hudaco are sensitive to these concerns. We therefore try to ensure that only the essentials are dealt with at business unit level and that, as far as possible, compliance is head office driven.

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

Code of ethics

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

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

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

Organised labour and employee rights

There are 11 trade unions that between them have 672 (2018: 648) 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 and collective bargaining.

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:

EMPLOYEE REPORT continued

- **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. As from 1 January 2019, employees earning below the compulsory threshold have an option to join the group's negotiated Primary Care medical scheme.
- **Formula-based short-term incentives:** This level of remuneration applies to the top 110 or so senior managers in the group. For those employed in business units, this comprises two roughly equal annually measured performance criteria: RONA, 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 who are three years or more from retirement. 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 an equal number of shares on the open market for the benefit of the executive. There are currently 15 participants on this scheme.

58

Further information on remuneration is set out in the remuneration report commencing on page 58.

Retirement funds

Employees who do not belong to an industry fund (ie unionised staff) contribute to the Evergreen umbrella defined contribution pension and provident funds 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 and the range of options will be expanded during 2020.

Health and safety

Health and safety is important in that we need to protect those assets, ie our people, in whom we have invested so heavily and upon whom we depend for our success. More importantly, it is an integral part of responsible employment practice.

Our sales and managerial teams spend many hours each day on the road and in factories, mines, workshops, etc and hence place themselves in situations where their health and, most importantly, their safety requires constant attention. In accordance with the OHS Act, Hudaco businesses have health and safety committees, which meet regularly to discuss OHS issues. These committees comprise health and safety representatives, people trained in first aid and fire team members. Comprehensive safety training is conducted alongside measures such as fire drills and evacuation procedures, buddy support systems, driver training, regular servicing and inspection of machinery, hazard reduction and safety awareness signage.

The Hudaco group has a life-threatening diseases policy, as well as a separate HIV/Aids policy, the purpose of which is to:

- ensure a working environment where employees living with HIV/Aids are protected from unfair discrimination and stigmatisation and are treated with dignity, compassion and respect;
- ensure stability and productivity in the workplace;
- encourage disclosure by HIV/Aids-infected employees without fear of victimisation or prejudice; and
- empower employees to prevent the spread of HIV and Aids through training and education.

Unfortunately we had one fatality during 2019. One of our businesses' drivers was involved in a multi-vehicle accident on the N17 highway and died as a result of his injuries. Hudaco encourages their businesses to send their drivers on advanced driver courses, where required.

Our health and safety record shows an improvement to 70 disabling injuries (2018: 93) and a disabling injury frequency rate (DIFR) per 200 000 hours worked of 2.25 (2018: 2.57).

SHEQ systems

All business units are required to be certified against the applicable standards for environmental, health and safety, quality and social risk management, ie ISO 14001, OHSAS 18001 and ISO 9001.

Most of our businesses have already achieved certification against these standards. No incidences of non-compliance, prosecution or fines relating to environmental performance or health and safety were reported during 2019.

Wellness

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; 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 KaeloXelus). This insurance covers members who experience shortfalls on their hospital 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, 1 315 employees on the medical scheme during the year to November 2019. 30 employees are curently on Primary Care. Annual contributions (excluding Vitality contributions) totalled R75.6 million, of which R31.1 million was covered by the Hudaco subsidy, which was limited to 50% of Classic Priority (top senior executives are remunerated on total cost-to-company and were not included in the subsidy amount). Gap insurance cost a further R2.5 million.

With the support of Alexander Forbes Health, Hudaco ran a total of 28 employee wellness events at our locations in Gauteng, Durban and Cape Town. Employees, irrespective of whether they were covered by medical aid or not, were offered, at no cost to themselves:

- 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.

All businesses that participate in the wellness programme receive a report indicating certain risk factors within the organisation. In total, 1 121 (2018: 1 130) Hudaco employees of whom 646 (2018: 660) are not on medical aid, took advantage of the opportunity and had a health risk assessment, while 754 (2018: 697) employees checked their HIV status. Altogether, 5 (2018: 20) employees tested positive for HIV, representing 0.7% of the employees tested, a decrease of 2% from the previous year. 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% have a waist circumference outside of the normal range. The number of staff with BMI outside of normal range has increased compared to the 30% in 2018. 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 2018. 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 have a vitality age greater than their actual age.

The wellness days provided 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 have been 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.

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 R4.7 million (2018: R3.7 million) on various enterprise and supplier development initiatives during its 2019 financial year. Some of these included the following:

- Offering interest-free loans to qualifying black owned businesses;
- Global Communications supported SMMEs in business development and marketing strategies to grow their business;
- 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;
- Dosco also continued to support a mobile kitchen kiosk canteen facility owned by a black woman; and
- Hudaco head office supported the establishment of a car wash and restaurant in Tembisa.

EMPLOYEE REPORT continued

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 2019, Hudaco donated approximately R2.5 million to a variety of socio-economic development initiatives.

Hudaco supports Madiba legacy

Hudaco, in partnership with Afrika Tikkun, The Almond Tree and ORT SA, maintained a tradition of honouring Nelson Mandela Day.

This year, Hudaco's employees visited Benoni, Diepsloot, Alexandra, the inner city of Johannesburg, Orange Farm and Mfuleni (Cape Town) where they handed out food parcels and toys, performed mock interviews for the Career Development Programme students and cooked a meal for more than 300 children in the Early Childhood Development Centre. Hudaco also contributed R250 000 towards this initiative and approximately 114 Hudaco volunteers participated.

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 2019, 77 (2018: 96) students were granted bursaries, of whom 50 were women. Of these, 12 completed their qualifications. For the 2020 academic year, 88 students have been identified for bursaries, of whom 50 are women.

Hudaco executive development programme

During 2014, Hudaco implemented 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 2019 participants are all engineers and hold MBA qualifications.

BEE Trusts

During 2019 the Hudaco Trading BEE ownership trusts adopted new trust deeds, with all black South African employees of Hudaco Trading with more than three years' service as beneficiaries. This means that black employees now have 15% effective ownership in Hudaco Trading, the group's main operating company. In February 2020, the trustees resolved to distribute R6 million to approximately 1 800 beneficiaries.

EMPLOYEE REPORT continued

Bursary students

Mzwandile Mkhize

My father works for Joseph Grieveson and I am sincerely honoured to have been one of the recipients of a Hudaco bursary during my academic life at the University of Kwa-Zulu Natal from 2016 to 2019.

I am so grateful for the opportunity that was given to me as I was the first to study at a tertiary level from my family. Having been granted this opportunity, which I grabbed with both my hands, has helped me to carry on with my studies and made my academic progress very smooth. I had struggled back in 2015 while I was doing Bachelor of Social Sciences. Coming from a less fortune family, I was really stressed during my first year at UKZN because of a debt that I was expected to pay before I could register for next level of study. I studied the whole year without ever seeing my results. Thanks to the Hudaco family granting me a scholarship to study further, I then started a new path in nursing in 2016 and from there moving forward I have never struggled with historic debts and have been able to see my results semester to semester.

My eternal heartfelt words of gratitude to Hudaco for being with me for the past four years. I have completed my Bachelor of Nursing degree with the help of your scholarship and I have now gained a step up towards a world of responsibility as breadwinner and a role model to my younger siblings. If it wasn't for the Hudaco bursary I would not be where I am today, a registered nurse doing my community service and looking forward to a brighter future ahead. Hudaco lifted me up to a stage where I can further my career from here onwards.

No words will ever be enough to express my appreciation to Hudaco. Once again, thank you so much for your thoughtful and generous gift.

Yours sincerely

Mzwandile Mkhize

Urisha Naidoo

My mother works at Belting Supply Services and as a recipient of a Hudaco Bursary for 2017 to 2019, I would like to express my sincerest gratitude. It was an honour to be chosen for this opportunity. Receiving this bursary has truly allowed me to fulfil my dream of becoming a successful microbiologist as I have completed my BSc degree in microbiology. Not having to stress about funding largely impacted my university life as I could focus fully on my studies.

I am currently completing my honours in Microbiology at Rhodes University. Without the Hudaco bursary, I would not be where I am today studying for my post graduate degree.

Thank you so much for this life-changing opportunity.

Sincerely

Urisha Naidoo

Saith Ndlovu

Thank you for embracing me with the blissful accolade of a Hudaco Bursary for 2015 to 2019. I am now a University of Johannesburg alumnus and I hold a Diploma in Logistics Management. I will again be graduating for my Advanced Diploma in Logistics this April.

I was granted an opportunity to work as a logistics clerk at Abes Technoseal, a division of Hudaco Trading. Having your organisation to fund me has helped me to accumulate a plenitude of skills and a great code of ethics that l use extensively in my daily activities at work. Logistics plays an influential role in supply chain, the national economy and in increasing the competitive power of a corporation. Therefore I am interested in how processes are coordinated and also in learning new ways to improve logistics and supply chain processes. Thanks to Hudaco I am a step closer to fulfilling my educational and career goals.

I cannot express my gratitude enough and I hope one day l will be able to assist other students.

Yours sincerely

Saith Ndlovu

Rotondwa Maboko

I was thrilled to learn of my selection for the honour of a Hudaco bursary and I am deeply appreciative of your support. I am now a mechanical technician at Bosworth and am awaiting graduation for my BTech degree. The Hudaco bursary meant that I was able to concentrate on what was important for me and my education without having to worry about finance. Your generosity has allowed me to progress one step closer to my goal and has inspired me to help others by giving back to the community. I hope one day I will be able to help other students achieve their goals just as you have helped me.

Yours truly

Rotondwa Maboko

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 remuneration committee (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.

Employee compensation is the single largest component of the group's operating expenses. During the 2019 financial year, employees received approximately 58% 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:

29

	2019	2018
Total number of employees	**3 999**	4 074
Total compensation to employees (Rm)	**1 133**	1 198
Total compensation as a % of revenue	**17**	19

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

At executive director, executive committee and top senior management level – consisting of 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 (approximately 670 people) is determined collectively, or based on sector norms. Hudaco endeavours to maintain positive day-to-day working relationships with unionised employees and to balance their right to industrial action with the right of the group to conduct its activities.

Internal and external factors that influence remuneration

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

Where considered necessary, the committee seeks the advice of experts 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. During 2019, the committee obtained assurance on outliers on both sides of the salary increase scale with a view to ensuring that no prejudice or favouritism took place in the process. The committee also received confirmation that there are no instances of non-compliance with minimum wage requirements.

Most recent results of voting

At the annual general meeting held on 19 March 2019, 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 85.4% of shareholders who voted, considerably up from 72.6% in 2018. The implementation report received 85.6% approval, slightly down on the 86.3% in 2018.

The chief executive and the group financial director held various discussions with key shareholders prior to the 2018 annual general meeting. In general, shareholders expressed concern about the 4 million shares that had been available for issue under all remuneration schemes that had been approved by shareholders in 2011. This represented 12.6% of the company's issued share capital, excluding treasury shares. In their Proxy Analysis & Benchmark Policy Voting Recommendations in 2018, citing a similar reason, Institutional Shareholder Services Inc (ISS) recommended that shareholders vote against the 2018 Hudaco remuneration policy. In response to these concerns, Hudaco proposed that a resolution be passed (and it was passed) at the 2019 annual general meeting to reduce the number of shares available for issue under the remuneration schemes to 5% of the issued share capital excluding treasury shares. This appears to have allayed the concerns of the key shareholders and of ISS, which recommended in 2019 that shareholders vote in favour of the remuneration policy. This proved to be a constructive process of engagement with a pleasing outcome.

Key areas of focus and key decisions

During the year the committee focused on:

- providing general salary increase guidelines;
- conducting performance appraisals for the CEO, financial director, 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, including any amounts subject to clawback on under-performance;
- approval of performance arrangements 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;
- adopting a malus and clawback policy; and
- reviewing the remuneration report for publication in the 2019 integrated report to ensure that it complied with King IV principles on remuneration and the JSE Listings Requirements.

As planned, the committee assessed the variable pay performance conditions and the efficacy of the share appreciation bonus scheme in 2019 and decided that, in principle, it should remain substantially unchanged. The committee was, however, concerned about the efficacy of the incentives in economic conditions such as those experienced in the past few years where meaningful growth has been almost impossible to achieve and where just holding earnings flat and generating cash to repay debt has become a satisfactory achievement.

To encourage management in these circumstances, a R1 million once-off incentive was offered to the chief executive in 2019 to drive a reduction in the net investment in working capital of 10 days' sales. This he achieved in full, which resulted in a substantial release of cash. Similar incentives within their areas of responsibility of up to R100 000 each were offered to certain other executives to achieve cohesion in the drive to reduce working capital. Also, on a trial basis, the committee will introduce an additional incentive for the 2020 financial year, offered to the three executive directors, of 10% of their fixed guaranteed remuneration directly linked to increasing the intrinsic value of the company.

In June 2019, the committee approved average annual salary increases of 6% for the general body of employees and an average of 5.2% for the senior executives.

The short-term bonuses for the senior executives (R18 million in respect of the 2019 financial year compared with R12 million in 2018) are largely formula-driven on criteria set at the beginning of the financial year. To the extent that the committee did exercise its discretion in awarding short-term bonuses, it did so taking into account the solid performance of the group and most of its businesses in very difficult trading conditions.

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 two 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 put its remuneration policy, as well as the associated implementation report contained in the remuneration report, to two separate non-binding advisory votes and will offer to engage with the shareholders as necessary in the event of any significant dissenting votes on either.
- The principle of fair and responsible remuneration, and the pay gap in particular, will be considered again during 2020.

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 and will be repeated in June 2020. The committee satisfied itself that the consultants were independent and objective. 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% has been proposed for 2020 and it is intended that benchmarking be conducted again for 2021.

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 2019 financial year were achieved.

MR Thompson
Chairman of the remuneration committee

30 January 2020

REMUNERATION REPORT continued

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 acceptable 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 but taking into account business performance and individual contributions;
- 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 the general body of employees are generally greater than those awarded to the executive and senior management tier.

Determination of performance incentives

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

Overview of remuneration

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

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

General employees' remuneration

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

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

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

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

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

Executive and senior management remuneration

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

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 malus and clawback provisions.	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 and clawback provisions apply, whereby awards may be forfeited under certain circumstances.

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

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

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

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

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. Malus and clawback provisions apply.

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 2020, no ROE bonus will be paid if ROE is below 14% and the primary target is 18%. As a stretch target, a cap will be reached at ROE of 24%. 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 2019, in respect of the chief executive up to a maximum of 152% and the financial director up to a maximum of 125% of fixed remuneration (if the stretch target is met) is paid as performance-related remuneration in the year in which it is earned. Half of the payment for achieving comparable earnings per share growth above 15% is paid in the year in which it is earned whilst the other half is carried forward and paid the following year but will be "clawed-back" in full if 2020 ceps are not more than 95% of 2019 ceps. The claw-back is reduced on a straight line basis until 2019 ceps is at least matched. For top senior managers the percentage is up to 78% of guaranteed remuneration – otherwise the same rules apply, with the claw-back pertaining to operating profit.

A once-off offer of an incentive was made to the chief executive to drive a reduction in the investment in working capital in 2019 and 2020. The incentive was limited to R1 million and would reach that maximum at a reduction of 10 days' sales invested in working capital.

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" on page 62.

62

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". Malus and clawback provisions apply.

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 cancelled.

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:

- Up to 70% is dependent on the achievement of an average return on equity of 18% per annum from the date of award to the vesting date; and
- Up to 30% 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 for each award based on conditions prevailing at the time it is made and the requirement is not changed thereafter.

Share appreciation rights are awarded to executive directors, other executives, senior managers and the level of employees directly below the senior managers (approximately 215 people).

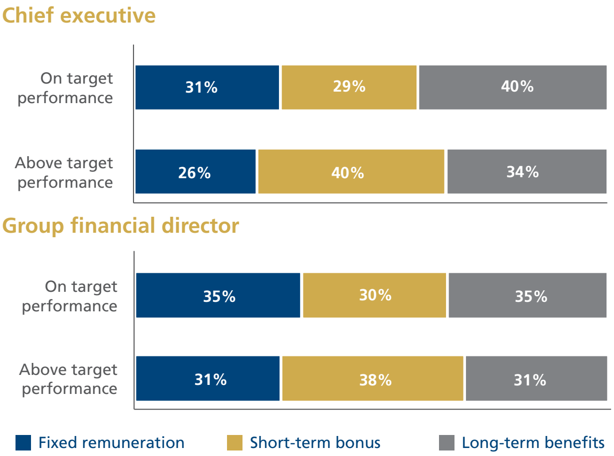
Retention-based share matching rights

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 was introduced 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 value of the shares by acquiring an equal number of shares on the open market for the benefit of the participant, at the end of three years.

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, rather than as a performance incentive scheme, for those other participants.

Comprehensive remuneration of the chief executive and group financial director

The breakdown of the normal potential comprehensive remuneration exclude special or once-off incentives of the chief executive and group financial director can be depicted graphically as follows:



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 proposed and approved at the 2019 annual general meeting were set at or close to the 50th percentile. For the period April 2020 to March 2021, the proposal to shareholders is an increase of 5.5%, with the intention that benchmarking to market be conducted again for the year commencing April 2021.

