

The cover features a deep blue background with a large, light gray diagonal shape on the left side. The word 'Hudaco' is written in a white, italicized serif font. Below it, 'INTEGRATED REPORT 2022' is written in a white, all-caps sans-serif font. The bottom right corner has a series of parallel diagonal lines in shades of blue and gray.

Hudaco

INTEGRATED REPORT 2022

Contents

Group overview	1
<i>All stakeholders</i>	
Profile	IFC
2022 Highlights	1
Challenges in 2022	1
Results in brief	1
About this report	2
The six capitals – our transformative impact	3
History	4
Abridged group structure	5
Group at a glance	6
Seven-year review	8
Mission	9
Business model	10
Joint report of the chairman and chief executive	12
Stakeholder engagement	16
Risks and mitigation	18
Board of directors	20
Executive committee	22
Financial review	24
Value-added statement	29
Review of operations	30
<i>Current and future business vendors, customers, principals/suppliers, investors, bankers and analysts</i>	
Consumer-related products	31
Engineering consumables	36
Black economic empowerment	41
Geographic footprint	42
Environmental, social and governance report	45
Human capital report	52
<i>Current and future staff, unions, regulators, management and communities</i>	
Remuneration report	60
<i>All stakeholders</i>	
Background statement	61
The remuneration policy	64
Implementation of the remuneration policy	68
Corporate governance	75
<i>All stakeholders</i>	
Audited annual financial statements	87
<i>Institutional investors, private shareholders, bankers, corporate finance houses, analysts and government</i>	
Shareholder information	134
<i>Institutional investors, private shareholders and sponsors</i>	
Shareholder analysis	135
Share information	136
Notice of annual general meeting	137
Form of proxy	143
Corporate information	145
Shareholders' diary	145
Group directory	146
<i>Customers, principals/suppliers and management</i>	

Profile

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

Its businesses fall into the following categories:

Consumer-related products	Engineering consumables
<i>Supplied to markets with a bias towards consumer spending and generally sold to installers</i>	<i>Products generally used in the maintenance of machines and sold mainly to mining and manufacturing customers</i>
■ Automotive aftermarket products ■ Power tools and fasteners ■ Data networking equipment ■ Batteries and sustainable energy products ■ Security and communication equipment ■ Gas and outdoor products	■ Bearings, belting and power transmission ■ Diesel engines and spares ■ Electrical power transmission ■ Filtration ■ Hydraulics and pneumatics ■ Specialised steel ■ Thermoplastic pipes and fittings

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, except for DD Power, in which Deutz AG has a 30% share.



Group overview

- Net borrowings up R152 million for the year to R621 million
- Cash generated from operations at R893 million
- Headline earnings per share up 48% on 2019 and 22% on 2021
- Full year comparable earnings per share up 57% on 2019 and 21% on 2021
- Operating profit of R1 billion up 45% on 2019 and 23% on 2021
- Final dividend up 20% to 625 cents per share

2022 Highlights

- Strong increase in operating margin
- Operating profit reaches R1 billion
- Headline earnings exceed R20 per share
- Recovery in security and communication business
- Acquisition of CADAC
- Meaningful distribution to black staff from BEE trusts

Challenges in 2022

- Impact of loadshedding on the economy
- Securing adequate inventory with the international and local supply chain challenges
- Flooding in KwaZulu-Natal
- Disappointing performance from Eternity Technologies

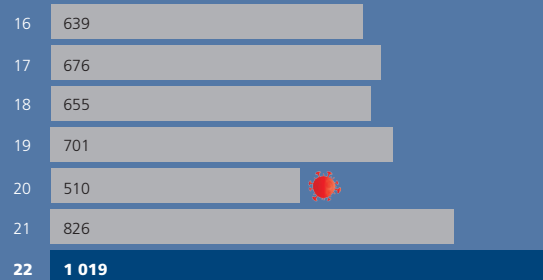
Results in brief

30 November	2022	2021
Turnover (Rm)	8 151	7 258
Operating profit (Rm)	1 019	826
Comparable earnings (Rm)	579	490
Headline earnings (Rm)	596	498
Attributable earnings (Rm)	596	499
Comparable earnings per share (cents)	1 951	1 613
Headline earnings per share (cents)	2 007	1 641
Dividends per share (cents)	925	760

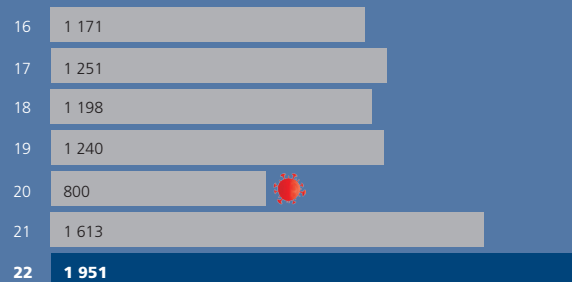
TURNOVER (RM)



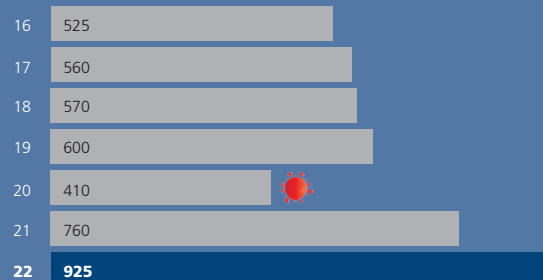
OPERATING PROFIT (RM)



COMPARABLE EARNINGS PER SHARE (CENTS)



DIVIDENDS PER SHARE (CENTS)



Covid-19

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 2021 to 30 November 2022. The group's financial year ends on 30 November, and unless otherwise indicated or described, the information included in this report refers to the years ended 30 November 2022 and 30 November 2021. The previous IAR covered the period 1 December 2020 to 30 November 2021. The IAR deals with all of Hudaco's operations, which are overwhelmingly in South Africa, and to a small extent in other southern African countries and outside Africa.



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

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

Basis of preparation

This IAR is prepared in terms of the JSE Listings Requirements for integrated reporting and the King IV Report on Corporate Governance for South Africa (King IV). It also meets all the other legal requirements to which the company must adhere (such as the Companies Act). This IAR is used as a vehicle to communicate Hudaco's evolving business model and the quality of the decisions that have led to the financial

results. Based on Hudaco's leadership engagement, governance processes and formal and informal stakeholder engagement initiatives, particularly with investors, the board is satisfied that all material matters have been disclosed in this report.

Our revenue, profits, social and environmental impact and benefits accrue from our many businesses that do not report independently in the public domain. In this report, we try to strike a balance between adequate composite reporting at a group level and communicating sufficient, but not excessive, detail of the underlying operations. This report is an attempt to demonstrate the integration of the operational, financial and sustainability (environmental, social and governance) issues relating to the key drivers of the business. In the report, we explain how the executives of Hudaco have applied their minds to consider 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 75 to 86
Black economic empowerment status report	Codes of Good Practice, issued by the Department of Trade and Industry (dti)	Page 41
 Environmental, social and governance report and human capital report	Various relevant guidelines including those contained in the global reporting initiative (GRI) G3 indicators	Pages 45 to 51 and 52 to 59
Annual financial statements	International Financial Reporting Standards (IFRS), Financial Reporting Guides issued by the South African Institute of Chartered Accountants, the South African Companies Act and the JSE Listings Requirements	Pages 87 to 133

Assurance

No external assurance has formally been sought, other than from the external auditors, Deloitte & Touche, 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. Deloitte & Touche have signed an unqualified audit opinion on the annual financial statements.

Forward-looking statements

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

Hard copy and report feedback

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

The six capitals – our transformative impact

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



Financial capital

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

Impact

- Profit shared with ordinary shareholders (R276 million in dividends and repurchased shares from ordinary shareholders for R133 million);
- Contributed to societal growth by buying goods and services (R5.6 billion), paying taxes (R458 million) and employment (R1.4 billion);
- Market capitalisation of R4.2 billion as at 30 November 2022; and
- Provision of credit to customers of R1.4 billion as at 30 November 2022.



Human capital

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

Impact

- Provide 3 536 jobs with improved diversity, with 26% of senior managers being black and 25% being women;
- R20 million spent on direct training for ongoing skills and development; and
- Granted 23 bursaries to permanent employees.



Intellectual capital

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

Impact

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



Manufactured capital

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

Impact

- Property, plant and equipment of R309 million;
- Source products from more than 800 international suppliers scattered across the industrialised world; and
- Carry more than 230 000 line items – inventory holding is Hudaco's most important asset as our key competitive advantage is the ability to provide product on demand.