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.

There was no deviation from the remuneration policy and the committee is satisfied that the remuneration policy achieved its objectives in the 2019 financial year.

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 generally granted 5.2% increases on fixed guaranteed remuneration. Increases on fixed guaranteed remuneration averaging 6% were granted to the general body of employees within the group, with differentiation based on performance.

The committee obtained assurance that, on both sides of the salary review process for 2019, there was no indication of prejudice or favouritism and that any outliers were justified.

In 2019, 901 370 share appreciation rights were awarded to a total of 228 people. For the share appreciation rights awarded to 13 executive directors and top senior managers to vest, performance conditions must be met. Rights awarded to the other 215 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.

Executive directors' remuneration for the year ended 30 November 2019

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
2019	**5 405**	**705**	**203**	**5 760**	**12 073**	**8 586**	**20 659**
2018	5 067	660	190	3 000	8 917	6 883	15 800

Fixed guaranteed remuneration and benefits

Graham's total fixed cost-to-company remuneration increased by 5.5% on 1 July 2019 from R6 095 000 to R6 430 000. His position was externally benchmarked against companies with a similar size, complexity and geographical spread in 2018.

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 which amounted to R5 760 000 (2018: R3 000 000).

2019 Measure		Measure achieved 2019	Maximum bonus % available	Bonus % achieved
Measurement	**Target**			
Return on equity	Minimum – 14% Primary – 18% Stretch – 24%	17.4%	54%	37.4%
Increase in ceps	Primary – 10% Stretched – uncapped but subject to clawback	3.5%	73%	14.0%
Personal non-financial objectives			25%	22.5%
Total percentage of guaranteed fixed remuneration			152%	73.9%

A once-off further incentive was offered to Graham to drive a reduction in the investment in working capital in 2019. The incentive was limited to R1 million and would reach that maximum at a reduction of 10 days' sales invested in working capital. Graham earned the full incentive.

Performance-based share appreciation bonus scheme

In line with long-term incentive benchmarks for executive directors, on 26 July 2019 Graham was awarded 137 100 share appreciation bonus rights to be measured off a 10-day VWAP base of R117.27 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 2019 Graham did not exercise any share appreciation bonus rights. He forfeited 10 667 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
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**
2018											
	580 320		102 000		960	681 360					
	960	50.50			960		1 Jul 09	3	Jul 12 – Jul 18	n/a	n/a
	32 000	109.26				32 000	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	5 600
	90 000	125.24				90 000	10 Jul 15	3	Jul 18 – Jul 24	Partial	754
	115 860	102.93				115 860	20 Jul 16	3	Jul 19 – Jul 25	Partial	4 459
	105 000	125.10				105 000	24 Jul 17	3	Jul 20 – Jul 26	Too soon	1 775
		149.51	102 000			102 000	23 Jul 18	3	Jul 21 – Jul 27	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 2019 potential maximum short-term incentive bonus in Hudaco shares. Graham elected to make the maximum commitment of 50%, amounting to R4 632 200. To achieve this, on 7 February 2019 when the market price was R133.91 per share, Graham committed 34 591 shares to the scheme.

47 932 rights acquired by Graham in 2016 and held for three years in terms of the share matching scheme were released from their lock-up periods and between February and April 2019 the company purchased for Graham a matching 47 932 shares in the open market at a weighted average price of R133.79 per share, the consideration totalling R6 412 648.

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 29 March 2020.

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

		Year invested						
	At 30 November 2019	2019	At 30 November 2018	2018	2017	2016	2015
Balance at beginning of year	**77 504**		69 815		14 518	47 932	7 365
Granted during year	**34 591**	34 591	15 054	15 054			
Matured during year	**(47 932)**	(47 932)	(7 365)				(7 365)
Balance at end of year	**64 163**	(13 341)	77 504	15 054	14 518	47 932	

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
2019	**3 114**	**483**	**201**	**2 550**	**6 348**	**3 947**	**10 295**
2018	2 933	456	199	1 550	5 138	3 191	8 329

Fixed guaranteed remuneration and benefits

Clifford's total fixed cost-to-company remuneration increased by 5.5% on 1 July 2019 from R3 683 500 to R3 890 000. His position was externally benchmarked against companies with a similar size, complexity and geographical spread in 2018.

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 550 000 (2018: R1 550 000):

2019 Measure		Measure achieved 2019	Maximum bonus % available	Bonus % achieved
Measurement	**Target**			
Return on equity	Minimum – 14% Primary – 18% Stretch – 24%	17.4%	44%	28.9%
Increase in ceps	Primary – 10% Stretched – uncapped but subject to clawback	3.5%	56%	10.9%
Personal non-financial objectives			25%	22.5%
Total percentage of guaranteed fixed remuneration			125%	62.3%

A once-off further incentive was offered to Clifford to drive a reduction in the investment in working capital in 2019. The incentive was limited to R100 000 and would reach that maximum at a reduction of 10 days' sales invested in working capital. Clifford earned the full incentive.

Performance-based share appreciation bonus scheme

In line with long-term incentive benchmarks for executive directors, on 26 July 2019 Clifford was awarded 58 200 share appreciation bonus rights to be measured off a 10-day VWAP base of R117.27. Subject to the performance criteria, one-third of the allocation will vest three years from the allocation date with another third vesting at the end of year four and the balance at the end of year five.

On 12 July 2019 Clifford exercised 9 000 rights awarded in 2011 at a base price of R81.05, shortly before they reached final exercise date. These rights were exercised at a 10-day VWAP of R120.80, resulting in a gain, settled by the delivery of 2 961 Hudaco shares acquired by the company in the open market at R349 015. He forfeited 10 000 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
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**

	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
2018											
	329 047		43 000	29 000	1 387	341 660					
	1 387	50.50			1 387		1 Jul 09	3	Jul 12 – Jul 18	n/a	n/a
	20 000	68.09		20 000			7 Aug 10	3	Aug 13 – Aug 19	n/a	n/a
	27 000	81.05		9 000		18 000	13 Jul 11	3	Jul 14 – Jul 20	Assured	1 097
	30 000	109.26				30 000	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	1 990
	45 600	125.24				45 600	10 Jul 15	3	Jul 18 – Jul 24	Partial	382
	54 960	102.93				54 960	20 Jul 16	3	Jul 19 – Jul 25	Partial	2 115
	49 000	125.10				49 000	24 Jul 17	3	Jul 20 – Jul 26	Too soon	828
		149.51	43 000			43 000	23 Jul 18	3	Jul 21 – Jul 27	Too soon	Nil

Retention-based share matching scheme

In terms of Hudaco's retention-based share matching scheme, Clifford was entitled to make a three-year investment to the value of up to 50% of his 2019 potential maximum short-term incentive bonus in Hudaco shares. Clifford elected to make the maximum commitment of 50%, amounting to R2 302 188. To achieve this, on 7 February 2019 when the market price was R133.91 per share, Clifford committed 17 192 shares to the scheme.

33 400 rights acquired by Clifford in 2016 and held for three years in terms of the share matching scheme were released from their lock-up periods and between February and April 2019 the company purchased for Clifford a matching 33 400 shares in the open market at a weighted average price of R132.76 per share, the consideration totalling R4 434 289.

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 432 250 by 29 March 2020.

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

				Year invested			
	At 30 November 2019	2019	At 30 November 2018	2018	2017	2016	2015
Balance at beginning of year	**50 270**		49 796		8 590	33 400	7 806
Granted during year	**17 192**	17 192	8 280	8 280			
Matured during year	**(33 400)**	(33 400)	(7 806)				(7 806)
Balance at end of year	**34 062**	(16 208)	50 270	8 280	8 590	33 400	

Louis Meiring – *Executive director: Bearings International, Ernest Lowe, Berntel, Brewtech Engineering, Belting Supply Services, Electrical Transmission businesses, Elvey Security Group, Global Communications, HERS and SS Telecoms*

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
2019	**2 606**	**406**	**191**	**2 250**	**5 453**	**3 773**	**9 226**

Fixed remuneration

Louis joined Hudaco on 14 January 2019. His total annual fixed cost-to-company remuneration commenced at R3 500 000, determined having regard for the remuneration of the other executive directors at the time, and was increased by 5.7% on 1 July 2019 to R3 700 000.

Annual short-term incentive bonus

In future, Louis's short-term incentive bonus will be determined on performance criteria and weightings pertaining to the portfolio of businesses for which he is responsible. To provide time for any impact he makes to manifest itself in the results, at appointment, he was given an undertaking that his 2019 short-term bonus would not be less than R2 000 000.

A once-off further incentive of R100 000 was offered to Louis to drive a reduction in the investment in working capital in 2019. The target for this incentive was not achieved in Louis's portfolio.

Performance-based share appreciation bonus scheme

In line with long-term incentive benchmarks for executive directors, on 26 July 2019 Louis was awarded 56 000 share appreciation bonus rights to be measured off a 10-day VWAP base of R117.27. 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. These are the first such rights awarded to Louis.

	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
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 2019 potential maximum short-term incentive bonus in Hudaco shares. Louis elected to make the maximum commitment of 50%, amounting to R2 187 500. To achieve this, on 14 March 2019 Louis purchased 16 827 Hudaco shares on the open market at R129.99 per share. This is the first investment made by Louis in the share matching scheme.

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 29 March 2020.

Senior executives' remuneration for the year ended 30 November 2019

David Allman – *Portfolio executive: Abes Technoseal, Astore Keymak, 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
2019	**2 296**	**352**	**176**	**1 525**	**4 349**	**1 712**	**6 061**
2018	2 143	329	157	1 560	4 189	1 631	5 820

Fixed remuneration

David's total fixed cost-to-company package increased by 6.5% on 1 July 2019 to R2 850 000 (2018: R2 675 000). His position was externally benchmarked in 2018 against businesses with a similar size, complexity and geographical spread.

Annual short-term incentive bonus

The following short-term incentive performance criteria and weightings, as determined by the remuneration committee, were used to calculate David's annual bonus which amounted to R1 525 000 (2018: R1 560 000). Included is a bonus of 9.4% that had been earned in terms of the formula in 2018 but that was required to be held back until the following year, subject to clawback if performance criteria had not been met.

A once-off further incentive of R200 000 was offered to David to drive a reduction in the investment in working capital in 2019. The target for this incentive was partially achieved in David's portfolio and he received R118 000.

2019 Measure		Measure achieved 2019	Maximum bonus % available	Bonus % achieved
Measurement	**Target**			
Return on net tangible operating assets	Varies by business	40.2%	32%	24.3%
Increase in operating profit	Varies by business Uncapped but subject to clawback	3.0%	32%	3.6%
Personal non-financial objectives			14%	12.1%
Current year total percentage of deemed guaranteed fixed remuneration			78%	40.0%
Amount deferred in previous year subject to further performance conditions				9.4%
Total percentage of deemed guaranteed fixed remuneration				49.4%

Performance-based share appreciation bonus scheme

In line with long-term incentive benchmarks for top senior management, on 26 July 2019 David was awarded 24 000 share appreciation bonus rights to be measured off a 10-day VWAP base of R117.27. Subject to the performance criteria, one-half of the allocation will vest three years from the allocation date with the other half vesting at the end of year four. A third tranche was not awarded because it 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 2019. He forfeited 3 000 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
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 25**	**Partial**	**122**
	28 000	**125.10**				**28 000**	**24 Jul 17**	**3**	**Jul 20 – Jul 26**	**Partial**	**Nil**
	25 000	**149.51**				**25 000**	**23 Jul 18**	**3**	**Jul 21 – Jul 27**	**Too soon**	**Nil**
		117.27	**24 000**			**24 000**	**26 Jul 19**	**2**	**Jul 22 – Jul 28**	**Too soon**	**Nil**
2018											
	163 160		25 000	11 520	160	176 480					
	160	50.50			160		1 Jul 09	3	Jul 12 – Jul 18	n/a	Nil
	9 000	109.26				9 000	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
	54 000	92.04		11 520		42 480	25 Jul 14	3	Jul 17 – Jul 23	Partial	1 141
	24 900	125.24				24 900	10 Jul 15	3	Jul 18 – Jul 24	Partial	209
	32 100	102.93				32 100	20 Jul 16	3	Jul 19 – Jul 25	Partial	1 235
	28 000	125.10				28 000	24 Jul 17	3	Jul 20 – Jul 26	Too soon	473
		149.51	25 000			25 000	23 Jul 18	3	Jul 21 – Jul 27	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 2019 potential maximum short-term incentive bonus in Hudaco shares. David elected to make the maximum commitment of 50%, amounting to R1 043 250. To achieve this, on 7 February 2019, when the open market price was R133.91 per share, David committed 7 790 Hudaco shares to the scheme.

9 827 rights acquired by David in 2016 and held for three years in terms of the share matching scheme were released from their lock-up period in March 2019 and the company purchased for David a matching 9 827 Hudaco shares in the open market at R136.05 per share, the consideration totalling R1 336 963.

Based on his potential maximum short-term bonus, he is entitled to commit to the scheme further shares up to a maximum value of R1 111 500 by 29 March 2020.

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

	At 30 November 2019	2019	At 30 November 2018	2018	2017	2016	2015
				Year invested			
Balance at beginning of year	**16 364**		16 221		3 000	9 827	3 394
Granted during year	**7 790**	7 790	3 537	3 537			
Matured during the year	**(9 827)**	(9 827)	(3 394)				(3 394)
Balance at end of year	**14 327**	(2 037)	16 364	3 537	3 000	9 827	

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

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
2019	**2 583**	**379**	**138**	**1 200**	**4 300**	**2 146**	**6 446**
2018	2 427	356	138	1 050	3 971	1 810	5 781

Fixed guaranteed remuneration and benefits

Barry's total fixed cost-to-company package increased by 5.0% on 1 July 2019 to R3 050 000 (2018: R2 900 000). His position was externally benchmarked in 2018 against businesses with a similar size, complexity and geographical spread.

Annual short-term incentive bonus

The following short-term incentive performance criteria and weightings, as determined by the remuneration committee, were used to calculate Barry's annual bonus which was R1 200 000 (2018: R1 050 000):

2019 Measure		Measure achieved 2019	Maximum bonus % available	Bonus % achieved
Measurement	**Target**			
Return on net tangible operating assets	Varies by business	29.6%	32%	15.8%
Increase in operating profit	Varies by business Uncapped but subject to clawback	2.3%	32%	2.8%
Personal non-financial objectives			14%	14.0%
Total percentage of guaranteed fixed remuneration			78%	32.6%

A once-off further incentive of R200 000 was offered to Barry to drive a reduction in the investment in inventories in 2019. The target for Barry's portfolio was R50 million and a reduction of R54 million was achieved so Barry earned the full incentive.

Performance-based share appreciation bonus scheme

In line with long-term incentive benchmarks for top senior management, on 26 July 2019 Barry was awarded 35 000 share appreciation bonus rights to be measured off a 10-day VWAP base of R117.27. 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 2019. He forfeited 2 667 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
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**
2018											
	176 900		27 000			203 900					
	8 000	109.26				8 000	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
	59 100	92.04				59 100	25 Jul 14	3	Jul 17 – Jul 23	Partial	1 588
	30 000	125.24				30 000	10 Jul 15	3	Jul 18 – Jul 24	Partial	253
	34 800	102.93				34 800	20 Jul 16	3	Jul 19 – Jul 25	Partial	1 339
	30 000	125.10				30 000	24 Jul 17	3	Jul 20 – Jul 26	Too soon	507
		149.51	27 000			27 000	23 Jul 18	3	Jul 21 –Jul 27	Too soon	Nil

Retention-based share matching scheme

In terms of Hudaco's retention-based share matching scheme, Barry was entitled to make a three-year investment to the value of up to 50% of his 2019 potential maximum short-term incentive bonus in Hudaco shares. Barry elected to make the maximum commitment of 50%, amounting to R1 132 000. To achieve this, in April 2019 Barry purchased 8 421 Hudaco shares on the open market at R134.42 per share.

11 390 rights acquired by Barry in 2016 and held for three years in terms of the share matching scheme were released from their lock-up period and in July 2019 the company purchased for Barry a matching 11 390 Hudaco shares in the open market at R117.27 per share, the consideration totalling R1 335 690.

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 29 March 2020.

Barry holds the following positions in the share matching scheme:

				Year invested			
	At 30 November 2019	2019	At 30 November 2018	2018	2017	2016	2015
Balance at beginning of year	**18 591**		18 201		3 367	11 390	3 444
Granted during year	**8 421**	8 421	3 834	3 834			
Matured during year	**(11 390)**	(11 390)	(3 444)				(3 444)
Balance at end of year	**15 622**	(2 969)	18 591	3 834	3 367	11 390	

Brian Constançon – *Previously portfolio executive: Electrical power transmission and steel divisions*

R000	Fixed remuneration	Retirement fund contributions	Other benefits*	Short-term incentive bonus	Total remuneration
2019	**335**	**52**	**1 144**		**1 531**
2018	1 938	303	141	250	2 632

** Other benefits include a gratuity on retirement during 2019.*

Brian retired from Hudaco at the end of January 2019 so was remunerated for only two months in the 2019 financial year. His total annual fixed cost-to-company package remained at R2 425 000. As described in the 2018 remuneration report, Brian was entitled to and received a gratuity on retirement of 26 weeks' remuneration, in terms of a long-standing arrangement for people employed by the group prior to 1983.

Brian earned no short-term performance bonus as he retired within the first quarter of the year.

Performance-based share appreciation bonus scheme

Brian was not eligible to participate in this long-term bonus scheme during 2019.

Brian did not exercise any share appreciation bonus rights during 2019. He forfeited 3 000 rights because the performance requirements were not met in full.

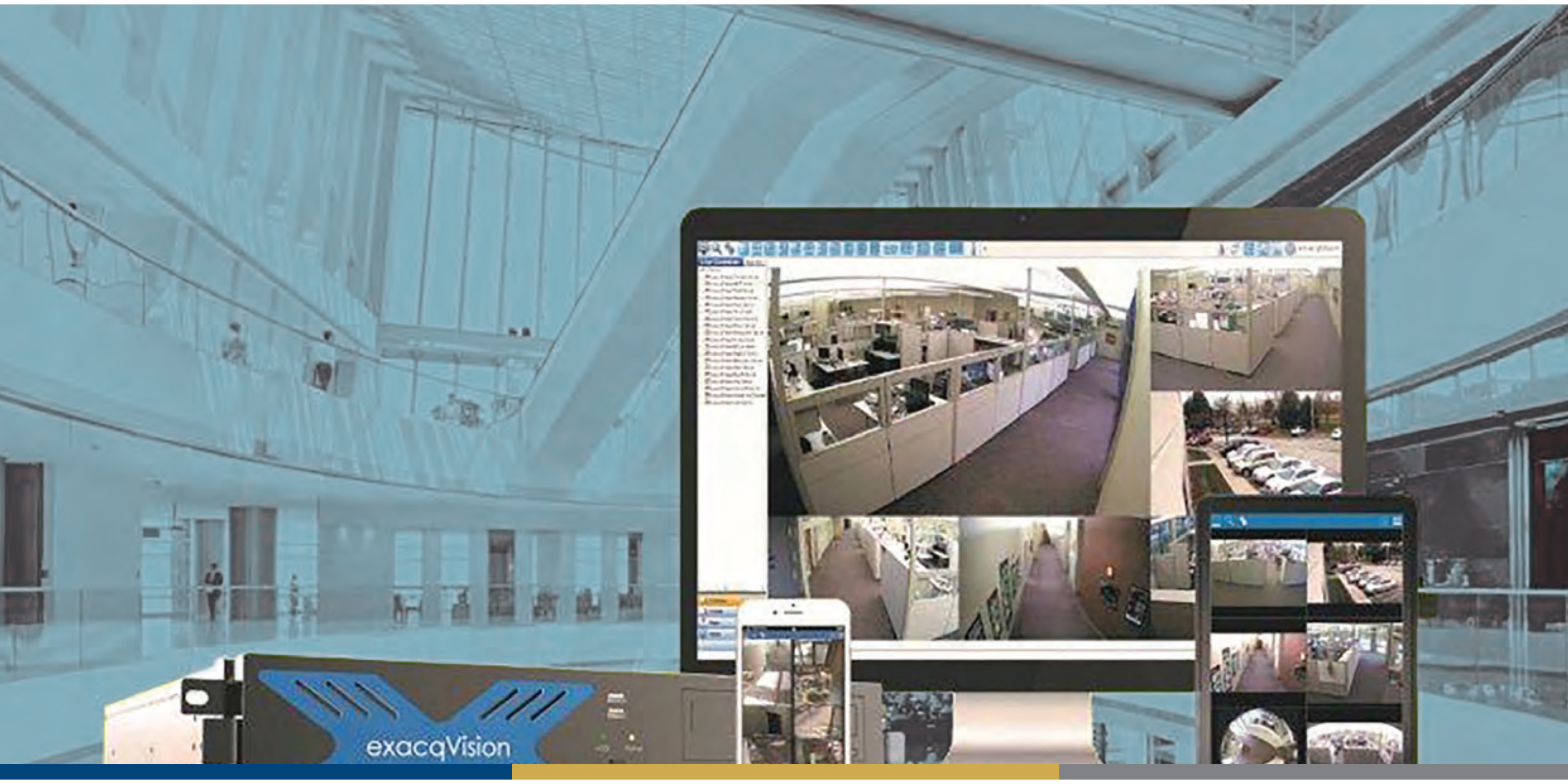
He still has the following rights in terms of the share appreciation bonus scheme because they remain valid until one year after retirement date:

	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
2019											
	40 802				**3 000**	**37 802**					
	9 000	**109.26**			**3 000**	**6 000**	**27 Jul 12**	**3**	**Jul 15 – Jan 20**	**Nil**	**Nil**
	15 000	**90.80**				**15 000**	**12 Jul 13**	**3**	**Jul 16 – Jan 20**	**Nil**	**Nil**
	13 052	**92.04**				**13 052**	**25 Jul 14**	**3**	**Jul 17 – Jan 20**	**Partial**	**100**
	3 750	**125.24**				**3 750**	**10 Jul 15**	**2**	**Jul 18 – Jan 20**	**Partial**	**Nil**
2018											
	64 820			23 698	320	40 802					
	320	50.50			320		1 Jul 09	3	Jul 12 – Jul 18	n/a	n/a
	9 000	109.26				9 000	27 Jul 12	3	Jul 15 – Jan 20	Nil	Nil
	15 000	90.80				15 000	12 Jul 13	3	Jul 16 – Jan 20	Nil	Nil
	33 000	92.04		19 948		13 052	25 Jul 14	3	Jul 17 – Jan 20	Partial	351
	7 500	125.24		3 750		3 750	10 Jul 15	2	Jul 18 – Jan 20	Partial	31

Retention-based share matching scheme

Brian reached retirement age during 2019, so he was not eligible to participate in this retention-based long-term bonus scheme in 2019.

7 200 rights acquired by Brian in 2016 and held for three years in terms of the share matching scheme were released from their lock-up period and the company purchased for Brian a matching 7 200 shares in the open market at R134.65 per share, the consideration totalling R969 484. Brian holds no further interest in the share matching scheme.



Non-executive directors' remuneration

Non-executive directors' remuneration for the period ended 30 November 2019

R000 (excluding VAT)	2019	2018
SJ Connelly[1]	**1 062**	833
N Mandindi	**635**	571
D Naidoo[2]	**935**	644
MR Thompson	**645**	608
RT Vice[1]		342
Total	**3 277**	2 998

[1] *RT Vice retired and SJ Connelly assumed the chair on 5 April 2018.*
[2] *D Naidoo assumed the role of lead independent director on 5 April 2018.*

Proposed non-executive directors' fees for 2019/2020

At Hudaco's annual general meeting to be held on 19 March 2020, shareholders will be requested to approve the non-executive directors' fees for the period 1 April 2020 until 31 March 2021 as set out below. These proposed fees were determined by increasing by 5.5% the previous year's fees, which had been determined pursuant to an independent benchmarking exercise conducted by Khokhela Consulting in January 2019. It is intended to repeat the benchmarking exercise in January 2021.

	Proposed 2020	
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, 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.

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.

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 was subject to any material regulatory penalties, sanctions or fines for contraventions of, or non-compliance with, statutory obligations.

Focus areas for 2020 include the continued application of King IV practices, implementation of the POPI Act and ensuring full compliance therewith, as the effective date draws closer, 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.

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 judgment 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 2020, she would have served nine 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. As always, the key strategic focus remained the management of the relationship between margins, inventories and costs. Two small bolt-on acquisitions were made that strengthened the relevant Hudaco businesses and the group continued to add value to the product offering and grew the businesses where feasible. Organic growth was hard to come by due to the depressed trading environment.

Key focus areas for 2020 include:

- sustaining focus on working capital;
- improving overall operating margins;
- extracting further synergies across businesses;
- maintaining diversification strategy for acquisitions;
- 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 2019

	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 gender and race 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.

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 2019. 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 2019

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

The remuneration report can be found on pages 58 to 72 of this report. 58

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.

CORPORATE GOVERNANCE continued

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 2019

	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.

Focus areas for 2020 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 2019 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, the chief executive, financial director, 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 2019. 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;
- request from the external audit firm the information detailed in the JSE Listings Requirements in it's 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 re-appointment;
- ensure 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;
- ensure 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:

- 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 Vanessa de Villiers for appointment by the shareholders at the forthcoming annual general meeting as the auditor for the 2020 financial year. The committee is satisfied that the firm and the individual auditor are independent of the company and are accredited as auditors on the JSE's Register of Auditors. 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, was now part of BDO and that Vanessa de Villiers is due to be rotated after the 2020 audit.
- Last year we reported that the audit committee decided not to use the merger between Grant Thornton and BDO as an opportunity to effect mandatory audit firm rotation, primarily because the available timeframe did not allow for a thorough process and proper transition. In 2019 the committee considered this issue again and resolved to maintain the status quo for the 2020 financial year and to conduct a tender process for selecting an appropriate external audit firm for the 2021 financial year.
- Any non-audit-related services to be performed by the external auditors require the approval of the audit committee on a case-by-case basis. The overarching criterion for approval being that the independence of the external auditors should not be impaired through the provision of services under consideration. It was agreed that there will be a rebuttable presumption that non-audit fees totalling up to 25% of the budgeted annual audit fees will not alone impair the independence of the auditors. During the period under review, no non-audit-related services were rendered by BDO.
- Budgeted audit fees for the financial year ended 30 November 2019 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. 100
- The committee considered and noted the key audit matter as determined by BDO and described in the independent auditor's report. 89
- 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 Vanessa de Villiers, 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 2020.

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.

CORPORATE GOVERNANCE continued

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.

18

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

Focus areas for 2020 include initiating the process to effect mandatory audit firm rotation in 2021; establishing a process to facilitate the introduction of the new CEO and financial director responsibility statement in the integrated report in 2020 as required by the JSE Listings Requirements; and optimising risk management at operational level.

Audit and risk management committee meeting attendance 2019

	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 co-ordinated 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. 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.

18

During 2019 an operational risk management committee was established comprising, *inter alia*, all the managing directors of the various businesses with a view of enhancing 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.

During 2015, Hudaco instituted legal proceedings against Bravura Equity Services Proprietary Limited, Cadiz Specialised Asset Management Proprietary Limited and certain other entities within the Bravura and Cadiz groups as well as executives of the Bravura group and certain former executives of the Cadiz group. These legal proceedings are aimed at recovering alleged secret profits of R180 million and 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 empowerment transaction. The grounds for the action include intentional misrepresentation and/or negligence. The matter has been transferred to the commmercial court and a court date is awaited.

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 30 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, comprises the chief financial officers 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 2020 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 2019 financial year were Nyami Mandindi (chairman), Clifford Amoils, Louis Meiring and Daisy Naidoo. With effect from 31 January 2019, Louis Meiring replaced Clifford Amoils as a member of the committee. Clifford Amoils continues to attend the meetings by invitation.

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 Hudaco group secretary, transformation and human resources executive (Phylla Jele), the executive responsible for health and safety and environmental issues (Mike Allnutt) 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 2019 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 2019.

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 19 March 2020, 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 2020 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, evaluation of performance and the fair reward of employees.

Social and ethics committee meeting attendance 2019

	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 (joined 2 May 2019), Jonny Masinga (resigned during April 2019), Louis Meiring and Reana van Zyl. The head of 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 2019

	Jan	Mar	Jun	Oct
GR Dunford	✓	✓	✓	✓
DL Allman	✓	✓	✓	✓
CV Amoils	✓	✓	✓	✓
BWJ Fieldgate	✓	✓	✓	✓
MP Jele*	n/a	n/a	✓	✓
KJ Masinga*	✓	✓	n/a	n/a
LFJ Meiring	✓	✓	✓	✓
R van Zyl	✓	✓	#	✓

* *KJ Masinga resigned during April 2019 and MP Jele joined the group during May 2019.*
\# *An apology was accepted for non-attendance.*

Group secretary

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 2019 the board considered and was satisfied with the competence, qualifications and experience of the group secretary, Reana van Zyl. It concluded that 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 performs her role independently from the board or any individual board member and without the directors having an undue influence over her.

85

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 85.

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. 16

The Hudaco group has various policies governing communication, relationships and conduct with its stakeholders, which comprise shareholders, employees, customers, suppliers, bankers, the community and government.

Nedbank Corporate and Investment Banking acted as the company's sponsor during the year under review.

Hudaco acknowledges the importance of its shareholders attending the company's annual general meetings as these meetings offer an opportunity for the shareholders to participate in discussions relating to general meeting agenda items and to raise additional issues. 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 78 to 82.

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 2019 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

30 January 2020

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 2019 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.

Reana van Zyl
Group secretary

30 January 2020

DIRECTORS' REPORT

Reporting period

The directors have pleasure in presenting their report for the company's financial year ended 30 November 2019. The annual financial statements for the year ended 30 November 2019 were authorised for issue in accordance with a resolution of the directors on 30 January 2020. 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 is a South African group that imports and distributes high-quality branded engineering consumables and consumer-related products. Its customer base is mainly within the southern African manufacturing, mining, construction, automotive aftermarket and security industries. Adding value to the product sold by offering technical advice, prompt availability and training is a key part of Hudaco's business model.

Financial results

Earnings attributable to equity holders of the parent for the year ended 30 November 2019 were R429 million (2018: R381 million).

The results represent basic earnings per share of 1 355 cents (2018: 1 202 cents). Headline earnings per share were 1 355 cents (2018: 1 289 cents) and comparable earnings per share were 1 240 cents (2018: 1 198 cents).

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

Dividends

R million	2019	2018
Dividend number 64 of 380 cents per share declared on 31 January 2019	**130**	130
The record date was 1 March 2019 and the dividend was paid on 4 March 2019		
Dividend number 65 of 190 cents per share declared on 27 June 2019	**65**	65
The record date was 8 August 2019 and the dividend was paid on 12 August 2019		

The dividends reflected above include dividends on 2 507 828 shares held by a subsidiary.

On 30 January 2020 the directors declared dividend number 66 of 410 cents per share, being the final dividend in respect of the year ended 30 November 2019. The record date will be Friday, 21 February 2020 and the dividend will be paid on Monday, 24 February 2020.

Subsidiaries

Particulars of the principal subsidiaries of the company are set out on page 123 of the financial statements.

Acquisitions and disposals

There were no disposals during the financial year.

With effect from 1 March 2019 Hudaco acquired the trading assets and liabilities of Dosco Precision Hydraulics (MP), a Mpumalanga based distributor of hydraulic products, as a bolt-on operation of Dosco Precision Hydraulics, an existing business of Hudaco, a supplier and repairer of hydraulic pumps and motors to the mining, industrial, mobile, marine and forestry industries.

The purchase consideration, subject to a maximum of R10.4 million, is to be settled as follows: an initial amount of R7.1 million was paid in cash on 1 March 2019 and the balance is payable on 4 May 2020 based on the actual profitability achieved for the period ending 29 February 2020.

With effect from 1 March 2019 Hudaco acquired the fixed assets and inventories of Industrial Filtration Maintenance, that specialises in the service and repair of filtration units used for dust collection and emission control as a bolt-on operation of Filter and Hose Solutions, an existing business of Hudaco, a supplier of filtration solutions, customised exhaust systems, kits and accessories.

The purchase consideration, subject to a maximum of R1 million, is to be settled as follows: an initial amount of R500 000 was paid in cash on 1 March 2019 and the balance is payable in two cash tranches on 4 May 2020, and 4 May 2021 based on actual profitability achieved in each of the periods ending 29 February 2020 and 28 February 2021.

Authority to buy back shares

At the forthcoming annual general meeting in March 2020, shareholders will be asked to provide the directors with authority to purchase up to 1 582 285 (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 1 582 285 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 7.3% of its issued capital, by way of treasury shares.

Share capital

The authorised share capital and issued share capital remained unchanged during the year.

Full details of the authorised and issued capital of the company at 30 November 2019 are contained in notes 17.1 and 17.2 to the financial statements.

Share-based remuneration schemes

Full details of the company's share-based remuneration schemes are set out in note 17.6 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.

During the 2019 financial year Louis Meiring was appointed executive director to the board on 14 January 2019. He was also re-appointed by Hudaco's shareholders on 19 March 2019 at the annual general meeting, when he was required to retire and offered himself for re-election.

In terms of the company's memorandum of incorporation, Clifford Amoils, Nyami Mandindi and Mark Thompson are required to retire by rotation at the forthcoming annual general meeting.

All these directors are available, eligible and recommended for re-election.

Directors' interests

The directors' interests in the issued shares of the company are set out in note 26.1.

Details of the executive directors' interests in the performance-based Hudaco share appreciation bonus scheme and retention-based share matching scheme are provided in the implementation of the remuneration policy section of the remuneration report, specifically dealing with executive directors' remuneration as set out on pages 63 to 67.