Natural capital

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

Impact

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



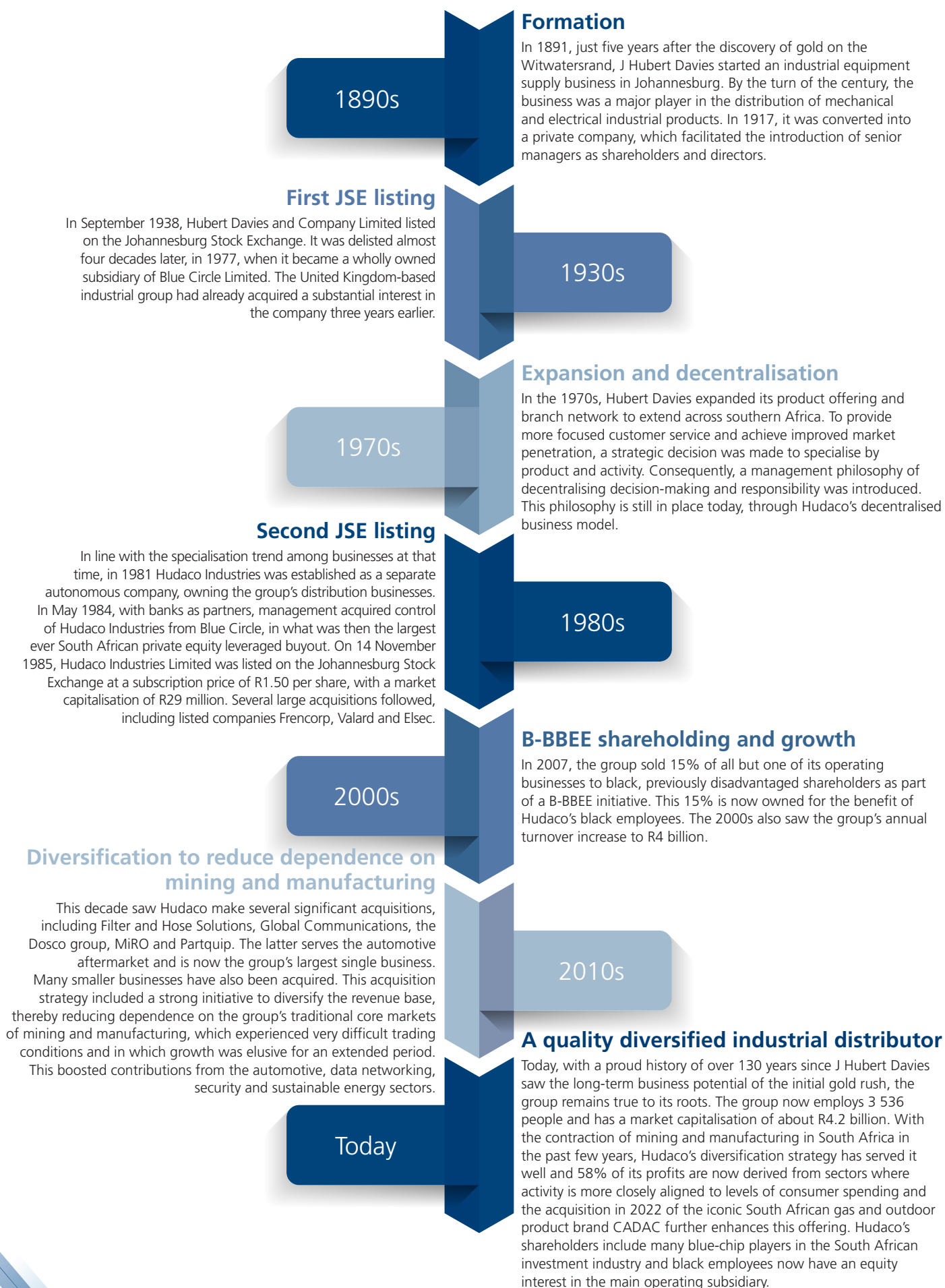
Social and relationship capital

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

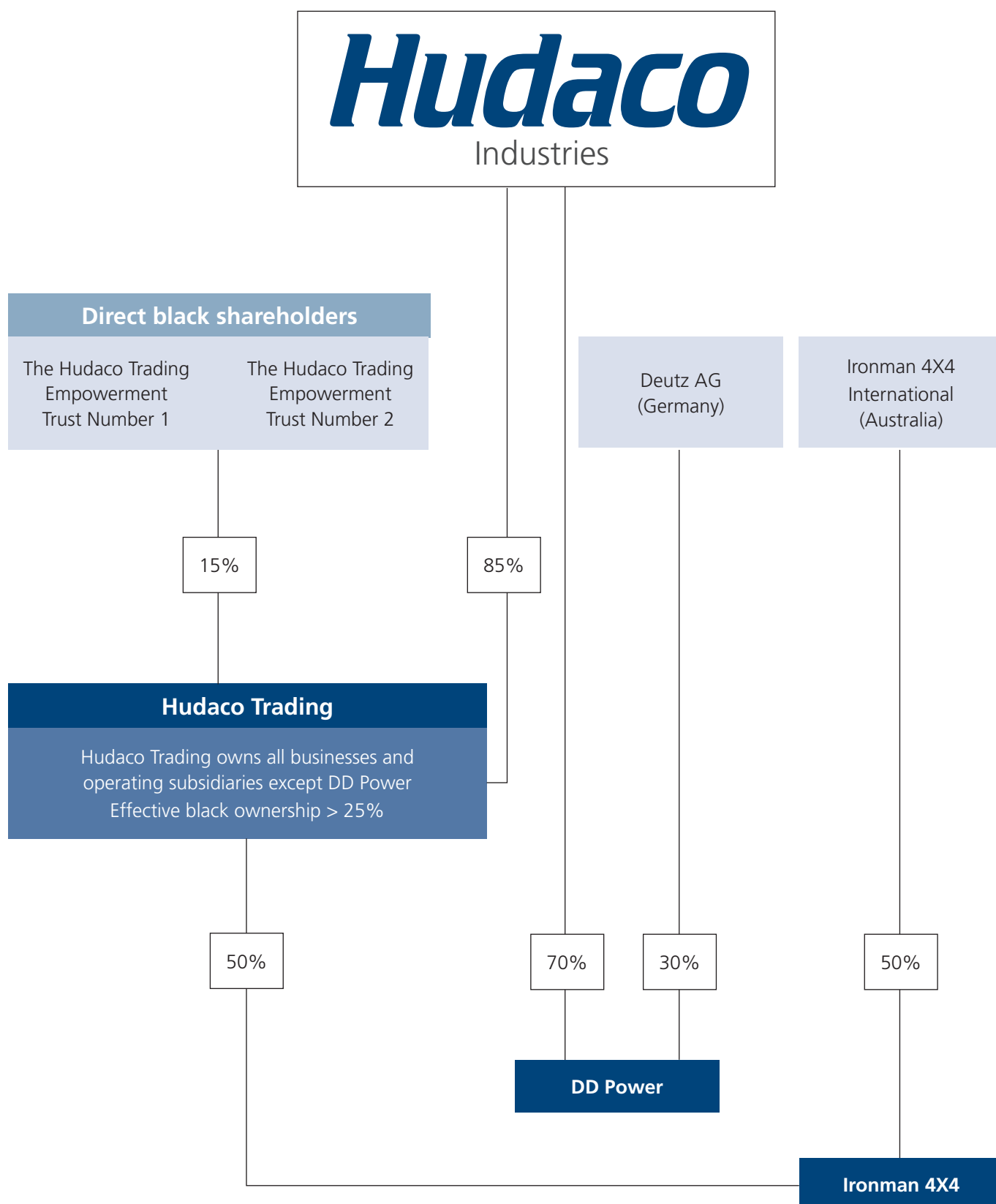
Impact

- R2.9 million spent on education and skills development of family members of employees;
- Loans and contributions of R19 million to small and medium enterprises; and
- Build and maintain stakeholder relationships.

History



Abridged group structure



Group at a glance

31

CONSUMER-RELATED PRODUCTS

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

36

ENGINEERING CONSUMABLES

PRINCIPAL ACTIVITIES	BUSINESSES
Diesel engines and spares The distribution of Deutz diesel engines and Deutz spares and the provision of service support.	Deutz Dieselpower Represents Deutz AG – one of the world's leading independent manufacturers of diesel engines.
Bearings, Belting and Power Transmission The distribution of bearings, chains, belting, industrial hose, seals, electric motors, geared motors, and transmission products.	Bearings International, Brewtech Engineering, Belting Supply Services and Hudaco Power Transmissions 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 conveyor solutions, Habasit belting and a range of geared motors.
Filtration The distribution of filtration solutions, kits and accessories, to mining, process and manufacturing markets.	Filter and Hose Solutions Distributor of Donaldson, Filtrec and Mann + Hummel high-quality filtration products and solutions for a broad range of applications.
Hydraulics and pneumatics 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.	Ernest Lowe, HERS, Dosco and GPM 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 The distribution of thermoplastic pipes and fittings and manufacture of dragline hose.	Astore Keymak Distributes Agru thermoplastic pipes and fittings and manufactures Keymak dragline hose.
Specialised steel 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.	Ambro Steel, Sanderson Special Steels, Bosworth, Joseph Grieveson and The Dished End Company 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 The distribution of variable speed drives, electric motors, electrical cabling, plugs, sockets and related products to the manufacturing, mining and agricultural aftermarkets.	Powermite, Proof Engineering, Three-D Agencies and Varispeed Distribute Yaskawa variable speed drives, sophisticated cabling and accessories, flame-proof lighting and electrical plugs, sockets and connectors.