Directors' remuneration and details of their service agreements

The remuneration of executive and non-executive directors are determined by the company's remuneration committee. Further information relating to the remuneration of the directors, together with details relating to the value of share appreciation right and share matching right allocations during the year, are set out in the implementation of the remuneration policy section of the remuneration report, specifically dealing with executive directors' remuneration as set out on pages 63 to 67 and non-executive directors' remuneration on page 72.

Information on the executive directors' service agreements is set out on page 62.

Secretary

Reana van Zyl is the secretary of the company. The address of the secretary is set out on page 133.

Borrowing powers

The borrowing powers of the Hudaco group are unlimited. At 30 November 2019 unutilised borrowing facilities amounted to R1 084 million (2018: R935 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.

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 89 to 91.

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 annual financial statements for the year ended 30 November 2019, which appear on pages 85 to 123, were approved by the board on 30 January 2020 and are signed on its behalf by:

SJ Connelly
Chairman

GR Dunford
Chief executive

30 January 2020

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 92 to 123, which comprise the consolidated and separate statements of financial position as at 30 November 2019, 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 2019, 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 the consolidated and separate financial statements section of our report. We are independent of the group and company in accordance with the sections 290 and 291 of the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (revised January 2018), parts 1 and 3 of the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (revised November 2018) (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants and the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) respectively. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The following key audit matter relates to the consolidated financial statements. We have determined that there are no key audit matters in respect of the separate financial statements.

Key audit matter	How our audit addressed the key audit matter
Impairment testing and valuation of goodwill In terms of IAS 36 *Impairment of Assets*, the group is required to test the carrying value of goodwill for impairment annually. This is performed using discounted free cash flow models for the various cash generating units. ("CGUs") Due to the carrying value of the goodwill balance representing 30.5% of total assets as at 30 November 2019, as well as the fact that significant judgement is used by management in determining the inputs into the free cash flow models, it has been determined to be a key audit matter. As disclosed in note 12, goodwill increased by R7 million to R1 512 million as a result of acquisitions in the current financial year.	In evaluating the goodwill, we performed various audit procedures, including the following: • utilised our corporate finance specialist to assess the appropriateness of the discounted free cash flow model used for the value in use calculation and to evaluate the reasonability of the key assumptions and inputs into the model, in particular those relating to the pre-tax discount rates, revenue growth rates and terminal growth rates against external market data; • assessed the appropriateness of the identified cash generating units to which the goodwill has been allocated; • tested the mathematical accuracy of the models; • held discussions with management to understand the key assumptions applied and performed sensitivity analyses on the key assumptions and inputs to assess for reasonability; • considered the reasonableness of management's forecasts based on the actual performance for the financial year just ended and changes expected to occur in each CGU's business; and • reviewed the historical budgeting accuracy of the group. We assessed the adequacy and appropriateness of the group's disclosures relating to goodwill for compliance with the International Financial Reporting Standards (refer note 12).

INDEPENDENT AUDITOR'S REPORT continued

Other information

The directors are responsible for the other information. The other information comprises the information included in the document titled "Hudaco Industries Limited Audited Annual Financial Statements for the year ended 30 November 2019", 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, which we obtained prior to the date of this report, and the Integrated Report, which is expected to be made available to us after that date. 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 and will 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 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 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, related safeguards.

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 34 years.

BDO South Africa Inc.

BDO South Africa Incorporated
Registered Auditors

VR de Villiers
Director
Registered Auditor

30 January 2020

Wanderers Office Park
52 Corlett Drive
Illovo, 2196

GROUP STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 November 2019

R000	Notes	2019	2018
Turnover	5	**6 703 832**	6 381 008
Ongoing operations		**6 480 804**	6 281 974
Operations acquired after December 2017		**223 028**	99 034
Cost of sales		**4 263 626**	4 059 851
Gross profit		**2 440 206**	2 321 157
Operating expenses	5	**1 739 678**	1 665 682
Operating profit	5	**700 528**	655 475
Ongoing operations		**668 902**	644 498
Operations acquired after December 2017		**31 626**	10 977
Impairment of goodwill and intangible assets	12, 13		(33 750)
Fair value adjustments	6	**30 634**	11 074
Profit before interest		**731 162**	632 799
Finance costs		**103 001**	91 119
Profit before taxation		**628 161**	541 680
Taxation	8	**160 357**	144 600
Profit after taxation		**467 804**	397 080
Equity-accounted income from joint venture	11	**2 887**	3 190
Profit for the year		**470 691**	400 270
Other comprehensive income that will subsequently be reclassified to profit or loss		**1 745**	2 950
Loss on fair value of cash flow hedges – current year		**(1 339)**	(3 442)
Adjustments for amounts transferred to the initial cost of inventory	15	**3 442**	3 973
Tax effect of the above		**(589)**	(149)
Exchange gain on translation of foreign operations		**231**	2 568
Total comprehensive income for the year		**472 436**	403 220
Profit attributable to:			
– Equity holders of the parent		**428 930**	380 515
– Non-controlling shareholders	17.5	**41 761**	19 755
		470 691	400 270
Total comprehensive income attributable to:			
– Equity holders of the parent		**430 528**	383 153
– Non-controlling shareholders	17.5	**41 908**	20 067
		472 436	403 220
Basic earnings per share (cents)	9	**1 355**	1 202
Diluted earnings per share (cents)	9	**1 329**	1 173

GROUP STATEMENT OF FINANCIAL POSITION
at 30 November 2019

R000	Notes	2019	2018
ASSETS			
Non-current assets		**1 887 969**	1 874 882
Property, plant and equipment	10	**302 484**	277 070
Investment in joint venture	11	**11 681**	8 802
Goodwill	12	**1 511 842**	1 504 743
Intangible assets	13	**22 631**	48 605
Deferred taxation	14	**39 331**	35 662
Current assets		**3 056 873**	3 166 245
Inventories	15	**1 720 142**	1 821 961
Trade and other receivables	16	**1 269 156**	1 277 581
Taxation		**9 735**	4 012
Bank deposits and balances		**57 840**	62 691
TOTAL ASSETS		**4 944 842**	5 041 127
EQUITY AND LIABILITIES			
Equity		**2 843 668**	2 578 998
Equity holders of the parent		**2 742 491**	2 508 677
Non-controlling interest	17.5	**101 177**	70 321
Non-current liabilities		**918 784**	1 124 096
Amounts due to bankers	18.1	**917 900**	1 014 372
Amounts due to vendors of businesses acquired	18.2	**226**	108 899
Deferred taxation	14	**658**	825
Current liabilities		**1 182 390**	1 338 033
Trade and other payables	19	**968 410**	989 355
Bank overdraft		**147 906**	211 425
Amounts due to vendors of businesses acquired	18.2	**64 317**	104 592
Taxation		**1 757**	32 661
TOTAL EQUITY AND LIABILITIES		**4 944 842**	5 041 127

GROUP STATEMENT OF CASH FLOWS
for the year ended 30 November 2019

R000	Notes	2019	2018
Cash flow from operating activities			
Operating profit		**700 528**	655 475
Adjusted for:			
Equity-settled share-based payments	17.6	**16 795**	28 377
Depreciation and profit on disposal of plant and equipment	5	**49 380**	47 118
Amortisation of intangible assets	13	**27 355**	29 645
Decrease (increase) in working capital	22.1	**58 697**	(292 203)
Cash generated from operations		**852 755**	468 412
Taxation paid	22.2	**(195 858)**	(164 326)
Net cash from operating activities		**656 897**	304 086
Cash flow from investing activities			
Additions to property, plant and equipment	10	**(79 427)**	(56 202)
Proceeds from disposal of property, plant and equipment		**5 102**	5 009
Acquisition of businesses	20	**(7 503)**	(134 561)
Decrease (increase) in loan to joint venture	11	**8**	(37)
Dividend received from joint venture	11		4 000
Payments to vendors of businesses acquired	22.3	**(106 318)**	(107 421)
Net cash from investing activities		**(188 138)**	(289 212)
Cash flow from financing activities			
(Decrease) increase in non-current amounts due to bankers	22.4	**(96 472)**	339 372
Share-based payments settled		**(21 500)**	(17 615)
Finance costs paid		**(103 001)**	(91 119)
Dividends paid	22.5	**(189 381)**	(211 581)
Net cash from financing activities		**(410 354)**	19 057
Decrease in net bank overdraft		**58 405**	33 931
Foreign exchange translation gain		**263**	2 606
Net bank overdraft at beginning of the year		**(148 734)**	(185 271)
Net bank overdraft at end of the year	22.6	**(90 066)**	(148 734)

GROUP STATEMENT OF CHANGES IN EQUITY

for the year ended 30 November 2019

R000	Share capital	Share premium	Non-distributable reserves	Retained income	Equity holders of the parent	Non-controlling interest	Equity
Note	17.2		17.4			17.5	
Balance at 1 December 2017	3 415	51 533	78 032	2 180 869	2 313 849	81 454	2 395 303
Comprehensive income for the year			2 638	380 515	383 153	20 067	403 220
Movement in equity compensation reserve			17 431	(6 669)	10 762		10 762
Dividends (note 21)				(180 381)	(180 381)	(31 200)	(211 581)
Balance at 30 November 2018	3 415	51 533	98 101	2 374 334	2 527 383	70 321	2 597 704
Less: Shares held by subsidiary company	(251)		(41)	(18 414)	(18 706)		(18 706)
Net balance at 30 November 2018	3 164	51 533	98 060	2 355 920	2 508 677	70 321	2 578 998
Balance at 1 December 2018	**3 415**	**51 533**	**98 101**	**2 374 334**	**2 527 383**	**70 321**	**2 597 704**
Effect of the adoption of IFRS 9 (note 3)				**(11 628)**	**(11 628)**	**(2 052)**	**(13 680)**
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 21)				**(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**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 30 November 2019

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 9: *Financial Instruments* and IFRS 15: *Revenue from Contracts with Customers*, 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 or 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 (2018: IAS 39) 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. One of the manufacturing businesses earns its revenue over time. The reported results are based on IFRS 15: *Revenue from Contracts with Customer*s (2018: IAS 18: *Revenue*). IFRS 15 gives new guidance that requires recognition of revenue in a manner that depicts the transfer from goods and services to customers at an amount that reflects the consideration the entity expects to be entitled to in exchange for those goods and services.

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 is 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.

In 2018 revenue was recognised when the amount of revenue could be measured reliably, collection was probable, the costs incurred or to be incurred could be measured reliably, and when the criteria for each of the group's different activities had been met. Turnover represented the invoiced value of goods and services sold outside the group less both settlement discounts and VAT. Turnover was recognised at the fair value of the consideration received or receivable when the risks and rewards passed to the customer. Significant risks and rewards were generally considered to have passed to the customer when the customer had taken undisputed delivery of goods and services.

1.5 Dividend income

Dividend income from investments is recognised when the shareholder's right to receive payment has been established.

1.6 Income from investments

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

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 Operating leases

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease.

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.

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 re-assessed 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 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.

1.16 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 years.

1.17 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 13) are re-assessed annually.

Intangible assets that are fully amortised and are no longer in use are derecognised.

1.18 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.

1.19 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.

1.20 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 (2018: doubtful debt).
- Cash and cash equivalents are measured at amortised cost less allowance for expected credit loss (2018: impairment).
- 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 (in terms of IAS 39, which is still applied) 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.
- 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.

1.21 Impairment

On an annual basis the group reviews all 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.

1.22 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.

1.23 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.

1.24 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

In preparing the financial statements, management is required to make estimates and assumptions that affect reported income, expenses, assets, liabilities and disclosure of financial instruments and contingent liabilities.

Use of available information and the application of judgement are inherent in the formation of estimates.

Significant estimates and judgements are made in the following areas:

- Property, plant and equipment – useful lives and residual values – note 10
- Impairment of goodwill – note 12
- Fair value, impairment, useful lives and residual values of intangible assets – note 13
- Deferred taxation – the extent to which it is probable that taxable profit will be available against which deductible temporary differences can be utilised – note 14
- Inventories – allowance for slow-moving and obsolete inventory – note 15
- Trade and other receivables – allowance for expected credit loss – note 16
- Fair value of share-based payments – note 17.6
- Value of vendor liabilities – amount and timing of contingent consideration – note 18.2
- Fair value of financial instruments – note 24

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

3. Changes in accounting policies

During the year the group did not change any accounting policies or adopt any new accounting standards except for adopting IFRS 9: *Financial Instruments* and IFRS 15: *Revenue from Contracts with Customers*.

IFRS 9: *Financial instruments*

The adoption of this standard has resulted in the following changes for the group:

R000	IFRS 9 classification	IAS 39 classification	Balance at 30 Nov 2019	Balance at 30 Nov 2018
Financial assets				
Trade receivables	Amortised cost	Loans and receivables	**1 132 045**	1 131 020
Other receivables (excluding indirect taxes)	Amortised cost	Loans and receivables	**89 700**	104 607
Bank deposits and balances	Amortised cost	Loans and receivables	**57 840**	62 691
			1 279 585	1 298 318
Financial liabilities				
Amounts due to vendors of businesses acquired	Fair value through profit or loss	Fair value through profit or loss	**64 543**	213 491
Amounts due to bankers	Amortised cost	Amortised cost	**917 900**	1 014 372
Bank overdraft	Amortised cost	Amortised cost	**147 906**	211 425
Trade payables	Amortised cost	Amortised cost	**674 734**	693 856
Fair value of forward exchange contracts	Derivatives used for hedging at fair value	Derivatives used for hedging at fair value	**9 988**	31 645
Other payables (excluding payroll accruals and indirect taxes)	Amortised cost	Amortised cost	**130 407**	118 728
			1 945 478	2 283 517

The modified retrospective approach was used in the adoption of this standard.

Applying the expected credit loss model using the simplified approach instead of the incurred loss model affected the group statement of financial position at 1 December 2018 as follows:

	R000
Decrease in trade and other receivables	**19 000**
Increase in deferred taxation asset	**5 320**
Decrease in equity	**13 680**
Decrease in non-controlling interest	**2 052**
Decrease in equity attributable to equity holders of the parent	**11 628**

IFRS 15: *Revenue from Contracts with Customers*

IFRS 15 established a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces IAS 18: *Revenue* and IAS 11: *Construction Contracts* and related interpretations.

The modified retrospective approach was used in the adoption of this standard. There was no impact on opening retained income.

The group's revenue is derived from contracts with customers and can be classified into the following categories:

- Sale of goods
- Rendering of services

Refer note 5.1 for further revenue disclosure.

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 a new standard, that is expected to be relevant to the group's financial statements is provided below. 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
IFRS 16 *Leases*	• Requires lessees to account for leases on the balance sheet by recognising a right-of-use asset and lease liability. • It also changes the definition of a lease, sets requirements on how to account for the asset and liability, provides exemptions for short-term leases and leases of low-value assets, changes the accounting for sale-and-leaseback arrangements, largely retains IAS 17's approach to lessor accounting and introduces new disclosure requirements. • The impact of the standard has been assessed during the year. Had this standard been adopted at the beginning of the current financial year the right-of-use asset and corresponding lease liability raised at that date would have been approximately R571 million using the incremental interest rate of the group of 7.0%. The current year's profit after tax attributable to equity holders of the parent would have reduced by approximately R14 million. The carrying value of the right-of-use asset and the lease liability would have reduced to R450 million and R482 million at the end of the current year. The group expects the effect on the 2020 profit attributable to equity holders of the parent to be similar to the current year.	Annual periods beginning on or after 1 January 2019

R000	2019	2018
5. Revenue and operating profit		
5.1 Turnover comprises		
Revenue from contracts with customers		
Sales of products	**6 521 959**	6 218 645
Rendering of services	**181 873**	162 363
	6 703 832	6 381 008
Timing of revenue recognition		
Goods and services transferred at a point in time	**6 509 825**	6 233 658
Goods and services transferred over time[1]	**194 007**	147 350
	6 703 832	6 381 008

(1) The remaining transaction price allocated to unsatisfied performance obligations will be satisfied within one year.

R000	2019	2018
Geographical disaggregation		
Goods and services sold in South Africa	**6 059 729**	5 917 624
Goods and services sold outside South Africa	**644 103**	463 384
	6 703 832	6 381 008

Refer to note 27 for further disaggregation of turnover.