					GROUP				
KEY DRIVERS		R million	2022	2021	SALES BY MARKET SECTOR – 2022 (%)				
■ Consumer spending ■ Building activity ■ Employment levels ■ Vehicle sales ■ Analogue to digital migration ■ Broadband, Wi-Fi and VoIP expansion ■ Adoption of sustainable energy solutions	Turnover	4 269	3 777	27 Wholesale and retail					
	Operating profit	661	552	18 Automotive					
	Average net operating assets	2 226	2 036	15 Manufacturing					
	Number of permanent employees	1 724	1 608	15 Mining					
					10 Exports				
					6 Security				
					5 Alternative energy				
					2 Construction				
				2 Agriculture					
KEY DRIVERS		R million	2022	2021	KEY DRIVERS		R million	2022	2021
■ GDP growth ■ Mining activity ■ Mining investment ■ Mining mechanisation ■ Manufacturing activity ■ Electricity usage management	Turnover	3 907	3 501	■ Exchange rates ■ Acquisitions	Turnover	8 151	7 258		
	Operating profit	470	366		Operating profit	1 019	826		
	Average net operating assets	2 089	1 855		Average net operating assets	4 275	3 790		
	Number of permanent employees	1 788	1 962		Number of permanent employees	3 536	3 593		
									

Seven-year review

R million	2022	2021	2020	2019	2018	2017	2016
GROUP STATEMENT OF INCOME							
Turnover	8 151	7 258	6 254	6 704	6 381	5 902	5 534
Profit before interest and tax	1 018	836	245	731	632	656	645
Net finance costs	87	68	104	103	91	81	87
Profit before taxation	931	768	141	628	541	575	558
Taxation	256	219	133	160	144	156	148
Profit after taxation	675	549	8	468	397	419	410
Income from joint venture			1	3	3	3	3
Profit for the year	675	549	9	471	400	422	413
Non-controlling interest	79	50	(27)	42	19	25	25
Attributable earnings	596	499	36	429	381	397	388
Shares in issue (000) (weighted average)	29 702	30 357	31 527	31 646	31 646	31 646	31 646
Earnings per share (cents)							
– comparable	2 007	1 613	800	1 240	1 198	1 251	1 171
– headline	2 007	1 641	1 050	1 355	1 289	1 256	1 222
– basic	1 951	1 643	113	1 355	1 202	1 254	1 226
Dividends per share (cents)	925	760	410	600	570	560	525
GROUP STATEMENT OF FINANCIAL POSITION							
Property, plant and equipment	309	285	265	274	249	270	256
Right-of-use assets	382	422	414				
Investment in joint venture				12	9	9	7
Goodwill	1 182	1 170	1 170	1 512	1 505	1 480	1 243
Intangible assets	39	26	33	51	77	70	68
Deferred taxation – net	81	74	40	38	34	13	26
Inventories	2 355	2 004	1 598	1 720	1 822	1 538	1 508
Trade and other receivables	1 366	1 245	1 196	1 269	1 278	1 156	1 046
Trade and other payables	(1 322)	(1 272)	(936)	(968)	(989)	(943)	(898)
Taxation – net	(53)	(32)	(13)	8	(29)	(26)	3
Net operating assets	4 339	3 922	3 767	3 916	3 956	3 567	3 259
Lease liabilities	(440)	(477)	(455)				
Net borrowings	(621)	(469)	(643)	(1 008)	(1 163)	(860)	(905)
Employment of capital	3 278	2 976	2 669	2 908	2 793	2 707	2 354
Equity holders of the parent	3 096	2 863	2 593	2 742	2 509	2 295	2 065
Non-controlling interest	158	113	76	101	70	81	65
Equity	3 254	2 976	2 669	2 843	2 579	2 376	2 130
Amounts due to vendors on acquisitions	24			65	214	331	224
Total capital employed	3 278	2 976	2 669	2 908	2 793	2 707	2 354
GROUP STATEMENT OF CASH FLOWS							
Cash generated from trading	1 249	1 026	726	794	760	776	709
Decrease (increase) in working capital	(356)	(116)	182	59	(292)	(65)	37
Cash generated from operations	893	910	908	853	468	711	746
Other income – proceeds of damages claim			35				
Taxation paid	(244)	(220)	(113)	(196)	(164)	(131)	(175)
Net cash from operating activities	649	690	830	657	304	580	571
Investment in new operations	(81)	9	(6)	(114)	(242)	(210)	(165)
Investment in property, plant, equipment and intangible assets	(76)	(67)	(39)	(74)	(51)	(47)	(30)
Dividend received from joint venture					4		
Net cash from investing activities	(157)	(58)	(45)	(188)	(289)	(257)	(195)
Share-based payments	(36)	(16)	(3)	(22)	(18)	(16)	(5)
Increase (decrease) in long-term borrowings	120	(150)	(138)	(96)	339	(35)	(90)
Repurchase of shares	(133)	(69)	(82)				
Finance costs paid	(87)	(68)	(103)	(103)	(91)	(81)	(86)
Repayment of lease liabilities	(114)	(94)	(92)				
Dividends paid	(276)	(213)	(139)	(189)	(211)	(178)	(174)
Net cash from financing activities	(526)	(610)	(557)	(410)	19	(310)	(355)
Increase (decrease) in bank balances	(34)	22	228	59	34	13	21

Mission

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

Achieving Hudaco's mission



Shareholders

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

24

Measurement of success*

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



Customers

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

Measurement of success*

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



Suppliers

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

Measurement of success*

Retention of significant brands, principal relationship reviews, **attracting** new leading brands, **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, challenging and equitable business environment.

52

Measurement of success*

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



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.

54

Measurement of success*

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



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.

55

Measurement of success*

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



Environment

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

45

Measurement of success*

Health and safety record and progress on goals as set out in the **environmental, social and governance** report and **human capital** report.

52

* 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.

What we sell and where we sell it

Our businesses and the products they sell fall into the following categories:

Consumer-related products

Supplied to markets with a bias towards consumer spending and generally sold to installers

- Automotive aftermarket products
- Batteries and sustainable energy products
- Data networking equipment
- Power tools and fasteners
- Security and communication equipment
- Gas and outdoor products

Engineering consumables

Products generally used in the maintenance of machines and sold mainly to mining and manufacturing customers

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

We look for products with which we can add value through the distribution chain, stockholding, product availability and providing technical support. Typically, these would be technical specification, advice on usage or installation and customer training. The extent of value add is determined by whether the customer's purchasing decision could be influenced by the addition of a technical support function.

We focus on offering maintenance spares for critical customer equipment. Purchasing decisions for these items are made easily and quickly without onerous tender procedures.

Products are distributed throughout southern Africa by our 30 businesses.

We supply some 30 000 active customers from over 130 branches in South Africa.

In other African countries, we generally supply customers directly from South Africa or through local distributors.

What makes us successful in the market

Key elements of our success include:

Adding value for our customers

Our objective is to offer customers more than just a product in a box.

We seek to sell products where value can be added, for example in some of the following ways:

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

Our decentralised management philosophy

Decentralising the management structure facilitates these attributes:

- faster decision-making;
- superior customer service;
- empowered employees; and
- high standards and disciplines.

Our value-add offering is in demand by our customers. We are in the fortunate position of being able to maintain our 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.

Sourcing the products we sell

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 source 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 our most important asset, as our key competitive advantage is the ability to offer availability on demand.

Aspects important to our principals/suppliers

Our 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:

How we achieve growth

Organic growth

Our first priority is to take advantage of organic growth opportunities within the markets we serve. This can be achieved by a combination of:

- taking market share from competitors;
- adding products to the basket offered;
- expanding the geographies within which we operate; and
- creating additional market demand for existing product offering.

Acquisition strategy

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

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

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

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

Where practicable, Hudaco seeks to:

- purchase the business, not the company;
- purchase thriving (not distressed) businesses with depth in management;

- enter into service agreements with management;
- include earn-out arrangements in the final price; 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 that 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.

Why our acquisition strategy has been successful

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 the route to market of each business 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 themselves that they are comfortable in a corporate environment. We benefit greatly from the presence of the sellers of successful businesses 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. We only intervene when performance requires it or where extracting synergy was a significant factor in motivating the acquisition.

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

environments themselves. Nevertheless, Hudaco does not, and will not, participate in corrupt activities.