R000	2019	2018
5.2 Operating expenses comprise		
Employee related expenses	**1 133 030**	1 198 713
Property rentals under operating leases	**134 427**	125 333
Depreciation	**49 584**	48 889
Amortisation	**27 355**	29 645
Profit on disposal of plant and equipment	**(204)**	(1 771)
Acquisition costs – new businesses	**75**	995
Other expenses – including non-executive directors' fees	**609 507**	456 751
Allocated to cost of sales	**(214 096)**	(192 873)
	1 739 678	1 665 682
6. Fair value adjustments		
Fair value of amounts due to vendors of businesses acquired	**46 136**	11 074
Adjustment to estimated capital amounts due	**58 231**	34 152
Adjustment for time-value of money	**(12 095)**	(23 078)
Fair value of financial assets		
Financial assets at fair value through profit or loss	**(15 502)**	
	30 634	11 074

R000	2019	2018
7. Auditor's remuneration		
Audit fees – current year	**9 632**	8 684
	9 652	8 684
8. Taxation		
8.1 Taxation comprises		
South African normal taxation		
Current year	**156 604**	166 795
Prior years under (over) provision	**197**	(247)
Deferred taxation		
Current year	**(49)**	(22 768)
Prior years under provision	**1 175**	117
Foreign normal taxation	**2 430**	703
	160 357	144 600
	%	%
8.2 Reconciliation of rate of taxation		
Normal rate	**28.0**	28.0
Impairment of goodwill		1.7
Adjustment to capital amounts due to vendors	**(1.9)**	(1.8)
Learnership allowances	**(1.2)**	(0.9)
Share-based payments	**0.4**	(0.9)
Non-deductible expenses	**0.4**	0.4
Rate differential	**(0.2)**	0.1
Prior year under provision	**0.2**	0.0
Other	**(0.2)**	0.1
Effective rate of taxation	**25.5**	26.7
9. Comparable earnings, headline earnings and basic earnings per share		
Calculation of headline earnings		
Profit attributable to equity holders of the parent	**428 930**	380 515
Adjusted for:		
Impairment of goodwill and intangible assets		33 750
Tax effect		(124)
Non-controlling interest		(5 044)
Profit on disposal of plant and equipment	**(204)**	(1 771)
Tax effect	**57**	496
Non-controlling interest	**27**	192
Headline earnings	**428 810**	408 014
Calculation of comparable earnings		
Headline earnings as per above	**428 810**	408 014
Adjusted for:		
Fair value adjustment on capital amounts due to and from vendors of businesses acquired	**(42 729)**	(34 152)
Non-controlling interest	**6 409**	5 124
Comparable earnings	**392 490**	378 986
Earnings per share (cents)		
Basic	**1 355**	1 202
Diluted basic	**1 329**	1 173
Headline	**1 355**	1 289
Diluted headline	**1 329**	1 258
Comparable	**1 240**	1 198
Diluted comparable	**1 217**	1 168

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

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 31 645 703 (2018: 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 32 262 478 (2018: 32 435 293) shares, being the weighted average number of shares in issue of 31 645 703 plus 616 775 (2018: 789 590) 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 R108.08 (2018: R142.00) 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	Computers	Motor vehicles	Other assets	2019 Total
Cost							
Opening balance	**19 037**	**73 068**	**204 999**	**122 542**	**128 773**	**72 735**	**621 154**
Exchange differences			**83**	**26**	**(63)**	**(11)**	**35**
Acquisition of businesses					**1 935**	**18**	**1 953**
Additions		**758**	**41 434**	**14 631**	**17 108**	**5 496**	**79 427**
Disposals			**(1 140)**	**(6 596)**	**(13 271)**	**(1 431)**	**(22 438)**
Closing balance	**19 037**	**73 826**	**245 376**	**130 603**	**134 482**	**76 807**	**680 131**
Accumulated depreciation							
Opening balance		**14 165**	**133 818**	**79 087**	**72 007**	**45 007**	**344 084**
Exchange differences			**73**	**23**	**(21)**	**(3)**	**72**
Acquisition of businesses					**1 429**	**18**	**1 447**
Depreciation for the year		**1 584**	**13 476**	**14 068**	**12 993**	**7 463**	**49 584**
Disposals			**(1 600)**	**(5 086)**	**(9 496)**	**(1 358)**	**(17 540)**
Closing balance		**15 749**	**145 767**	**88 092**	**76 912**	**51 127**	**377 647**
Net book value	**19 037**	**58 077**	**99 609**	**42 511**	**57 570**	**25 680**	**302 484**

R000	Freehold land	Buildings	Plant	Computers	Motor vehicles	Other assets	2018 Total
Cost							
Opening balance	19 037	73 068	194 709	129 887	123 513	63 707	603 921
Exchange differences			(75)	(17)	(64)	(12)	(168)
Acquisition of businesses			242	651	1 099	800	2 792
Additions			12 354	11 515	17 901	14 432	56 202
Disposals			(2 231)	(19 494)	(13 676)	(6 192)	(41 593)
Closing balance	19 037	73 068	204 999	122 542	128 773	72 735	621 154
Accumulated depreciation							
Opening balance		12 581	122 519	85 213	69 590	43 777	333 680
Exchange differences			(64)	(16)	(43)	(7)	(130)
Depreciation for the year		1 584	13 089	13 103	13 895	7 218	48 889
Disposals			(1 726)	(19 213)	(11 435)	(5 981)	(38 355)
Closing balance		14 165	133 818	79 087	72 007	45 007	344 084
Net book value	19 037	58 903	71 181	43 455	56 766	27 728	277 070
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 re-assessed 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.

11. 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 and is the only investment in the group that is accounted for using the equity method in accordance with IFRS. The joint venture is incorporated in South Africa and distributes recreational equipment for 4X4 vehicles as well as suspension systems for recreational, industrial and military vehicles.

R000	2019	2018
Total net assets of Ironman 4X4 Africa RF (Pty) Ltd	**23 362**	17 589
Proportion of ownership interests held by the group	**50%**	50%
Ownership interests held by the group	**11 681**	8 794
Loan account		8
Carrying amount of investment in joint venture	**11 681**	8 802
Carrying amount of investment in joint venture at the beginning of the year	**8 802**	9 575
Attributable income for the year	**2 887**	3 190
Dividend received		(4 000)
Movement in loan account	**(8)**	37
Carrying amount of investment in joint venture at the end of the year	**11 681**	8 802

Ironman 4X4 Africa RF (Pty) Ltd is a private company, and therefore no quoted market prices are available for its shares.

12. Goodwill

12.1 Goodwill comprises:

Goodwill at cost	**1 567 239**	1 560 140
Accumulated impairment	**(55 397)**	(55 397)
	1 511 842	1 504 743

12.2 Movement for the year

Balance at beginning of the year	**1 504 743**	1 480 061
Acquisitions during the year	**7 099**	57 990
Impairments during the year		(33 308)
	1 511 842	1 504 743

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**	225 680
Elvey Security/Global Communications group	**196 207**	196 207
MiRO	**171 069**	171 069
Eternity Technologies	**157 838**	157 838
Astore Keymak	**66 973**	66 973
FTS Boltworld	**66 016**	66 016
Joseph Grieveson	**55 834**	55 834
The Dished End Company	**51 212**	51 212
Ambro Steel group	**46 571**	46 571
Dosco Precision Hydraulics	**40 932**	34 937
Powermite group	**37 072**	37 072
Hydraulic Engineering Repair Services	**22 850**	22 850
Brewtech Engineering	**22 135**	22 135
Gear Pump Manufacturing	**21 011**	21 011
Specialised Battery Systems	**14 955**	14 955
Abes Technoseal	**14 435**	14 435
Ernest Lowe/Berntel	**11 659**	11 659
Varispeed	**11 586**	11 586
Three-D Agencies	**9 968**	9 968
Deltec	**8 114**	8 114
Other	**8 874**	8 874
	1 511 842	1 504 743

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.

12. Goodwill continued

12.2 Movement for the year continued

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 5% per annum, respectively, which rates are considered reasonable in context of the industries in which they operate. Beyond the short-term, they are derived from the use of a common forecasting process followed across the group.

Discount rates applied to cash flow projections are based on a South African specific pre-tax weighted average cost of capital (WACC), which takes into account appropriate risk-free rates adjusted for market risk, company specific risk, cost of debt and the relevant weighting between debt and equity. The WACC applied to CGUs ranges from 16.2% to 21.9% (2018: 16.2%).

No impairment losses (2018: losses of R33.3 million) were recognised during the current year. The recoverable amounts determined for the unimpaired goodwill comfortably, and in most cases, far exceeded the carrying values thereof.

During the year, goodwill for CGU's that now operate as single operations were combined.

13. Intangible assets

R000	Customer relationships	Trade names	Supplier contracts	2019 Total
Cost				
Opening balance	**178 956**	**58 189**	**9 287**	**246 432**
Derecognised	**(130 770)**	**(27 844)**	**(9 287)**	**(167 901)**
Acquisition of businesses	**1 281**	**100**		**1 381**
Closing balance	**49 467**	**30 445**		**79 912**
Accumulated amortisation				
Opening balance	**135 463**	**42 136**	**9 287**	**186 886**
Derecognised	**(124 686)**	**(23 428)**	**(9 287)**	**(157 401)**
Amortisation for the year	**21 628**	**5 727**		**27 355**
Closing balance	**32 405**	**24 435**		**56 840**
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**		**22 631**

R000	Customer relationships	Trade names	Supplier contracts	2018 Total
Cost				
Opening balance	171 696	57 235	9 287	238 218
Acquisition of businesses	7 260	954		8 214
Closing balance	178 956	58 189	9 287	246 432
Accumulated amortisation				
Opening balance	111 748	36 206	9 287	157 241
Amortisation for the year	23 715	5 930		29 645
Closing balance	135 463	42 136	9 287	186 886
Accumulated impairment				
Opening balance	6 083	4 416		10 499
Impairments during the year	442			442
Closing balance	6 525	4 416		10 941
Net book value	36 968	11 637		48 605
The remaining expected useful lives are set within these ranges (years):	1 – 3	1 – 2		

Intangible assets were acquired as part of the acquisition of businesses. The costs attributable to these assets 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 12.

R000	2019	2018

14. Deferred taxation

14.1 Deferred taxation comprises temporary differences arising from:

Capital allowances	**(28 531)**	(25 975)
Amounts due to vendors	**(1 240)**	(4 752)
Intangible assets	**(6 546)**	(13 811)
Allowance for expected credit loss (2018: doubtful debt)	**12 523**	7 241
Leave pay and bonus accruals	**51 696**	60 004
Calculated tax loss	**5 310**	5 096
Fair value of cash flow hedges	**374**	963
Other	**5 087**	6 071
Net deferred taxation asset	**38 673**	34 837
Deferred taxation is reflected on the group statement of financial position as follows:		
Deferred tax assets	**39 331**	35 662
Deferred tax liabilities	**(658)**	(825)
	38 673	34 837

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.

14.2 Movement for the year

Balance at beginning of the year	**34 837**	13 470
Effect of adoption of IFRS 9 (note 3)	**5 320**	
Arising on acquisitions during the year		
Amounts due to vendors	**(73)**	(93)
Intangible assets	**(387)**	(2 299)
Allowance for expected credit loss (2018: doubtful debt)	**598**	
Leave pay and bonus accruals	**93**	557
Other		700
Raised (utilised) during the year (including prior years under/over provision)		
Capital allowances	**(2 556)**	(1 760)
Amounts due to vendors	**3 585**	6 584
Intangible assets	**7 652**	8 423
Allowance for expected credit loss (2018: doubtful debt)	**(636)**	1 135
Leave pay and bonus accruals	**(8 401)**	9 851
Calculated tax loss	**214**	898
Fair value of cash flow hedges	**(589)**	(149)
Other	**(984)**	(2 480)
	38 673	34 837

15. Inventories

Merchandise	**1 634 292**	1 727 336
Raw materials and components	**38 886**	43 750
Work in progress	**46 964**	50 875
	1 720 142	1 821 961
Cost of inventory recognised as an expense in cost of sales	**4 049 530**	3 866 978
Inventory that is expected to be sold after more than 12 months	**197 000**	134 000
Write-down of inventory to net realisable value and losses of inventory	**10 785**	9 371
Amounts removed during the year from the cash flow hedging reserve increasing the initial cost of inventories	**3 442**	3 973

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.

R000	2019	2018
16. Trade and other receivables		
Trade receivables	**1 184 849**	1 163 174
Allowance for expected credit loss (2018: doubtful debt)	**(52 804)**	(31 527)
Other receivables	**106 342**	116 055
Pre-payments	**30 769**	29 879
	1 269 156	1 277 581
Allowance for expected credit loss (2018: doubtful debt):		
Balance at beginning of the year	**31 527**	25 310
Exchange differences	**(5)**	
Effect of the adoption of IFRS 9 (note 3)	**19 000**	
Additional allowance charged to profit or loss	**12 972**	12 495
Allowance reversed to profit or loss	**(566)**	(236)
Allowance utilised	**(12 260)**	(6 042)
Acquisitions during the year	**2 136**	
	52 804	31 527

All trade receivables are provided for based on the lifetime expected credit loss impairment method using the simplified approach. The provision is predominantely determined by the use of a provison matrix that is based on historical credit loss experience, adjusted for forward-looking factors specific to the industry the accounts receivable related to, including, interest and exchange rate, industry growth expectations and extended payment terms granted. The group also provides fully for amounts past their due dates that are not insured, which based on history and the circumstances surrounding the individual receivable are not considered to be recoverable.

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

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

	2019			2018		
Ageing of trade receivables	Expected credit loss rate %	Total gross carrying amount R000	Expected credit loss R000	Expected credit loss rate %	Total gross carrying amount R000	Expected credit loss R000
Less than 30 days	**1**	**657 838**	**4 782**	1	593 237	4 813
31 to 60 days	**1**	**298 758**	**2 965**	1	323 086	3 579
61 to 90 days	**1**	**82 624**	**1 164**	2	120 695	1 903
91 to 120 days	**5**	**47 619**	**2 249**	8	39 932	3 181
121 days and more	**27**	**56 107**	**14 870**	20	50 313	10 106
Specifically impaired	**64**	**41 903**	**26 774**	75	35 911	26 945
	4	**1 184 849**	**52 804**	4	1 163 174	50 527

R000	2019	2018
17. Shareholders' equity		
17.1 Authorised share capital		
40 000 000 ordinary shares of 10 cents each	**4 000**	4 000
17.2 Issued share capital		
34 153 531 ordinary shares	**3 415**	3 415
2 507 828 ordinary shares held by subsidiary company – 7.3%	**(251)**	(251)
Net 31 645 703 ordinary shares	**3 164**	3 164

17.3 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 17.6).

17. Shareholders' equity continued

17.4 Non-distributable reserves

R000	Special reserve account	Cash flow hedging reserve	Foreign currency translation reserve	Equity compensation reserves	BEE transaction share-based payments	Total
Note		24.2.1				
Balance at 30 November 2017	332	(2 424)	(3 660)	46 458	37 326	78 032
Other comprehensive income for the year		360	2 278			2 638
Increase in equity compensation reserves				17 431		17 431
Balance at 30 November 2018	332	(2 064)	(1 382)	63 889	37 326	98 101
Less: Shares held by subsidiary company	(41)					(41)
Net balance at 30 November 2018	291	(2 064)	(1 382)	63 889	37 326	98 060
Balance at 30 November 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**

17.5 Non-controlling interest

	Hudaco Trading (Pty) Ltd		DD Power Holdings (Pty) Ltd		Total	
R000	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Proportion of ownership held by non-controlling interests	**15%**	15%	**30%**	30%		
Turnover	**6 668 345**	6 365 213	**309 422**	255 178	**6 977 767**	6 620 391
Profit after tax for the year	**197 163**	71 853	**40 623**	29 924	**237 786**	101 777
Profit allocated to non-controlling interests for the year	**29 574**	10 778	**12 187**	8 977	**41 761**	19 775
Dividends paid to non-controlling interests for the year	**(6 000)**	(15 000)	**(3 000)**	(16 200)	**(9 000)**	(31 200)
Total comprehensive income for the year allocated to non-controlling interests	**29 951**	11 349	**11 957**	8 718	**41 908**	20 067
Effect of the adoption of IFRS 9 (note 3)	**(2 052)**				**(2 052)**	
Accumulated equity allocated to non-controlling interests	**54 935**	33 036	**46 242**	37 285	**101 177**	70 321
Cash flow from operating activities	**749 040**	362 468	**35 402**	13 385	**784 442**	375 853
Non-current assets	**3 111 472**	3 108 890	**7 872**	6 788	**3 119 344**	3 115 678
Current assets	**2 938 215**	3 047 487	**190 072**	185 454	**3 128 287**	3 232 941
Non-current liabilities	**4 038 404**	4 247 443	**739**	849	**4 039 143**	4 248 292
Current liabilities	**2 078 257**	2 120 586	**39 598**	67 220	**2 117 855**	2 187 806

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

17. Shareholders' equity continued

17.6 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	2019	2018
Total specifically authorised to be issued in terms of all schemes	n/a	8 000
Shares issued under the now defunct share option scheme	n/a	3 997
Shares currently available to be granted in terms of the share appreciation bonus scheme in the future	1 582(1)	4 003
Shares potentially required to meet obligations in terms of the share appreciation bonus scheme(2)	886	966
Shares available	696	3 037

(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 that was approved by shareholders in May 2006:

	Weighted average strike price in cents		Number of rights (000)	
	2019	2018	2019	2018
Rights not taken up at beginning of the year	11 682	10 762	3 798	3 541
Rights granted during the year	11 727	14 951	883	751
Forfeited during the year	(11 437)	(10 928)	(434)	(142)
Rights exercised during the year	(9 770)	(9 709)	(144)	(352)
Rights not taken up at end of the year	11 785	11 682	4 103	3 798
Already exercisable	10 507	9 910	1 510	963
First exercisable in the financial years ending:				
November 2019		10 554		734
November 2020	11 386	11 738	415	674
November 2021	12 661	12 646	643	709
November 2022	12 951	13 810	727	469
November 2023	13 122	14 951	523	249
November 2024	11 727		285	
	11 785	11 682	4 103	3 798

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 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.

17. Shareholders' equity continued

17.6 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)	
	2019	2018	**2019**	2018
Rights not taken up at beginning of the year	**10 960**	10 003	**223**	215
Rights granted during the year	**11 951**	14 665	**116**	49
Rights exercised during the year	**(91 444)**	(10 370)	**(135)**	(41)
Rights not taken up at end of the year	**12 725**	10 960	**204**	223

39 742 of these shares are first exercisable in the financial year ending November 2020, 48 814 in the financial year ending November 2021 and the remaining 115 878 in the financial year ending November 2022.

Participants in the scheme will get an equal number of Hudaco shares if they remain in Hudaco's employ and hold on to these 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	7 Aug 10	13 Jul 11	27 Jul 12	12 Jul 13	25 Jul 14	10 Jul 15	20 Jul 16	24 Jul 17	23 Jul 18	**26 Jul 19**
Number of rights granted	276 333	277 534	405 433	464 250	932 080	710 300	787 420	698 950	751 410	**882 870**
Rights forfeited	(52 668)	(76 170)	(160 801)	(139 350)	(146 432)	(147 150)	(151 000)	(90 060)	(67 870)	**(2 250)**
Rights taken up	(223 665)	(188 532)	(145 298)	(157 969)	(228 967)	(71 616)	(34 260)			
Rights still outstanding		12 832	99 334	166 931	556 681	491 534	602 160	608 890	683 540	**880 620**
Vested rights		12 832	99 334	166 931	556 681	491 534	181 680			
Unvested rights							420 480	608 890	683 540	**880 620**
Exercise price (R) – strike price (10-day VWAP)	68.09	81.05	109.26	90.80	92.04	125.24	102.93	125.10	149.51	**117.27**
Share price at grant date (R)	68.99	80.85	108.49	90.30	91.92	129.63	104.21	127.40	150.00	**117.96**
Expected volatility (%)[(1)]	27	34	25	21	21	21	28	28	27	**27**
Expected dividend yield (%)	6.0	5.4	5.2	4.7	4.6	4.3	4.8	4.7	4.1	**5.5**
Risk-free rate (%)	7.3	7.1	5.9	7.4	7.6	7.8	8.1	7.7	8.1	**7.3**
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	**3 to 5**
Estimated fair value per right (R)	12.84	21.66	20.00	18.26	18.96	29.88	29.54	37.23	45.41	**32.22**

Share matching scheme

Granted during	2015	2016	2017	2018	**2019**
Number of rights granted	43 848	137 832	39 742	48 814	**115 878**
Number of rights forfeited	(3 215)	(2 957)			
Number of rights exercised	(40 633)	(134 875)			
Unvested rights			39 742	48 814	**115 878**
Share price at grant date (R)	117.77	109.50	138.45	164.21	**119.63**
Expected volatility (%)[(1)]	21	29	28	27	**27**
Expected dividend yield (%)	4.6	3.7	4.7	4.1	**5.5**
Risk-free rate (%)	6.2	8.1	7.7	8.1	**7.3**
Vesting period (years)	3	3	3	3	**3**
Estimated fair value per right (R)	103.37	94.17	124.60	147.79	**119.63**

(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	**2019**	2018
Employee share-based payment expense included in operating profit arising from:		
Share appreciation scheme	**8 050**	20 779
Share matching scheme	**8 745**	7 598
	16 795	28 377

R000	2019	2018

18. Non-current liabilities

18.1 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	**50 000**	300 000
– 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%.	**500 000**	460 000
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%.	**352 900**	239 372
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 ratio shall exceed 4:1 and the net debt to EBITDA ratio shall not exceed 2.5:1.		
	917 900	1 014 372

18.2 Amounts due to vendors of businesses acquired

Estimated amount due to the vendors of Eternity Technologies acquired in 2017. The amount includes imputed interest at 7.3% per annum. The amount finally payable (maximum R153.3 million) is subject to adjustment based on earnings of the business, up to July 2020	**47 362**	111 802
Estimated amount due to the vendors of The Dished End Company acquired in 2017. The amount includes imputed interest at 8.5% per annum. The amount finally payable (maximum R41.1 million) is subject to adjustment based on earnings of the business, up to April 2020	**12 233**	31 684
Amount due to the vendors of Commercial ICT acquired in December 2016, based on earnings of the business, up to November 2019	**1 247**	5 495
Estimated amount due to the vendors of Dosco Precision Hydraulics Mpumalanga acquired in 2019. The amount includes imputed interest at 8.4% per annum. The amount finally payable (maximum R3.3 million) is subject to adjustment based on earnings of the business, up to March 2020	**3 213**	
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**	
Estimated amount due to the vendors of Brewtech Engineering acquired in 2016		55
Estimated amount due to the vendors of MiRO acquired in 2016		64 455
Total fair value of liabilities	**64 543**	213 491
Less: Payable within 12 months	**64 317**	104 592
	226	108 899

These liabilities are estimated based on available information. Any adjustment is debited or credited to profit or loss when the adjustment is determined.

19. Trade and other payables

Trade payables	**674 734**	693 856
Fair value of forward exchange contracts	**9 988**	31 645
Other payables	**283 688**	263 854
	968 410	989 355

Included in other payables are payroll and other accruals.

20. Acquisition of businesses

R000	Dosco Precision Hydraulics Mpumalanga	Industrial Filtration Maintenance	**Total 2019**	**Total 2018**
Effective date of control	1 Mar 2019	1 Mar 2019		
Fair value of net assets acquired:				
Plant and equipment	305	201	**506**	2 792
Goodwill	5 995	1 104	**7 099**	57 990
Intangible assets	1 381		**1 381**	8 214
Bank balances	(340)	(462)	**(802)**	1 213
Inventories	348	145	**493**	66 376
Trade and other receivables	3 531		**3 531**	15 928
Trade and other payables	(2 232)		**(2 232)**	(15 604)
Deferred taxation	231		**231**	(1 135)
Net operating assets acquired	9 219	988	**10 207**	135 774
Bank balances assumed	340	462	**802**	(1 213)
Balance owed to vendors at acquisition date	(3 018)	(488)	**(3 506)**	
Net cash outflow on acquisitions	6 541	962	**7 503**	134 561

Profit after tax since acquisition date included in the consolidated results for the year	**1 443**	4 405
Turnover since acquisition date included in the consolidated results for the year	**22 599**	99 034
Group profit after tax had the business combinations been included for the entire year	**467 265**	404 127
Group turnover had the business combinations been included for the entire year	**6 709 845**	6 528 709

Refer to page 86 in the directors' report for further information.

21. Dividends

Dividends paid to equity holders of the parent were:		
Dividend number 64 of 380 cents per share declared on 31 January 2019	**129 785**	129 785
The record date was 1 March 2019 and the dividend was paid on 4 March 2019		
Dividend number 65 of 190 cents per share declared on 27 June 2019	**64 892**	64 892
The record date was 8 August 2019 and the dividend was paid on 12 August 2019		
Dividends paid to subsidiary company	**(14 296)**	(14 296)
	180 381	180 381

On 30 January 2020 the directors declared dividend number 66 of 410 cents per share, being the final dividend in respect of the year ended 30 November 2019. The record date will be 21 February 2020 and the dividend will be paid on 24 February 2020. This dividend has not been included as a liability in these financial statements.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued
for the year ended 30 November 2019

R000	2019	2018
22. Notes to the statement of cash flows		
22.1 Decrease (increase) in working capital		
Decrease (increase) in inventories	**102 312**	(217 651)
Exchange differences	**5**	
Amounts from cash flow hedging reserve allocated to initial value of inventories	**3 442**	3 973
Increase in trade and other receivables	**(22 546)**	(106 120)
(Decrease) increase in trade and other payables	**(23 177)**	31 037
Fair value of current year cash flow hedges included in working capital	**(1 339)**	(3 442)
	58 697	(292 203)
22.2 Taxation paid		
Net amounts owed at beginning of the year	**(28 649)**	(25 724)
Current tax charge	**(156 604)**	(166 795)
Prior year (under) over provision	**(197)**	247
Foreign tax charge	**(2 430)**	(703)
Net amounts (paid in advance) owed at end of the year	**(7 978)**	28 649
	(195 858)	(164 326)
22.3 Payments to vendors of businesses acquired		
Amounts owed at beginning of the year	**(213 491)**	(331 986)
Adjustment to fair value of amounts due to vendors of businesses acquired	**46 136**	11 074
Acquisitions during the year	**(3 506)**	
Amounts owed at end of the year	**64 543**	213 491
	(106 318)	(107 421)
22.4 (Decrease) increase in non-current amounts due to bankers		
Advances taken up during the year	**253 528**	589 372
Repayments during the year	**(350 000)**	(250 000)
	(96 472)	339 372
22.5 Dividends paid		
To equity holders of the parent	**(180 381)**	(180 381)
To non-controlling shareholders	**(9 000)**	(31 200)
	(189 381)	(211 581)
22.6 Net bank overdraft		
Bank deposits and balances	**57 840**	62 691
Bank overdraft	**(147 906)**	(211 425)
	(90 066)	(148 734)

R000	2019	2018

23. Commitments

23.1 Operating lease arrangements

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. At the reporting date the group had outstanding commitments under these operating leases in respect of fixed properties which fall due as follows:

R000	2019	2018
Within one year	**116 091**	111 547
Payable in second to fifth years	**185 536**	173 229
Payable thereafter	**874**	15 153
	302 501	299 929

23.2 Property, plant and equipment

The group has budgeted to spend R70 million to acquire property, plant and equipment in 2020, none of which is committed or contracted for. Total capital expenditure will be financed by net cash flow from operations and the utilisation of unutilised borrowing facilities.

24. Financial instruments

Details of the group's financial instruments are set out below:

24.1 Summary of financial instruments

R000	2019	2018
Financial assets by class:		
Trade receivables	**1 132 045**	1 131 020
Other receivables (excluding indirect taxes)	**89 700**	104 607
Bank deposits and balances	**57 840**	62 691
	1 279 585	1 298 318
Financial assets by category:		
At amortised cost (2018: Loans and receivables)	**1 279 585**	1 298 318
	1 279 585	1 298 318
Financial liabilities by class:		
Amounts due to vendors of businesses acquired	**64 543**	213 491
Amounts due to bankers	**917 900**	1 014 372
Bank overdraft	**147 906**	211 425
Trade payables	**674 734**	693 856
Fair value of forward exchange contracts	**9 988**	31 645
Other payables (excluding payroll accruals and indirect taxes)	**130 407**	118 728
	1 945 478	2 283 517
Financial liabilities by category:		
Financial liabilities at amortised cost	**1 870 947**	2 038 381
Financial liabilities at fair value through profit or loss	**64 543**	213 491
Derivatives used for hedging at fair value	**9 988**	31 645
	1 945 478	2 283 517

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, both of which are disclosed in note 18.2. The accuracy of the estimate of future profitability is largely impacted by the duration of the earn-out periods remaining. The only liability for which this is more than one year are amounts payable to the vendor of Industrial Filtration Maintenance. Should the actual profitability eventually achieved by this business be 10% lower than the current estimates, the fair value of the liability will not differ materially. Refer to note 22.3 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.

24. Financial instruments continued

24.2 Market risk

24.2.1 Foreign currency risk

The group imports more than 65% of its inventories and consequently has 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. Formal meetings are held twice monthly with an outside consultant to monitor and optimise levels of exposure. 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 R23.3 million (2018: R25.2 million).

Cash flow hedges – at 30 November 2019 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	14.66	7 778	14.77	114 852
Pound Sterling	18.94	46	19.04	868
Euro	16.16	2 642	16.36	43 221
Total cost of contracts				158 941
Fair value – Rand equivalent of the above contracts at year end spot rates				157 602
Loss recognised directly in equity on import orders				1 339
Taxation				(374)
Attributable to non-controlling shareholders				(164)
Attributable to equity holders of the parent (note 17.4)*				801

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

The group determines, in accordance with IAS 39 requirements, 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 2019 and we maintained our conservative approach in our hedging policy so as not to expose the group to the continued volatility.

24.2.2 Interest rate risk

The group uses bank finance and has been reluctant to fix interest rates for extended periods on borrowings that finance working capital.

The interest rate profile of non-current borrowings is as follows:

	Year of repayment	Interest rate %	2019 R000	2018 R000
Amounts due to bankers	2021	JIBAR plus premium	**917 900**	1 014 372

A change of 1% in the interest rate charged on non-current borrowings will affect profit after tax by approximately R6.6 million (2018: R7.3 million) per year and profit attributable to equity holders of the parent by R5.6 million (2018: R6.2 million).

24. Financial instruments continued

24.3 Credit risk

Credit risk is present in trade receivables and short-term cash investments.

At group level trade receivables consist of a large, widely-spread customer base with no significant concentration of risk to any one customer or industry. Each business in the group is responsible for the management of credit risk in receivables and does so through ongoing credit evaluations, credit insurance and credit control policies and procedures. Management does not consider there to be any material credit risk exposure that is not already covered by an allowance for expected credit loss.

It is group policy to deposit short-term cash investments with major banks, within limits approved by the board, where security rather than yield is the overriding consideration.

The maximum credit risk (disregarding collateral held) to which the group is exposed is as follows:

R000	2019	2018
Trade receivables	**1 132 045**	1 131 020
Other receivables (excluding indirect taxes)	**89 700**	104 607
Bank deposits and balances	**57 840**	62 691
	1 279 585	1 298 318

24.4 Liquidity risk

The group manages liquidity risk by monitoring forecast cash flows and ensuring that adequate unutilised borrowing facilities are maintained. Unutilised facilities plus available cash resources at 30 November 2019 were R1 142 million.

There is no restriction on borrowing powers in terms of the memorandum of incorporation and at 30 November 2019 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 2019	30 November 2020	30 November 2021
Amounts due to bankers	**917 900**	**78 022**	**917 900**
Amounts due to vendors of businesses acquired	**64 543**	**64 317**	**226**
Bank overdraft	**147 906**	**147 906**	
Trade payables	**674 734**	**674 734**	
Other payables (excluding payroll accruals and indirect taxes)	**130 407**	**130 407**	

24.5 Fair value of derivative financial instruments

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

R000	2019	2018
Cash flow hedges (note 24.2.1)	**1 339**	3 442
Fair value hedges (on contracts of R336 million at year end spot rates)	**8 649**	28 203
	9 988	31 645

24.6 Capital management

The group seeks to ensure that it and each separate entity has sufficient capital to support its activities and its medium-term growth objectives.

In setting the ideal mix between debt and equity, the group seeks to optimise its return on shareholders' equity while maintaining prudent financial gearing. Generally, the objective is to operate with net long-term debt not exceeding 2.0 times EBITDA. In 2019 it was 1.2 times (2018: 1.5 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 debt less interest received. In 2019 it was 6.8 times (2018: 7.3 times).

25. Retirement benefits

It is the policy of the group to provide for employees' retirement benefits by contributing to separate, defined contribution pension or provident plans which are independent entities managed by trustees and subject to the Pension Funds Act, 1956. Membership is of umbrella funds administered by Old Mutual. There are some businesses acquired by the group whose employees remain on their pre-acquisition retirement funds.

Contributions to retirement funding during the year amounted to R61.5 million (2018: R58.5 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.

26. Directors' interests and remuneration

26.1 Interests of directors in the share capital of the company as at 30 November 2019

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

	Direct Share register (own name)		Indirect Held by associates	
	2019	2018	**2019**	2018
SJ Connelly	**274 139**	274 139	**1 680**	1 680
CV Amoils	**105 606**	74 147	**7 500**	7 500
GR Dunford	**203 465**	174 599	**647 212**	647 212
LFJ Meiring	**16 827**			
	600 037	522 885	**656 392**	656 392

The shareholdings above have not changed between 30 November 2019 and the date of the notice of the annual general meeting.

26.2 Directors' interests in the share appreciation bonus scheme and the share matching scheme

The directors' interests in the share appreciation bonus scheme and the share matching scheme are set out in the implementation of the remuneration policy section of the remuneration report, specifically dealing with executive directors' remuneration as set out on pages 63 to 67 of the integrated report.

26.3 Directors' remuneration

The remuneration of the directors is set out in the implementation of the remuneration policy section of the remuneration report, specifically dealing with executive directors' remuneration as set out on pages 63 to 67 of the integrated report and non-executive directors' remuneration on page 72.