- Long-term relationships (frequently on a personal level) and a well-established distribution footprint – both of which are hard to replicate.
- Our suppliers rely on our understanding of the specific challenges of doing business in Africa, particularly the political and regulatory risks and the limitations which the size of these economies pose, and appoint us to represent their brands in markets that they would not ordinarily have been able to access. Crucially, we must adapt continually to the dynamics of doing business in Africa.

Joint report of the chairman and chief executive



"We are delighted with the results Hudaco has achieved this year, especially as they follow the excellent results produced in 2021.

For perspective, compared to the pre-Covid 2019 results, comparable earnings per share have increased by 57%. This has been achieved not on the back of buoyant economic conditions but rather in an extremely challenging environment.

We are proud of the manner in which the executive teams at almost all our businesses have managed their entire value chain."



2022 Overview

We are delighted with the results Hudaco has achieved this year, especially as they follow the excellent results produced in 2021. For perspective, compared to the pre-Covid 2019 results, comparable earnings per share have increased by 57%. This has been achieved not on the back of buoyant economic conditions but rather in an extremely challenging environment. We are proud of the manner in which the executive teams at almost all our businesses have managed their entire value chain through the myriad of challenges that came their way in 2021 and 2022. Hudaco has again demonstrated its resilience and agility, adapting quickly and successfully to ever-changing conditions.

Doing business in South Africa in 2022 has meant having to deal with, among other things: the government's malaise, which has manifested itself in rampant corruption now rapidly spreading throughout society; the collapse of critical infrastructure and general ineptitude at organs of state. The government's economic policies and its governance failures have been major contributors to the challenging economic conditions and deteriorating living conditions currently being experienced by South Africans. We urge government to put in place policies proven internationally, including embracing the rule of law; stamping down on corruption, adopting legislation that encourages businesses to employ more people and ensuring that only competent people are appointed to senior state and municipal positions.

This year Hudaco was impacted by, in particular, the parlous state of Eskom and the associated cost and interruption to business activity caused by ever more frequent, record levels of loadshedding (>200 days in 2022); the flooding in KZN; persistent logistical challenges at ports, which were exacerbated by the floods and by strike action, all of which further increased disruptions and costs in the value chain; internationally, Russia's invasion of Ukraine disrupted elements of the world supply chain and drove up logistics costs; China's devastating zero-Covid policy slowed their economy causing stock shortages, including of essential components; the ongoing unavailability of shipping containers; and the now familiar but still disruptive currency volatility.

There has been some international and local easing in supply chain constraints, but the underlying problems remain. Shipping lines are increasingly reluctant to endure the delays involved in docking at Durban port. There are still production backlogs in China and the worldwide shortage of semiconductors and certain raw materials, which has had a knock-on impact on many other products, still needs to be resolved. On the brighter side, the cost of shipping a container has come down somewhat but still exceeds pre-Covid levels. Fortunately, for most of our products, Hudaco has pricing power and can pass these increases on to our customers, thereby protecting our margins.

We are satisfied that the overall strategy we have employed as a group over the past few years has been the appropriate one. We have stuck to the core business model that we understand well, while defensively diversifying our offering to cover sectors of the economy that we had not previously served and which offered growth opportunities missing in our more traditional markets. Since Covid struck, we have invested in our existing businesses by increasing inventory levels by about one month's sales to ensure that we can meet demand from our customers despite the supply chain constraints. Appropriately priced acquisition opportunities have been few and far between, so we have rather deployed available capital in repurchasing Hudaco shares at attractive price levels.

Annual turnover was up 12.3% over 2021 to R8.2 billion, whilst operating profit increased 23.4% to R1 billion. Turnover from the consumer-related products segment was up 13.0%, and operating profit increased 19.8%. Engineering consumables' turnover increased by 11.6%, while its operating profit increased by 28.5%. Encouragingly, the operating profit margin increased from 10.4% to 12.0%. Our sales analysis by market sector shows the turnaround in the security sector and the growth in sustainable energy.

The return on equity increased from 19.5% to 21.7%, and the cash-generative nature of Hudaco's businesses was evident with cash generated from operations of R893 million.

The final dividend has been increased to 625 cents, giving us a total dividend for 2022 of 925 cps, 21.7% up on 2021. Comparable earnings cover the total dividend 2.1 times, which falls within our long-term dividend policy range of paying between 40% and 50% of comparable earnings.

Financial position

The financial position remains healthy, and this year more of the strong cash generation than usual was invested in working capital, mainly through a strategic increase in inventories of R290 million, taking them to R2 355 million while still leaving the group with a very comfortable R621 million net bank borrowings at year-end. More importantly, interest payments were covered almost 18 times by operating profits, which compares with our internal benchmark of at least five times. We still have significant additional bank borrowing facilities, so there is capacity for acquisitions. We continue to look for businesses in growth areas to diversify further and strengthen our portfolio of businesses.

Consumer-related products

The consumer-related products segment comprises 12 businesses. In 2022, it made up 52% of Hudaco's sales and 58% of operating profit. In 2021, this segment contributed 52% of the group sales and 60% of the operating profit.

Consumer spending was under pressure again because of significantly increased inflation, rising interest rates, unemployment and a depressed economy. Nevertheless, almost all businesses in this segment had a good year despite volume reduction in some businesses. The security division delivered a vastly better performance. Unfortunately, our traction battery business performed poorly, so we have changed the management team and are looking forward to a much-improved result in 2023.



Joint report of the chairman and chief executive *continued*

We are satisfied that the overall strategy we have employed as a group over the past few years has been the appropriate one. We have stuck to the core business model that we understand well, while defensively diversifying our offering to cover sectors of the economy that we had not previously served and which offered growth opportunities missing in our more traditional markets.



Segment sales increased by 13.0% to R4.3 billion. Having the right stock available alleviated the pressure on margins, so the operating profit increased by 19.8% to R661 million, and the operating profit margin was a very healthy 15.5% compared to 14.6% in 2021.

CADAC, acquired at the end of February 2022, has been a very welcome addition to the portfolio, as has Hudaco Energy, which we established a year ago to supply solar power equipment and other solutions to the burgeoning sustainable energy market.

Engineering consumables

The 18 engineering consumables businesses made up 48% of group sales and 42% of operating profit. In 2021 this segment contributed 48% of group sales and 40% of the operating profit.

The segment increased turnover 11.6% to R3.9 billion and operating profit by 28.5% to R470 million. The two most significant market sectors in this segment are mining and manufacturing, and we have managed to grow sales again this year. Most of the businesses in this segment performed well, with outstanding performances coming from our businesses supplying diesel engines, specialised steel and dished ends, gear pumps, bespoke castings, filtration, bearings, modular belting and inverters. The operating profit margin increased from 10.4% to 12.0%, partly because we are seeing the benefits of cost rationalisations completed in recent years.

Repurchase of shares

Capital allocation is always an essential consideration for Hudaco. During the 2022 financial year, in the absence of suitable acquisitions and given the prevailing price of Hudaco's shares, the company repurchased and cancelled 928 740 shares at an average cost of R142.81 per share before transaction costs. The total cost was R133 million.

Strategic focus

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

These results show the benefits of strategic working capital management to enhance shareholder value.

Prospects

On the back of two years of solid growth under extremely challenging conditions, Hudaco is in a very strong position to weather the storms that may come our way in 2023. The market shares our businesses have gained will be maintained, and this is now our new base to grow from.

In the consumer-related products segment, we expect to see further improvement in our security and communications businesses. Our automotive aftermarket businesses should continue to benefit from the growing second-hand carpool requiring more replacement parts. Thus far, our excitement about the alternative energy sector has been justified, and we remain positive about the impact our year-old Hudaco Energy business should bring to our diesel engine, battery and electrical businesses already supplying to the sustainable energy market. Since its acquisition, CADAC has performed well above expectations, and we remain excited about its growth potential.

The engineering consumables segment supplies parts that wear and require regular replacement to businesses that mine or manufacture necessities for everyday life. There will always be a need for these products in good times and bad. The synergies and consolidations we have implemented over the last two years have contributed to our market share gains, and we believe there is more to come in the year ahead. We estimate that the overall impact of the floods in KZN on the group's operating profit was around R20 million, which hopefully will not be repeated in 2023.

Hudaco's business model, principally the sale of replacement parts and products with a high value-added component, and its financial characteristics – high margin and strong cash flows with a limited requirement for investment in fixed assets, make Hudaco resilient. That augurs well for stability as we navigate the challenges of doing business in South Africa.

There is much that the government could do to set South Africa on the path to reasonable economic prosperity. We implore them to take the bold steps required to create an environment where businesses can play a leading role in achieving this. If we get more of the same on the political and economic front, we will continue to grind it out as we have done over the past few years, doing the right things well and delivering highly credible returns. Notwithstanding the difficult general business environment for SA Inc, Hudaco has a track record of delivering highly commendable results in tough times. In the right environment, Hudaco has outstanding potential.

Alternate director and executive committee

We are pleased to announce that Ernie Smith, one of our portfolio executives, was appointed by the board as an alternate director to Louis Meiring on 2 February 2023 and that Burtie Roberts, who has held various positions in the group over 20 years, and Lavern Jacobs, who has been with Partquip for 28 years, were appointed to the executive

committee with effect from 2 February 2023. We look forward to working with them and wish them much success in their new roles. David Allman, who reaches retirement age in a few months after a career of 37 years with the group, steps down from the executive committee.

Appreciation

As we have said before, operating in South Africa is exceptionally challenging. The excellent results achieved this year were made possible only through the commitment and experience of our management teams at the executive committee and individual business levels. Furthermore, we are blessed with excellent people at all levels throughout the group. We value their contributions and appreciate them for who and what they are individually, as people. We make special mention of David Allman, and thank him for his friendship and significant contribution to the businesses with which he has been involved over the years and to the executive committee. We wish him a long and happy retirement in good health.

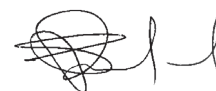
We also value and thank our suppliers and customers, bearing in mind that we have been associated with many of them for several decades and place great store on these relationships.

We also thank our non-executive directors for their guidance and for always constructively challenging our thinking, always in the company's best interests. Their diligence is to be commended.



SJ Connelly
Chairman

23 February 2023



GR Dunford
Chief executive

Strategic focus		
2022		2023
■ Manage through international supply chain challenges	😊	■ Challenges and opportunities arising through degradation of local infrastructure
■ Further improve margins	😊	■ Continuing to cope with the unpredictability of international supply chain challenges
■ Contain the expense ratio as input costs rise	😊	■ Further improving margins
■ Develop more black African managers within the group	😐	■ Containing the expense ratio as input costs rise from worldwide inflationary pressure
■ Improve the performance of security and communication businesses	😊	■ Continue developing more black African managers within the group
■ Find a significant value adding acquisition	😐	■ Improving the performance of the Eternity Technologies and Powermite businesses
		■ Optimising capital allocation

😊 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 to whom we are accountable and for whom we create value 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 what matters to them, 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 3 536 people in Hudaco's 30 businesses;
- Principals/suppliers; and
- Bankers.

The table below details the issues considered by stakeholders to be important to them. These were determined through our stakeholder engagement process, which included discussions with members from each of the stakeholder groups, either directly or through executives of our businesses. The investment community is invited to suggest further disclosure where they identify a need for specific information, as are bankers during annual review meetings and regular update discussions. The major topics of interest this year for most categories of stakeholders were the impact on our businesses and our customers of loadshedding, which has become endemic; how the international and local supply chain challenges, particularly the degradation of our infrastructure, have affected the availability of the products the group supplies; and the impact of Russia's invasion of Ukraine, including the inflationary pressures it has caused worldwide. Other topics included the aftermath of the floods in KwaZulu-Natal, acquisition opportunities, prospects for economic growth in South Africa, capital allocation and the impact of the ongoing volatility of the Rand. The relevance of the various sections of this report to the different classes of stakeholders is set out on the inside front cover.

Stakeholders	Why they matter to us	Why we matter to them	What matters to them	How we communicate with them
Private shareholders and institutional investors	Shareholders	Derive dividend income from trading performance and capital appreciation from the market value of Hudaco shares.	■ Compliance, governance ■ Share price, dividend policy, return on investment, profitability ■ Capital allocation ■ Management competence ■ Depth of management and succession planning ■ Growth strategy ■ Business model ■ Acquisitions – deal flow and success ■ Executive remuneration ■ Other risks ■ ESG reporting	■ 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 ■ Environmental impact	■ Integrated and interim reports ■ Results presentations ■ Annual credit review meetings ■ Capital raising and other discussions ■ Covenant reports ■ SENS announcements
Intermediary customers and end-users of products	Customers and end-users	Hudaco supplies them with quality products at reasonable prices and technical support to sustain their operations.	■ BEE credentials ■ Brand ■ Product availability ■ Product quality ■ Technical support ■ Service turnaround ■ Pricing ■ Reputation	■ Personal contact ■ Product marketing ■ Service levels ■ BEE scorecards ■ Business unit websites ■ ISO accreditation ■ Websites ■ Customer communications

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

Risks and mitigation

Key risks

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

Risk	Explanation	Potential exposure	Mitigation	Residual risk assessment/probability	Associated opportunity
Loss of a major brand	While the portfolio of brands is diverse, there are two major brands the loss of which could have a significant effect on the results of the group. These brands, each of which contributes 8% to 10% of group operating profit, would be hard to replace. The portfolio also includes several other important brands.	Up to R80 million in operating profit per annum per brand.	Maintaining strong relationships with principals and serving them well in the South African market. This is monitored by the audit and risk management committee. The relationships with the major brands are managed by the group chief executive. Acquisitions increase the number of suppliers and dilute exposure to any one brand. The element we cannot mitigate is the risk that a major principal ceases to exist, eg through international corporate activity.	Highly unlikely. This risk follows from the strategy of representing quality major international brands.	There would not be an opportunity associated with the loss of one of the group's two major brands. The loss of a lesser brand may present an opportunity to bring into the portfolio a brand that has something more to offer.
Disruptions in the supply chain	Shortages of raw materials and components, a dearth of shipping containers, scarcity of ships coming to South Africa and inefficiencies at local ports all have the potential to impede Hudaco's access to adequate inventory.	Up to R200 million in operating profit per annum if not adequately managed.	Businesses maintaining close relationships with principals and making them aware as early as possible of requirements. Monitoring closely orders in progress. Using first-rate, agile shipping and logistics companies to expedite receipt of goods.	Highly likely. The Covid-19 pandemic caused major disruptions to the international supply chain and challenges have continued for the time being.	Supply chain disruption has affected competitors too. Hudaco's significant stock levels and agility in managing the supply chain enable it to meet customer needs and maintain margins where competitors have no stock.
Inadequate supply of electricity and diesel or water	The lack of electricity is a constraint on GDP, a significant driver for Hudaco. The mining industry, in particular, tends to be affected when electricity is in short supply. Hudaco's sales tend to decrease when its customers are unable to operate due to electricity constraints. A prolonged lack of electricity could cause a shortage of diesel, which would exacerbate the situation. Inadequate supply of water would also affect economic activity.	Unable to quantify.	Acquiring businesses that serve different sectors, some of which are less dependent on electricity supply. Geographic diversification.	Highly likely, considering recent experience of loadshedding, the current parlous state of Eskom and degradation of water infrastructure. 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 as well as products to restore and maintain water infrastructure.
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 R225 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. Insurers are taking an increasingly hard line.	R300 million.	Insuring through reputable long-established underwriters and engaging high-quality insurance brokers as advisors.	Unlikely.	No associated opportunity.
Not meeting BEE requirements	Although Hudaco has put in place an appropriate BEE shareholding structure and targets on the dti scorecard have been achieved, this is against a backdrop of ever-changing requirements. Certain industries (eg mining) have their own charters with different requirements and certain entities set criteria more stringent than the applicable charter. Sales may be lost through not having adequate BEE credentials.	Unable to quantify.	The group transformation and human resources executive monitors legislation and charter requirements to keep our businesses abreast of new requirements. She helps to ensure the necessary certifications have been obtained by the group or each business, as appropriate. Aspects such as ownership requirements are escalated to board level.	Less than even chance. This strategic risk is part of doing business in South Africa and is always front of mind in operations.	We have been able to grow the group through acquisitions because we offer strong BEE credentials to vendors. Also, as competitors are faced with the same BEE challenges, we are able to attract business from those that fall short of requirements. On the revised dti scorecard, we have over 26% black ownership and the overall rating is level 3, which provides a customer with 110% procurement recognition.
Poor acquisition	Acquired business performs well below expectations or exposes the group to significant unexpected risks.	R200 million.	Approving acquisitions on the basis of thorough due diligence reviews conducted by professionally qualified advisers and our own experienced acquisitions team and including earn-out and clawback provisions in acquisition agreements.	Unlikely. This risk is introduced by the strategy to grow the group by acquisition.	Quality acquisitions add significant value to the group.