27. Segment information

R million	Group 2019	Group 2018	Head office, shared services and eliminations 2019	Head office, shared services and eliminations 2018	Consumer-related products 2019	Consumer-related products 2018	Engineering consumables 2019	Engineering consumables 2018
Statement of net income								
Turnover	**6 704**	6 381	**(5)**	(20)	**3 589**	3 491	**3 120**	2 910
– Ongoing operations	**6 481**	6 282	**(5)**	(20)	**3 389**	3 392	**3 097**	2 910
– Operations acquired after Dec 2017	**223**	99			**200**	99	**23**	
EBITDA	**777**	732	**(3)**	(51)	**462**	498	**318**	285
Depreciation less recoupments	**49**	47	**1**	2	**20**	15	**28**	30
Amortisation of intangible assets	**27**	30			**21**	21	**6**	9
Operating profit (loss)	**701**	655	**(4)**	(53)	**421**	462	**284**	246
– Ongoing operations	**669**	644	**(4)**	(53)	**391**	451	**282**	246
– Operations acquired after Dec 2017	**32**	11			**30**	11	**2**	
Impairment of goodwill and intangible assets		(34)				(22)		(12)
Fair value adjustments	**30**	12			**16**	4	**14**	8
Profit before interest	**731**	633	**(4)**	(53)	**437**	444	**298**	242
Statement of financial position								
Property, plant and equipment	**302**	277			**106**	86	**196**	191
Investment in joint venture	**12**	9			**12**	9		
Goodwill	**1 512**	1 505			**884**	877	**628**	628
Intangible assets	**23**	49			**18**	39	**5**	10
Deferred taxation – net	**38**	35	**26**	35	**5**	(5)	**7**	5
Inventories	**1 720**	1 822			**815**	909	**905**	913
Trade and other receivables	**1 269**	1 278	**(5)**	31	**684**	704	**590**	543
Trade and other payables	**(968)**	(989)	**(34)**	(42)	**(448)**	(506)	**(486)**	(441)
Taxation – net	**8**	(29)	**130**	99	**(78)**	(89)	**(44)**	(39)
Net operating assets	**3 916**	3 957	**117**	123	**1 998**	2 024	**1 801**	1 810
Turnover comprises								
Revenue from contracts with customers	**6 704**	6 381	**(5)**	(20)	**3 589**	3 492	**3 120**	2 909
Sales of products	**6 522**	6 219	**(5)**	(20)	**3 519**	3 417	**3 008**	2 822
Rendering of services	**182**	162			**70**	75	**112**	87
Timing of revenue recognition	**6 704**	6 381	**(5)**	(20)	**3 589**	3 492	**3 120**	2 909
Goods and services transferred at a point in time	**6 510**	6 234	**(5)**	(20)	**3 579**	3 468	**2 936**	2 786
Goods and services transferred over time	**194**	147			**10**	24	**184**	123
Geographical disaggregation	**6 704**	6 381	**(5)**	(20)	**3 589**	3 492	**3 120**	2 909
Goods and services sold in South Africa	**6 060**	5 918	**(5)**	(20)	**3 345**	3 277	**2 720**	2 661
Goods and services sold outside South Africa	**644**	463			**244**	215	**400**	248
Additional information								
Average net operating assets	**3 992**	3 781	**(3)**	25	**2 126**	1 935	**1 869**	1 821
Capital expenditure	**79**	56			**41**	24	**38**	32
Operating profit margin (%)	**10.4**	10.3			**11.7**	13.2	**9.1**	8.4
Return on average net operating assets (%)	**17.5**	17.3			**19.8**	23.9	**15.2**	13.5
Number of permanent employees	**3 858**	3 732	**25**	25	**1 713**	1 596	**2 120**	2 111

No secondary segment information has been prepared as revenue and assets outside South Africa are less than 10% of the group total.

The performance of operating segments is measured at operating profit level. Management of interest is centralised.

28. Related party transactions

Related parties are those that control or have a significant influence over the group (including holding companies, major investors and key management personnel) and parties that are controlled or significantly influenced by the group (including subsidiaries, 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 123.

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	2019	2018
Compensation of key management personnel (excluding non-executive directors)		
Short-term employee benefits	**37 412**	28 201
Value of long-term incentives awarded during the year	**20 748**	14 134
	58 160	42 335

In addition to the above, key management personnel have exercised share appreciation rights during the year with a difference between the market price at exercise date and the strike price amounting to R0.4 million (2018: R5.4 million).

Directors

Details of directors' remuneration and share-based payments are set out in the implementation of the remuneration policy section of the remuneration report, specifically dealing with executive directors' remuneration as set out on pages 63 to 67 of the integrated report and non-executive directors' remuneration on page 72.

Shareholdings of the directors are set out in note 26.

GR Dunford, chief executive of Hudaco, 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	2019	2018
Ambro Steel*	**Feb 20**	**3 603**	1 233
Bauer	**Nov 21**	**2 281**	2 112
Dosco Precision Hydraulics	**Apr 22**	**1 743**	1 614
Gear Pump Manufacturing	**Jun 21**	**2 375**	1 967
Joseph Grieveson	**Jun 21**	**3 103**	2 873

** Since August 2018.*

COMPANY FINANCIAL STATEMENTS
for the year ended 30 November 2019

Hudaco Industries Limited

STATEMENT OF FINANCIAL POSITION
at 30 November 2019

R000	2019	2018
ASSETS		
Non-current assets		
Interest in subsidiaries (note 1)	**92 275**	244 974
Current assets		
Receivables	**8**	126
Total assets	**92 283**	245 100
EQUITY AND LIABILITIES		
Shareholders' equity	**78 795**	243 886
Current liabilities	**13 488**	1 214
Amounts owed to subsidiaries (note 5)	**12 274**	
Payables and taxation	**1 214**	1 214
Total equity and liabilities	**92 283**	245 100

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 30 November 2019

R000	2019	2018
Dividends received from subsidiaries		
– Hudaco Investment Company (Pty) Ltd		114 000
– Hudaco Trading (Pty) Ltd	**34 000**	85 000
Operating costs	**(4 414)**	(4 101)
Profit after taxation	**29 586**	194 899

STATEMENT OF CHANGES IN EQUITY
for the year ended 30 November 2019

R000	Share capital	Share premium	Special reserve account	Retained income	Shareholders' equity
Note	3				
Balance at 30 November 2017	3 415	51 533	332	188 384	243 664
Profit after taxation				194 899	194 899
Dividends to shareholders				(180 381)	(180 381)
Dividends to subsidiary				(14 296)	(14 296)
Balance at 30 November 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 30 November 2019	**3 415**	**51 533**	**332**	**23 515**	**78 795**

COMPANY FINANCIAL STATEMENTS continued

for the year ended 30 November 2019

Hudaco Industries Limited

STATEMENT OF CASH FLOWS

for the year ended 30 November 2019

R000	2019	2018
Cash generated from operating activities		
Dividends received	**34 000**	199 000
Operating costs paid	**(4 414)**	(4 101)
Decrease in working capital	**118**	414
Cash flow from operations	**29 704**	195 313
Dividends paid	**(194 677)**	(194 677)
Net cash (applied) retained	**(164 973)**	636
Cash flow from investing activities		
Decrease (increase) in loans to subsidiary companies	**152 699**	(636)
Cash flow from financing activities		
Increase in loan from subsidiaries	**12 274**	
Net cash movement	**0**	0

NOTES TO THE COMPANY FINANCIAL STATEMENTS

for the year ended 30 November 2019

R000	2019	2018
1. Interest in subsidiaries		
Shares at cost less amounts written off	**92 275**	92 275
Loans to subsidiaries		152 699
	92 275	244 974

These loans are unsecured, interest-free and repayable at the discretion of the subsidiary.

The investment in a subsidiary company is carried at cost less impairment losses where applicable.

Details of subsidiaries are on page 123.

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 R1.2 billion at year end.

3. Share capital

3.1 Authorised share capital

	2019	2018
40 000 000 ordinary shares of 10 cents each	**4 000**	4 000

3.2 Issued share capital

	2019	2018
34 153 531 ordinary shares	**3 415**	3 415

4. Risk management

Risk is managed under the same principles as set out in note 24 of the consolidated annual financial statements on pages 116 and 117 of this report.

5. Amounts owed to subsidiary

	2019	2018
This loan is unsecured, interest free and repayable on demand.	**12 274**	

PRINCIPAL SUBSIDIARIES
at 30 November 2019

		Interest of holding company					
		Group's effective interest		Book value of shares		Loans owing (to) by	
	Issued share capital Rand	2019 %	2018 %	2019 R000	2018 R000	2019 R000	2018 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	**(12 274)**	152 699
DD Power Holdings (Pty) Ltd	300 000	**70(2)**	70(2)				
DD Power (Pty) Ltd	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	**(12 274)**	152 699

(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.

Refer to the group directory on pages 134 to 137 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 2019

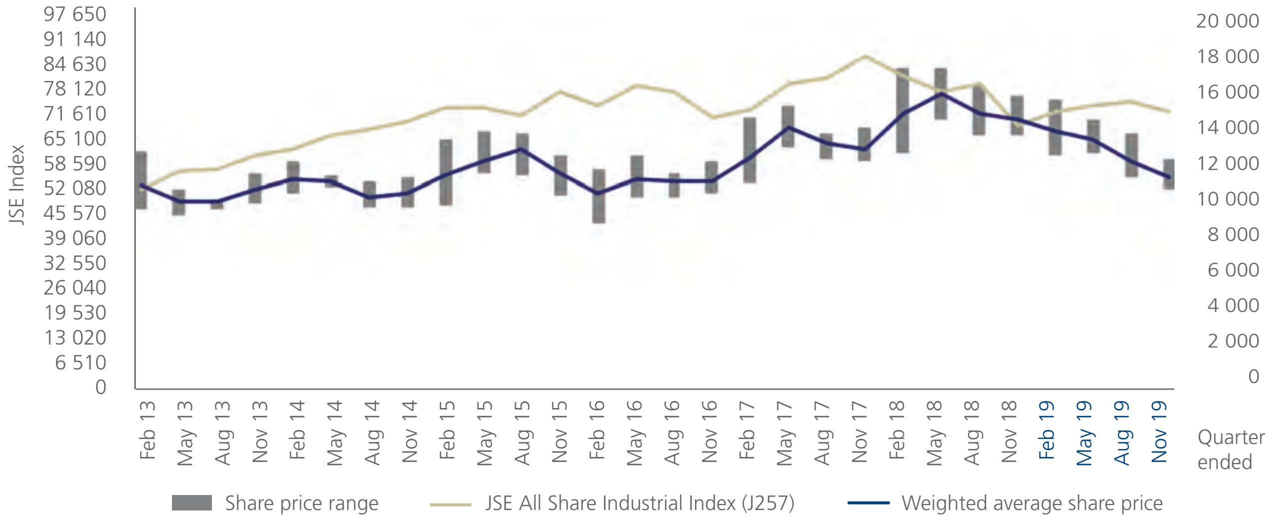
Shareholder analysis	Number of shareholders	Number of shares	% of issued shares
Portfolio size			
1 – 1 000 shares	2 944	**1 038 295**	3.28
1 001 – 5 000 shares	1 028	**2 350 782**	7.43
5 001 – 10 000 shares	173	**1 291 585**	4.08
10 001 – 100 000 shares	185	**5 766 194**	18.22
Over 100 000 shares	45	**21 198 847**	66.99
Total(1)	4 375	**31 645 703**	100.00
Category			
Banks and nominee companies	64	**3 947 719**	12.47
Financial institutions and pension funds	476	**21 499 137**	67.94
Individuals	3 756	**5 470 308**	17.29
Other corporate bodies	79	**728 539**	2.30
Total(1)	4 375	**31 645 703**	100.00
Shareholder spread			
Public	4 348	**30 208 577**	95.46
Non-public – directors and associates(2)	27	**1 437 126**	4.54
Total(1)	4 375	**31 645 703**	100.00

Major shareholders		
Beneficial shareholders holding more than 3%		
Public Investment Corporation GEPF	**3 008 220**	9.51
PSG Flexible Fund	**1 656 437**	5.23
Old Mutual Life Assurance	**1 481 666**	4.68
PSG Balanced Fund	**1 365 027**	4.31
PSG Equity Fund	**991 251**	3.13
Fund managers holding more than 3%		
PSG Asset Management	**4 636 721**	14.65
Public Investment Corporation	**3 146 398**	9.94
Old Mutual Investment Group	**2 400 566**	7.59
Investec Asset Management	**1 158 156**	3.66
Prudential Investment Managers	**1 013 269**	3.20
Bateleur Capital	**967 737**	3.06

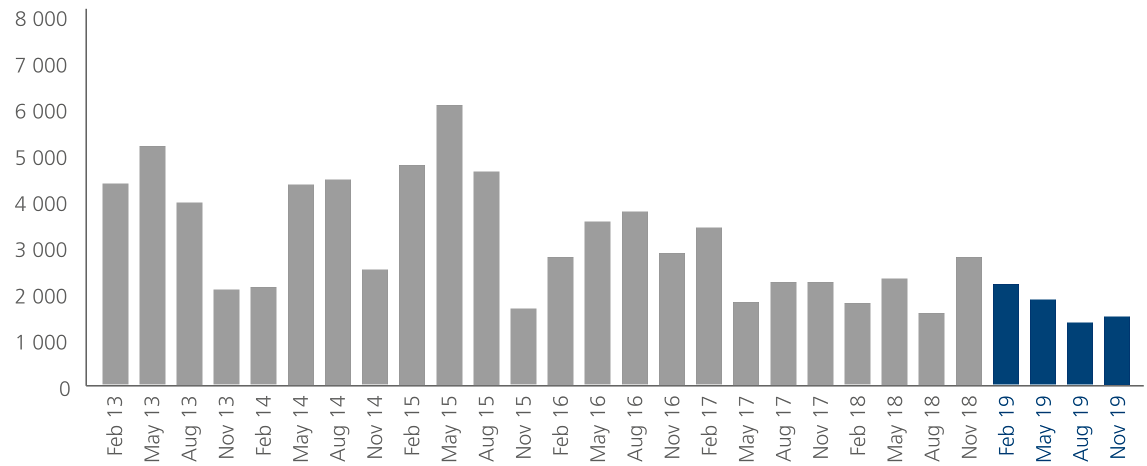
(1) Excludes 2 507 828 shares held by a subsidiary company.
(2) A list of shareholdings of senior management is available on request from the group secretary.

SHARE INFORMATION

Share price history



Volume of shares traded (000)



JSE statistics	2019	2018	2017	2016	2015	2014	2013
Market price (cents)	**10 808**	14 200	13 600	10 850	10 701	9 590	10 365
NAV per share (cents)	**8 666**	7 927	7 252	6 525	5 827	5 210	5 737
Number of shares in issue (000)*	**31 646**	31 646	31 646	31 646	31 646	31 646	31 646
Market capitalisation (Rm)*	**3 420**	4 494	4 304	3 434	3 386	3 035	3 280
Price:earnings ratio (times)	**8.4**	10.9	11.0	9.3	9.2	10.3	9.6
All Share Industrial Index PE ratio (J257)	**22.9**	19.9	30.4	27.0	22.6	21.6	21.0
Dividend yield (%)	**4.2**	3.2	3.1	4.8	4.9	4.8	4.5
All Share Industrial Index dividend yield (J257) (%)	**2.3**	2.3	1.9	2.5	2.3	2.2	2.2
Annual trade in Hudaco shares							
Number of transactions recorded	**22 314**	24 072	29 245	20 903	36 271	22 549	23 223
Volume of shares traded (000)	**6 882**	8 440	9 714	12 995	17 211	13 475	15 638
% of issued shares traded*	**22**	27	31	41	54	43	49
Value of shares traded (Rm)	**863**	1 272	1 234	1 341	2 007	1 354	1 496

** Excludes 2 507 828 treasury shares.*

NOTICE OF ANNUAL GENERAL MEETING

Hudaco Industries Limited

(Incorporated in the Republic of South Africa)
(Registration number 1985/004617/06)
Share code: HDC ISIN code: ZAE000003273
("Hudaco" or "the company")

Notice to shareholders of the 35th annual general meeting (AGM) of Hudaco Industries Limited

Notice is hereby given that the 35th AGM of shareholders of the company for the year ended 30 November 2019 will be held at 11:00 on Thursday, 19 March 2020 in the boardroom at Hudaco's corporate 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)	**2020**
Record date for determining which shareholders are entitled to receive the AGM notice	Friday, 21 February
Notice posted to shareholders on or about	Wednesday, 26 February
Last day to trade to be eligible to participate and vote at the AGM	Tuesday, 10 March
Record date for attending and voting at the AGM (3)	Friday, 13 March
AGM to be held at 11:00	Thursday, 19 March
Results of AGM to be released on SENS on	Thursday, 19 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 and published in the press.
(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, 21 February 2020, and the record date for purposes of determining which shareholders of the company are entitled to participate and vote at the AGM is Friday 13 March 2020. Accordingly, only shareholders who are recorded as such in the register maintained by the transfer secretaries of the company on Friday 13 March 2020 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 resolutions to be proposed, all of them ordinary resolutions unless the contrary appears:

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 2019, distributed as required.