Risk	Explanation	Potential exposure	Mitigation	Residual risk assessment/probability	Associated opportunity
Reputational risk	The risk is that the group or an individual business may suffer damage to its reputation in the event of a product or corporate governance failure or through association with a supplier whose reputation becomes tainted.	R60 million.	A strong corporate governance framework and code of ethics as well as specific assurances to ensure compliance with competition legislation. Sourcing major brands from high-quality principals and seeking assurance, including through factory visits, in respect of the ethical practices and product quality of second and third-tier suppliers.	Unlikely. The decentralised structure increases the risk relative to a centralised model but should also serve to contain any potential damage.	Hudaco's governance and ethics should put it at an advantage relative to competitors that face the same risks. While reputational issues are undesirable and absolutely to be avoided, the appropriate response, managed well, can have the effect of enhancing a reputation.
Sustained labour unrest in the mining or manufacturing sectors	Of group turnover, currently 15% is sold directly to the mining industry and 15% into manufacturing, much of which is to service the mining industry.	R55 million.	The group has a diverse customer base both within and outside of mining. It is unlikely that all types of mining will be affected.	Even chance.	This provides an incentive to further diversify the customer base through extending our range of products and customer geographies.
Local manufacturer more competitive	Although for most of our key agencies there is little prospect of a local manufacturer being able to produce a product of similar quality at a competitive price, there are some where this could be a threat when the Rand and the economy are weak.	R30 million.	Carrying a second-tier range, which many of our businesses do, and finding other sources of supply reduce the potential impact.	Highly unlikely for major brands but more risk on lesser product lines.	Second-tier brands have been successful for the group. We distribute some excellent local products and could get distribution rights for emerging quality local brands.
Litigation risk	The group is involved in litigation from time to time. In such instances, there is a risk of loss if Hudaco is the defendant and of costs if Hudaco is the plaintiff.	R15 million.	Use of high-quality legal teams and careful management of cases, including through thorough preparation.	Highly unlikely.	Depending on the circumstance, legal action could provide the opportunity to recover assets, preserve reputation or defend a threat to assets.
Natural disaster, epidemic or war at supplier(s) or customer	A natural disaster, epidemic or war could cripple a factory of a major supplier(s) (or of a component supplier to our supplier) or the operations of a major customer. We have seen through Covid-19 that the risk of a pandemic, by definition on a much greater scale, also exists.	R20 million. For a pandemic, R500 million.	We carry up to six months' stock which gives time to react to such an event. Major suppliers generally operate from several factories in different cities and/or countries. The loss of a factory could be disruptive to the supply of certain products but production would quickly be moved to other factories. The group has a widespread supplier and customer base and is not overly reliant on any single one. Insurance is held against certain supply interruptions.	Highly unlikely. Nevertheless, the risk has materialised as a pandemic, with devastating effect the world over.	Natural disasters, epidemics or wars 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 sometimes awards large contracts to new BEE entities, on which we occasionally have to take credit risk.	R20 million.	In such cases, we manage the delivery process as closely as possible and strive to find other ways to minimise this risk. Normal credit risk is managed through having low concentration of credit risk and through disciplined control procedures.	Unlikely to be abnormal. This risk, beyond the normal, is a consequence of BEE procurement.	If managed well, there are significant opportunities in supplying the requirements of government.
Increase in interest rates	Acquisitions have been funded through borrowings, which introduces the risk that finance costs will go up if market interest rates increase.	R18 million per annum if the JIBAR increases by 2% per annum.	Effective management of working capital to minimise exposure. Other forms of raising funds for acquisitions can be considered.	Highly likely.	Higher interest rates could have the effect of reducing prices of businesses for sale. A decrease in interest rates will give rise to an equivalent reduction in finance costs.
Loss of key executives in businesses or at group level	When members of the executive team retire or leave, the risk is that transition could have a significant negative effect on the group. Sometimes businesses are sold to us as an exit strategy for the owners. Succession planning and integration into the group are 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. Ideally, 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 (71)

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 and was appointed managing director in 1987. Valard was acquired by Hudaco in 1992. That year Stephen was appointed Hudaco's chief executive and served in that capacity for 22 years until his retirement in 2014. He continued to serve on the board in a non-executive capacity for a cooling off period and was appointed chairman in April 2018. He is also independent non-executive chairman of Sturrock & Robson, a privately owned international group of engineering businesses with its head office in Europe.

Stephen joined the board in 1992.



Nonyameko "Nyami" Mandindi (56)

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, Exempla REITail Limited and Kusile Africa Development.

Nyami joined the board in 2015.



Mark Thompson (70)

BCom, BAcc, CA (SA), LLB

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

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

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

Mark joined the board in 2017.



Dhanasagree "Daisy" Naidoo (50)

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 and Mr Price Group. In addition, she chairs the audit committees of Mr Price and is a long-serving 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 (58)

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 (61)

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 (58)

NDip: Electrical Engineering

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

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

He joined the board in 2019.



Ernie Smith (52)

BTech: Industrial Engineering

Alternate director, portfolio executive, executive: QHSE and projects

Ernie joined Hudaco as a portfolio executive in 2018. He has extensive commercial and operations management experience in the engineering field, having started his career at Anglo American as an industrial engineer, served as operations director for Whirlpool Appliances, vice president at Schneider Electric (both in Europe and South Africa) and divisional managing director at Aveng.

He joined the board as an alternate director in February 2023.

Executive committee



Graham Dunford (58)

NDip: Mechanical Engineering

Chief executive

34 years' service

1



Clifford Amoils (61)

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

Group financial director

14 years' service

2 3



Louis Meiring (58)

NDip: Electrical Engineering

Executive director

4 years' service

4



Esther Nkosi (58)

BA, Masters in Human Resources Management, Senior Leadership Development Programme

Group executive: Transformation and human resources

16 years' service

3

Service is with Hudaco and businesses acquired.

Chief Executive

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

CONSUMER-RELATED PRODUCTS	
Automotive aftermarket	Power tools and fasteners
4 Abes Technoseal	7 Rutherford
9 Partquip	7 Boltworld
9 A-Line Wheels	
6 Ironman 4X4	
Security and communication	Data networking
4 Commercial ICT	5 MiRO
4 Elvey Security Technologies	5 SS Telecoms
4 Pentagon	
4 Global Communications	
Batteries and sustainable energy	Gas and outdoor products
4 Deltec Energy Solutions	6 CADAC
8 Eternity Technologies	
4 Specialised Battery Systems	
4 Hudaco Energy	



Barry Fieldgate (61)

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

15 years' service

5



Ernie Smith (52)

BTech: Industrial
Engineering

Alternate director,
portfolio executive:
Astore Keymak,
Bearings International,
Belting Supply Services,
Brewtech Engineering,
Bosworth, Hudaco Power
Transmissions, CADAC and
Ironman 4X4

5 years' service

6



Chris Pillay (49)

BA Hons (cum laude),
MBA

Portfolio executive:
Rutherford and Boltworld

2 years' service

7



Burtie Roberts (58)

Portfolio executive:
Eternity Technologies,
Joseph Grieveson, Dosco
Precision Hydraulics,
Ernest Lowe, Gear Pump
Manufacturing and HERS

20 years' service

8



Lavern Jacobs (52)

Portfolio executive:
Partquip and A-Line
Wheels

28 years' service

9

ENGINEERING CONSUMABLES		GROUP SERVICES
Bearings, belting and power transmission	Specialised steel	Finance
6 Bearings International	5 Ambro Steel	2 Accounting
6 Belting Supply Services	6 Bosworth	2 Finance
6 Brewtech Engineering	8 Joseph Grieveson	2 Risk
6 Hudaco Power Transmissions	5 Sanderson Special Steels	2 Tax
	5 The Dished End Company	2 Treasury
Diesel engines and spares	Electrical power transmission	2 Group secretarial
5 DD Power	4 Powermite	Human resources
5 Deutz Dieselpower	4 Proof Engineering	3 Human resources
	4 Three-D Agencies	3 Transformation
	4 Varispeed	6 Occupational health and safety
Filtration	Hydraulics and pneumatics	Environment
5 Filter and Hose Solutions	8 Dosco Precision Hydraulics	6 Environmental management
	8 Ernest Lowe	
Thermoplastic pipes and fittings	8 Gear Pump Manufacturing	
6 Astore Keymak	8 HERS	



"Our overriding financial objective is to increase value for shareholders, which we strive to achieve through long-term growth in earnings accompanied by strong cash generation and astute allocation of capital. Our internal operating measures and incentive programmes are geared towards this goal."

Measurement of financial performance

Our overriding financial objective is to increase value for shareholders, which we strive to achieve through long-term growth in earnings accompanied by strong cash generation and astute allocation of capital. Our internal operating measures and incentive programmes are geared towards this goal. We measure our financial performance based on comparable earnings because we believe it is more representative of the ongoing results of the group. Comparable earnings exclude the impact of the following:

- The proceeds of business interruption insurance claims arising from the impact of Covid-19 on certain of our businesses. These proceeds increased 2022 basic and headline earnings per share by 56 cents. All such claims have been settled in full by the insurers.
- Profits and/or losses that arose because, based on results to date, the latest estimate of the earn-out payments to be made to vendors of businesses acquired in recent years were different from the previous estimate. IFRS 3 requires that, where a business is acquired with a contingent purchase consideration, changes to the estimated purchase price be recognised in profit for the year. The accounting is counter-intuitive because a loss arises when the acquired business performs better than expected and a profit arises where it underperforms expectations. There was no adjustment in 2022, whereas in 2021 a recoupment from a vendor increased basic and headline earnings per share by 28 cents.

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 2022 is 1 951 cents, compared to 1 613 cents in 2021, an increase of 21%. The repurchase of shares during 2022 reduced the weighted average number of shares outstanding so it is also worth considering the total comparable earnings, which increased 18% from R490 million in 2021 to R579 million in 2022. As expected, the repurchases have had a positive effect on earnings per share.
- Return on capital employed is considered in the context of the weighted average cost of capital, particularly in striving to increase and not diminish the intrinsic value of the group.
- Return on equity is an important measure at group level. We target to achieve ROE of a minimum of 17% but strive to reach 23%. The ROE for 2022 was 21.7%. We recognise that, with equity increasing by income retained, in years when earnings don't grow by at least as much as the increase in equity, axiomatically ROE will decline.
- Intrinsic value created for shareholders is determined applying a standard point-in-time capitalisation multiple valuation methodology, as used by professional investment advisers. The increase in the value of the shares between the beginning and end of the year is determined and cash returned to shareholders during the year is added.
- 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, right-of-use assets and cash, less current liabilities excluding interest-bearing debt and lease liabilities. Each business is measured against its own benchmark – its objective being to maximise its RONTA by managing the balance between the operating profit margin (%) and net operating asset turn (times). The lower the operating profit margin, the higher the net operating asset turn must be to achieve a return exceeding the cost of capital.

We achieved an operating profit margin of 12.5% for 2022, compared with 11.4% in 2021. The NTOA turn of approximately three and a half 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 2022 and 2021, RONTA was very respectable at 38% and 37%, respectively.

Business interruption insurance – Covid-19

Generally, our businesses insure their inventories for estimated selling price. Thirteen businesses that conduct manufacturing or similar activities also purchase business interruption insurance because they perceive that, in the event of a disaster, it would take an extended period to restore operations, eg new machinery may have to be commissioned. Those businesses submitted claims because of the interruption caused by Covid-19 and, after initially having denied liability, insurers settled nine claims at a total of R27 million. The other four claims were justifiably assessed at nil. Interestingly, because the nature of the interruption that transpired was very different from what was envisaged when the cover was put in place, in that there was no damage to the infrastructure that required repairing or replacing, and the claims of those businesses that had covered for longer indemnity periods were lower due to their post-lockdown recovery.

Impairment of goodwill

Assessing goodwill for potential impairment always requires a high degree of judgement in projecting the future cash flows of a business. We normally do this annually at financial year-end unless factors have arisen that warrant assessment during the year. The assessment at 30 November 2022 indicated that goodwill had not been impaired.

Capital allocation and share repurchases

An important function at group level is the allocation of capital. Hudaco's overriding strategy is to use available resources to invest in growing existing businesses and acquiring 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 to six times profit after tax, which is particularly value accretive when Hudaco shares are trading at multiples of around 10 times earnings, as they sometimes 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.

Apart from the acquisition of CADAC for R100 million, suitable acquisitions have proved elusive and the Hudaco share price has traded lower during 2020, 2021 and 2022, so buying back shares has been an attractive option. In 2022, the company utilised available cash resources, to repurchase 2.86% of the issued shares in the open market. In total, 928 740 shares were repurchased between 8 December 2021 and 8 November 2022 at a cost of R133 million, including transaction costs. Excluding transaction costs, the lowest price paid per share was R126.00, the highest R147.00 and the weighted average R142.81. These repurchased shares were delisted and cancelled: 737 354 on 24 August 2022, 113 877 on 2 November 2022 and 77 509 on 29 November 2022. A further 695 000 shares were

Financial review continued

repurchased on 6 and 7 February 2023 and delisted and cancelled on 15 February 2023. The purchase price averaged R159.99 per share before transaction costs and the total cost was R112 million.

Dividends

Hudaco's long-term dividend policy is to pay interim and final cash dividends to shareholders totalling between 40% and 50% of comparable earnings, resulting in dividends being covered by earnings by between 2.5 and 2.0 times. This year, the dividends per share total 925 cents and are made up of an interim dividend of 300 cents and a final dividend of 625 cents. This amounts to R268 million and represents 46.3% of comparable earnings for the year. Dividends in 2021 totalled 760 cents per share, of which 520 cents was a final dividend, representing a total of 46.7% of comparable earnings.

Cash flow

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

Net cash flow from operating activities of R649 million (2021: R689 million), after investing R355 million (2021: R116 million) in working capital and paying R244 million in taxation, was very strong and, as always, demonstrates the cash-generative nature of Hudaco's businesses. R276 million was paid out as dividends, finance costs excluding on the lease liabilities for premises were R57 million, R76 million was spent on property, plant, equipment and software and R144 million, including finance costs, was paid to landlords for the right to use premises. R133 million was invested in repurchasing Hudaco shares, share-based payment obligations of R36 million were settled, R81 million was paid for the acquisition of CADAC and long-term borrowings increased by R120 million. The net short-term position moved down R32 million, from positive bank balances of R161 million to R129 million.

The additional R355 million invested in working capital was pursuant to a deliberate strategy over the past two years to increase inventories in the face of a myriad of challenges within the international supply chain, including a worldwide shortage of certain raw materials (especially semi-conductors), reduced production capacity in China because of Covid-19 lockdowns, the dearth of shipping containers available in

China, backlogs in shipping capacity, inefficiencies at South African ports and the consequential reluctance of some shipping lines to stop in South Africa.

Borrowings

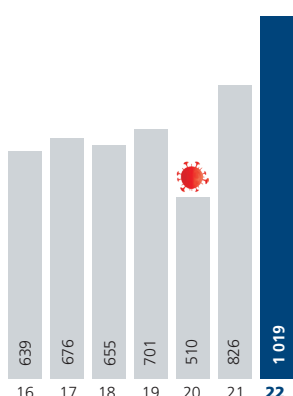
Hudaco's borrowings have arisen from the acquisition strategy to achieve growth in the face of a moribund economy but the gearing deliberately remains conservative. At 30 November 2022, net borrowings amounted to R621 million, up R152 million from R469 million in 2021. There were changes in the structure of some of the long-term facilities during the year, although the practical implications of these changes were not significant. The R600 million joint facility with Rand Merchant Bank and Standard Bank was replaced with a R500 million long-term general banking facility with Rand Merchant Bank at an interest rate in the range 1.85% to 2% below Prime, depending on the tenor of the tranche concerned. The interest rate on the R500 million revolving credit facility with Absa is still JIBAR plus 1.44% but the notice arrangements have changed, so it is no longer an evergreen facility. At year-end JIBAR was 3.725%. The R500 million evergreen revolving credit facility with Nedbank, at an interest rate of JIBAR plus 1.55%, remained unchanged. On all three facilities, Hudaco has full flexibility to make repayments and to redraw funds, subject to basic credit assessments at certain levels, but the banks may not call up the funds for at least 367 days. At year-end, facilities of R889 million were committed by the banks but not utilised.

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

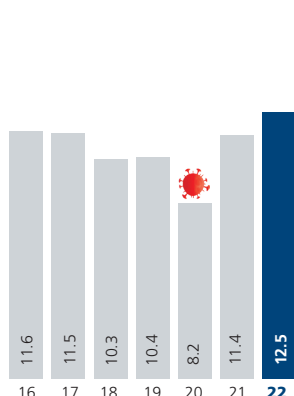
IFRS 16: Leases

In terms of IFRS 16: Leases, there is a right-of-use asset for premises of R382 million and a lease liability of R441 million on the statement of financial position. The statement of comprehensive income contains a depreciation charge of R118 million and finance costs of R29 million. Rent actually paid to landlords amounted to R144 million.

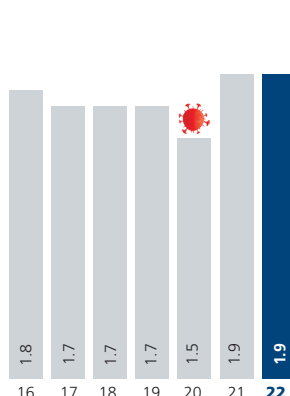
OPERATING PROFIT (RM)



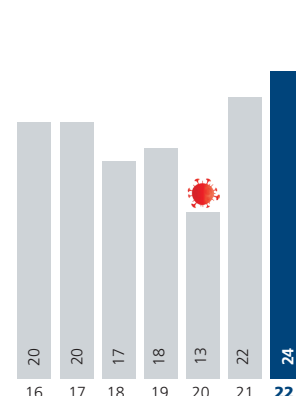
OPERATING PROFIT MARGIN (%)
OPERATING PROFIT/TURNOVER



NOA* (TIMES)
TURNOVER/AVERAGE NOA



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



* Net operating assets

Taxation

The group's effective rate of taxation this year is 27.6%. Except for our BEE learnership programme and non-deductible expenditure in the listed company such as directors' fees and listing costs, there are no factors that would normally result in the rate varying significantly from the standard rate. In 2022 the tax charge was increased by R2.7 million (0.3%) because the pending change in the corporate tax rate from 28% to 27% in 2023 decreased the value of the deferred tax asset at year-end.