Copies of the integrated report which contains the full audited consolidated annual financial statements for the year ended 30 November 2019 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 CV Amoils;
2.2 Ordinary Resolution Number 1.2: Re-election of Ms N Mandindi; and
2.3 Ordinary Resolution Number 1.3: Re-election of Mr MR Thompson.

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 2020 is Ms VR de Villiers.

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;

4.2 Ordinary Resolution Number 3.2: To elect Ms N Mandindi as member, subject to the passing of Ordinary Resolution Number 1.2; and

4.3 Ordinary Resolution Number 3.3: To elect Mr MR Thompson as member, subject to the passing of Ordinary Resolution Number 1.3.

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 2020 until 31 March 2021, be and it is hereby approved as set out below:

	Proposed 2020		2019	
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**	1 075 000*	20 000
Lead independent director	**412 000**	**20 000**	391 000	19 000
Board member	**303 000**	**15 000**	287 000	14 000
Audit and risk management committee				
Chairman of the committee	**264 000**	**21 000**	250 000	20 000
Committee member	**146 000**	**15 000**	138 000	14 000
Remuneration committee				
Chairman of the committee	**185 000**	**21 000**	175 000	20 000
Committee member	**84 000**	**14 000**	80 000	12 500
Nomination committee				
Chairman of the committee	*****		*	
Committee member	**61 000**	**10 000**	58 000	9 000
Social and ethics committee				
Chairman of the committee	**158 000**	**21 000**	150 000	20 000
Committee member	**70 000**	**12 000**	66 000	10 500

** 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 (2019: R29 000), Member – R22 000 (2019: R21 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 2020 until 31 March 2021. 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 xx of the Hudaco integrated report.

For Special Resolution Number 1 to be adopted, the support of at least 75% of the total number of votes exercisable by shareholders, present in person or by proxy, is required.

6. Non-binding Resolution Number 1: Approval of Hudaco's remuneration policy

That shareholders endorse, through a non-binding advisory vote, Hudaco's remuneration policy. Hudaco's remuneration policy is set out on pages 60 to 62 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 policy to the shareholders. This is an ordinary resolution which requires the support of more than 50% of the total number of votes exercisable by shareholders, present in person or by proxy. 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 63 to 72 of its integrated report.

King IV as well as the amended JSE Listings Requirements require the board (with the assistance of the remuneration committee) to present Hudaco's remuneration implementation report to the shareholders. This is an ordinary resolution which requires the support of more than 50% of the total number of votes exercisable by shareholders, present in person or by proxy. 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 1 582 285 (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 1 582 285 (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 124.
- share capital – note 17 on page 108.

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 1 582 285 (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 1 582 285 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, 13 March 2020.

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 (PO Box 61051, Marshalltown, 2107), so as to reach them by no later than 11:00 on Tuesday, 17 March 2020. 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 meeting or handed to the chairman of the AGM prior to the shareholder exercising any rights of a shareholder at the AGM.

By order of the board

R van Zyl
Group secretary

30 January 2020

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

FORM OF PROXY

To: **Computershare Investor Services Proprietary Limited**
Rosebank Towers, 15 Biermann Avenue, Rosebank, 2196
(PO Box 61051, Marshalltown, 2107)
Fax +27 11 370 5390

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 35th 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, 19 March 2020 at Hudaco's corporate 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 CV Amoils			
1.2 N Mandindi			
1.3 MR Thompson			
Ordinary Resolution Number 2: To approve the appointment of external auditors			
Ordinary Resolution Number 3: Appointment of the members of the audit and risk management committee:			
3.1 D Naidoo			
3.2 N Mandindi			
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 shares up to 1 582 285 (5%) of the ordinary shares in issue			
Ordinary Resolution Number 4: General authority to directors to allot and issue up to 1 582 285 authorised but unissued ordinary shares (5% of shares in issue)			
Ordinary Resolution Number 5: Signature of documents			

Signed at on 2020

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 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 PO Box 61051, Marshalltown, 2107, or emailed to them at proxy@computershare.co.za, by Tuesday, 17 March 2020, 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 meeting or handed to the chairman of the AGM prior to the shareholder exercising any rights of a shareholder at the AGM.

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

Reana van Zyl
Contact details as above

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	19 March 2020
Reports and financial statements	
Preliminary report and final dividend announcement	31 January 2020
Abridged financial statements and notice of annual general meeting (mailed to shareholders)	26 February 2020
Interim report and interim dividend announcement	26 June 2020
Dividend payment details	
Payment of final dividend	24 February 2020
Payment of interim dividend	third week in August 2020

GROUP DIRECTORY

DIVISION	BUSINESS NAME	PRINCIPAL ACTIVITIES	ADDRESS
CONSUMER-RELATED PRODUCTS			
Power tools	Rutherford	Distributor of Makita power tools, Mercury marine engines, survey instrumentation, rivets and fasteners	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 equipment	Elvey Security Technologies	Distributor of electronic security equipment, including intruder detection, access control, CCTV/surveillance, fire detection and electric fencing, as well as related consumables	27 Greenstone Place Greenstone Hill Edenvale
	Pentagon	Distributor of integrated security and life safety solutions, including surveillance, access control, fire detection, public address and perimeter detection products	27 Greenstone Place Greenstone Hill Edenvale
	Commercial ICT	Distributor of the Permaconn brand of GSM/IP communication equipment and systems as well as hosting and support of core IT infrastructure and communication networks	27 Greenstone Place Greenstone Hill Edenvale
	TPA Security Distributors	Distributor of electronic security equipment, including the Texecom range of intruder detection solutions, as well as related consumables	27 Greenstone Place Greenstone Hill Edenvale
Communication equipment	Global Communications	Distributor of professional mobile radio communication equipment and integrator of radio systems	Highway Business Park Park Street Rooihuiskraal Centurion
	MiRO	Distributor of wireless networking, VoIP and video products and provider of strong after-sales service and technical support	9 Landmarks Avenue Kosmosdal Ext 11 Samrand
	SS Telecoms	Supplier of voice and data solutions, specialising in PBX communication management software and telephone management	10 Monte Carlo Crescent Kyalami Business Park Midrand
Automotive	Abes Technoseal	Distributor of automotive clutch kits, ignition leads and rotary oil and hydraulic seals	10 Wankel Street Jet Park
	Partquip	Distributor of automotive spares and accessories	61 Trump Street West Selby Johannesburg
	A-Line Wheels	Distributor of alloy and steel wheels	61 Trump Street West Selby Johannesburg
	Ironman 4X4	Distributor of suspension and accessories to the 4X4 industry	61 Trump Street West Selby Johannesburg
Batteries	Deltec Energy Solutions	Distributor of maintenance free batteries and 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. It also designs, builds and manages battery bays for warehouses and distribution centres	192 Peenz Street Corner Pretoria Road Putfontein Benoni
	Specialised Battery Systems	Distributor of batteries, solar systems and battery backup solutions	23 Golden Drive Morehill Benoni
ENGINEERING CONSUMABLES			
Bearings	Bearings International	Distributor of bearings, chains, seals, electric motors, transmission and allied products	Lancaster Commercial Park (off Atlas Rd) Cnr Merlin Rose & Lancaster Ivy Drives Parkhaven Ext 5, Boksburg
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
Power transmission	Ambro Steel	Distributor of solid, round, square, hexagonal and hollow bar engineering steels	Corner Lamp and Snapper Roads Wadeville
	Astore Keymak	Distributor of specialised thermoplastic pipes, fittings and Keymak PVC hose	46 Paul Smit Street Anderbolt Boksburg
	Bauer Geared Motors	Distributor of geared motors, helical gearboxes, frequency inverters and electric motors	72 Acacia Road Cnr Barbara Road Primrose, Germiston

CONTACT		EXECUTIVES			
Tel Fax Email	011 878 2600 011 873 1689 info@rutherford.co.za	Martin Peterson Arusha Matadin Julie Lakin Carol Caunter	Chief executive Financial director Financial manager Divisional director	Neil Black Craig Gutteridge Jeanie Manson	Divisional director Divisional director Logistics director
Tel Fax Email	011 878 2600 011 873 1689 info@rutherford.co.za	Martin Peterson Arusha Matadin	Chief executive Financial director	Charmaine Beukes	Divisional director
Tel Fax Email	011 401 6700 011 401 6753 sales@elvey.co.za	Michael Lotter Dave Waywell Ernest Malett	Chief executive Key accounts director Sales director	Zane Greeff Thyphrus Baloyi	Product director Operations executive
Tel Fax Email	011 401 6700 011 401 6753 info@pentgon.co.za	Michael Lotter	Chief executive	Ernest Malett	Sales director
Tel Email	010 590 6177 brad.morein@commercialict.co.za	Brad Morein	Managing director		
Tel Email	011 401 6700 john.r@tpasec.co.za	Michael Lotter	Chief executive	Ernest Malett	Sales director
Tel Fax Email	087 310 0400 011 661 0387 info@globalcomms.co.za	Michael Lotter Barbara Smith	Managing director Financial director	Errol Baker	Non-executive director
Tel Email	012 657 0960 feedback@miro.co.za	Marco de Ru Corne Wandrag	Managing director Financial director	Johnathan Newton	Sales director
Tel Fax Email	012 664 4644 086 614 5625 sales@sstelecoms.com	George Smalberger	Managing director	Francois Pretorius	Financial manager
Tel Fax Email	011 397 4070 011 397 4326 info@abes.co.za	Danie Venter Jayne Kyte	Managing director Logistics director	Juan Radley	Financial director
Tel Fax Email	011 634 7600 011 493 3131 info@partquip.co.za	Carl Rogers Charmaine Rogers	Managing director Logistics director	Chris de Kock Lavern Jacobs	Financial director Divisional director
Tel Fax Email	011 634 7600 011 493 3131 malene@alinewheels.co.za	Carl Rogers Charmaine Rogers	Managing director Logistics director	Chris de Kock Malene Rizzo	Financial director Divisional director
Tel Fax Email	011 634 7770 086 477 4201 info@ironman4x4.co.za	Carl Rogers Mic van Zyl	Executive director Divisional director	Chris de Kock	Financial director
Tel Fax Email	011 864 7930 011 908 6154 sales@deltec.co.za	Carl Luther	Managing director	Marshall Moodley	Financial director
Tel Fax Email	011 965 0575 011 252 6494 info@eternitytechnologies.co.za	Ryan Fourie Andries Jacobs	Managing director Financial manager	Michael Coleman	Sales director
Tel Fax Email	011 425 3447 011 425 4433 sheldon@special-battery.co.za	Sheldon Orren Natasha Jasmin	Managing director Financial manager	Bradley Orren	Commercial director
Tel Fax Email	011 899 0000 087 057 6122 info@bearings.co.za	Ernie Smith Laura van Rooyen	Chief executive Logistics director	Widor Grobbelaar	Financial director
Tel Fax Email	011 923 0600 086 687 9837 info@deutz.co.za	Maurice Pringle Rowan Michelson	Managing director Marketing director	Avinash Ramnarain Steven Moss	Financial director Sales director
Tel Fax Email	011 824 4242 011 824 4864 info@ambro.co.za	Rolf Lung	Managing director	David da Silva	Financial director
Tel Fax Email	011 892 1714 011 892 2781 info@astorekeymak.co.za	Pranesh Maniraj	Managing director	Eliah Mutaviri	Financial director
Tel Fax Email	011 828 9715 011 822 4135 home@gbauer.co.za	Ernie Smith Derek Gilmore	Chief executive Managing director	Milton Nyamayaro Andrew Mowat	Financial manager Operations director

GROUP DIRECTORY continued

DIVISION	BUSINESS NAME	PRINCIPAL ACTIVITIES	ADDRESS
ENGINEERING CONSUMABLES continued			
	Belting Supply Services	Distributor of conveyor belting, industrial hose, fluid sealing and process control products	15 Fortune Street City Deep
	Berntel	Distributor of pneumatic, vacuum and process automation components	Unit 3 25 Fransen Street Chamdor Krugersdorp
	Bosworth	Manufacturer of conveyor pulleys, idlers, steel fabrication, plate rollings and distributor of sheet rubber	Corner Vereeniging and Juyn Roads Alrode
	Brewtech Engineering	Distributor of plastic and stainless steel slat chains, modular belting and conveyor components and manufacturer of plastic engineering parts	389 Elsecar Road Kya Sands
	Dosco Precision Hydraulics	Supplier and repairer 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 and supplier of water valves and sewage processing systems	6 Skew Road Boksburg North
	Filter and Hose Solutions	Supplier of filtration solutions, customised exhaust systems, kits and accessories	160 Francis Road Anderbolt Boksburg North
	Gear Pump Manufacturing	Manufacturer and assembler of cast iron hydraulic gear pumps	15 Moody Avenue Epping 1 Cape Town
	Hydraulic Engineering Repair Services	Manufacturer and repairer of hydraulic cylinders and repairer of drivetrain components	69 Miller Road Industrial East Germiston
	Joseph Grieveson	Manufacturer of ferrous and non-ferrous castings	332 Aberdare Drive Phoenix Industrial Park Phoenix, Durban
	Powermite	Distributor of electric cabling, plugs, sockets, electric feeder systems and crane materials	2754 Albertina Sisulu Road (previously: 92 Main Reef Road) Technikon Roodepoort
	Proof Engineering	Manufacturers of flame proof electro mechanical couplers, sockets, connectors, energy savers, lighting and other electrical solutions for the mining industry	368 Sifon Street Robertville Roodepoort
	Sanderson Special Steels	Distributor of special steels and provider of heat treatment to the tool making and general engineering industries	18 Junction Street Parow Industria Cape Town
	The Dished End Company	Manufacturer of dished and flanged ends, pressing and flanging of small conical sections, push thru's and weld caps	30 North Reef Road Elandsfontein Germiston
	Three-D Agencies	Distributor of electrical cable accessories and electrical instruments	Unit B1, Route 24 50 Herman Street Meadowdale
	Varispeed	Distributor and repairer of commercial and industrial automation and electronic motor control equipment	4 Clovelly Business Park 342 Old Pretoria Main Road Midrand
GROUP			
Group Head Office	Hudaco Industries Hudaco Trading		Building 9 Greenstone Hill Office Park Emerald Boulevard Greenstone Hill Edenvale

CONTACT		EXECUTIVES				
Tel Fax Email	011 610 5600 011 610 5700 enquiries@belting.co.za	Piet Swanepoel Mark Knight Tom Harrison	Managing director Financial director HR director	Stephan Boshoff Tanja Henderson Mark Vorster	Technical director Procurement director Sales director	Belting Supply Services
Tel Fax Email	011 762 1840 011 762 2185 info@berntel.co.za	Ernie Smith Deon Krieger Neil Champion	Chief executive Managing director General manager	Melissa Swart	Financial director	Berntel
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	011 708 0408 011 708 0408 kerri@brewtech.co.za	Ernie Smith Kenny Cook	Chief executive Managing director	Deidre Brunetti	Financial manager	Brewtech Engineering
Tel Fax Email	011 452 5843 011 609 7955 info@dosco.co.za	Thomas Dunford Olaf Mayer-Mader	Chief executive General manager	Trevor Dyker Elma Lottering	Procurement director Financial director	Dosco Precision Hydraulics
Tel Fax Email	011 898 6600 011 918 3974 corporate@elco.co.za	Ernie Smith Deon Krieger	Chief executive Managing director	Melissa Swart	Financial director	Ernest Lowe ELCO
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	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 – United States of America 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	Managing director	Kavitha Bhawanideen	Financial manager	HERS
Tel Fax Email	031 507 3640 031 500 2687 sales@josgrieveson.co.za	Thomas Dunford Terence Woolley	Chief executive Managing director	Kersin Govindsamy	Financial manager	Joseph Grieveson
Tel Fax Email	011 271 0000 011 271 0265 info@powermite.co.za	Jacques van Rooyen Annelie du Toit	Managing director Financial manager	Waldo van der Merwe Mike Allnutt	Financial director Executive consultant	Powermite
Tel Fax Email	011 824 1146 011 824 1237 sales@proofholdings.co.za	Donovan Marks	Operations director	Waldo van der Merwe	Financial director	Proof Engineering
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	011 822 4550 011 822 1414 noel@tdec.co.za	Theo Simigiannis Noel Saunders	General manager Executive consultant	Jennifer Graham	Financial manager	The Dished End Company
Tel Fax Email	011 392 3804 011 392 3812 sales@three-d.co.za	Ian Downard Mark Jenkins	Managing director Sales director	Vanessa Naidoo	Financial manager	Three-D Agencies
Tel Fax Email	011 312 5252 011 312 5262 drives@varispeed.co.za	Ernie Smith Ralph Real	Chief executive Managing director	Erika van de Velde	Financial director	Varispeed
Tel Fax Email Website	011 657 5000 086 682 6779 info@hudaco.co.za www.hudaco.co.za	Graham Dunford Clifford Amoils Reana van Zyl Phylla Jele	Group chief executive Group financial director Group secretary Transformation and human resources executive	Louis Meiring Gary Walters Cassie Lamprecht Rika Wessels-Bouwer Tariro Mutizwa Sabelo Mkhwanazi	Executive director Acquisitions manager 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

www.hudaco.co.za