The gross contribution to government in South Africa, comprising direct and indirect taxation, amounted to R843 million (2021: R769 million) for the year ended 30 November 2022. The composition of this figure is set out in the value-added statement on page 29.

Financial risk management

Significant financial risks in the group have been identified and are considered at each board, executive committee, operational risk 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 group's risk appetite and risk tolerance statements are considered by the operational risk committee, executive committee and audit and risk committee. The ways in which the group manages foreign currency risk, interest rate risk, credit risk and liquidity risk are fully set out in note 24 to the financial statements.

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

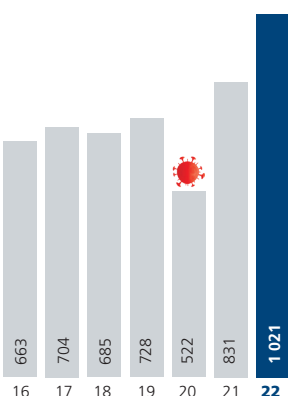
Group services

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

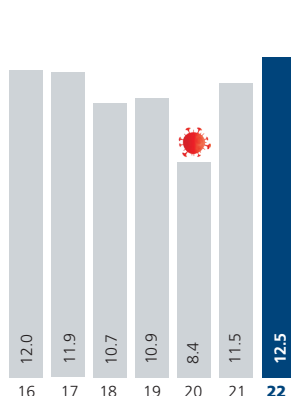
Impact of changes in foreign exchange rates

As Hudaco is predominately an importer, prices charged are linked to the Rand exchange rate. While Hudaco's sales line is affected by exchange rate movements, the group's expense line is affected by the local rate of inflation. This imbalance represents a real risk that sales could fall in response to a strengthening Rand whilst expenses, driven by local inflation, continue to rise. The result would be a margin squeeze. We estimate that a 10% strengthening of the Rand could, without management intervention, result in a R225 million fall in operating profit over a full financial year. Similarly, sustained weakness in the Rand creates the opportunity for higher operating margins but currency volatility can either negate or postpone any favourable impact on earnings. We continue to see significant volatility of the Rand, with the US Dollar costing R15.78 at the beginning of the year and R16.92, 7.2% weaker at the end but with extremes of R14.46 and R18.46, a 28% swing.

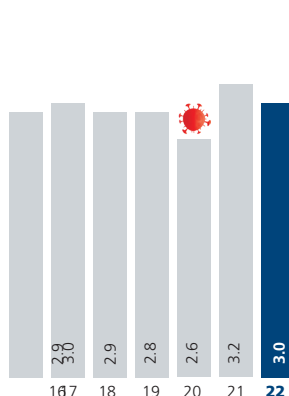
PBITA** (RM)



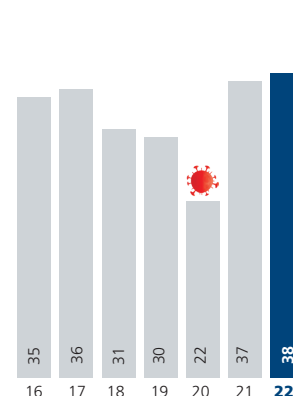
PBITA MARGIN (%)
PBITA**/ TURNOVER



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



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



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

*** Net tangible operating assets

Financial review continued

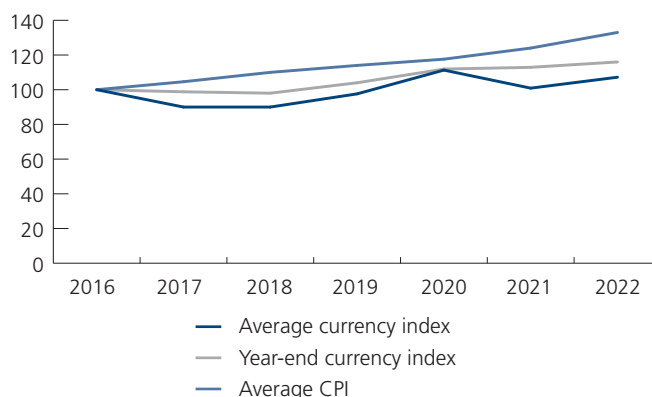
Over time, one would expect the Rand to weaken by the inflation differential between South Africa and its trading partners, allowing us to pass on imported inflation to our customers at roughly the same rate as the local inflation rate. As we are only too well aware, the Rand is volatile and does not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

The volatility in the currency makes pricing a challenge and margins are usually kept under pressure, particularly in the weak economic environment to which we have become accustomed, driven by political uncertainty, particularly international, Covid-19 uncertainty and Russia's war on Ukraine affecting world markets and the fragility of our electricity supply. The graph on this page shows how the weighted exchange index for the basket of currencies that Hudaco purchases has moved relative to the consumer price index (CPI). Our basket of currencies, on average, cost 6.2% more in 2022 than in 2021 but there were fluctuations of about 28% between highs and lows during the year.

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

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

Historical movement in foreign exchange rates for Hudaco's basket of currencies



IT systems

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

The IT governance committee provides input where appropriate and maintains an oversight role regarding control and best practice. Generally, the businesses that adopted a cluster shared services approach in recent years selected Syspro as their preferred IT platform. For more information on how IT is governed in the group, refer to the corporate governance report, specifically page 84.

B-BBEE trusts

The two B-BBEE trusts that own 15% of Hudaco Trading Proprietary Limited have all black South African employees of Hudaco Trading who have more than three years' service as their beneficiaries. In February 2023, the trustees of those trusts resolved to distribute approximately R11 million to qualifying black employees, with about 1 750 employees each receiving R6 250.

Secondary listing on A2X

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



Value-added statement

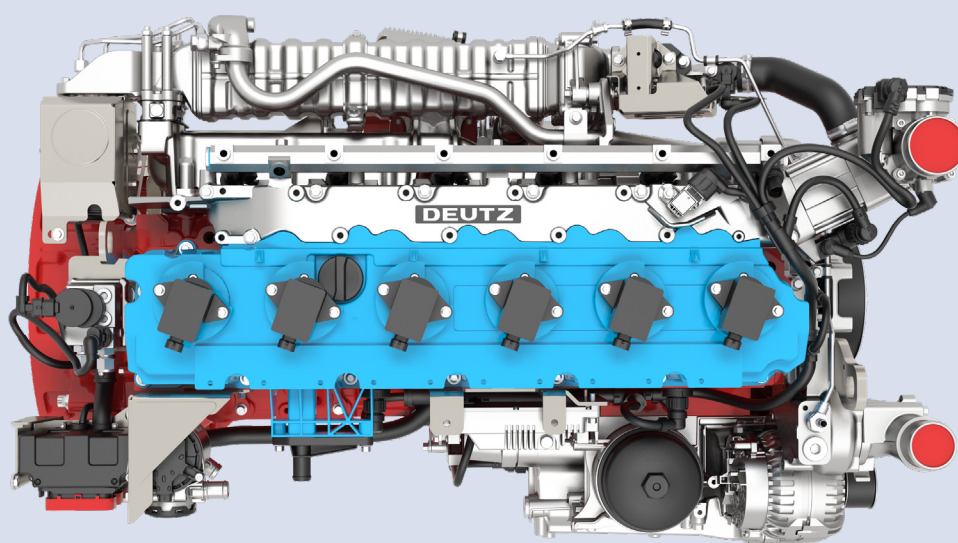
The group value-added statement measures the wealth the group has created in its operations by “adding value” to the cost of raw materials, products and services purchased. The statement below summarises the total wealth created and shows how it has been shared by the stakeholders who contributed to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

GROUP VALUE-ADDED STATEMENT

R million	2022	2021
Turnover	8 151	7 258
Less: Cost of materials, facilities and services from outside	5 602	4 961
Value-added	2 549	2 297
Capital items	(1)	10
Other income	27	
Total wealth created	2 575	2 307
Distributed to:		
Employees – salaries, wages and other benefits	1 424	1 335
Government (gross contributions)	843	769
Indirect contributions, duties and levies	(591)	(551)
Net finance costs	58	36
Shareholders – dividends	276	213
– repurchase of shares	133	69
Maintain and expand the group		
– profits retained	258	272
– depreciation, amortisation and impairment	174	164
Total wealth distributed	2 575	2 307

STATEMENT OF GROSS CONTRIBUTIONS TO THE GOVERNMENT IN SOUTH AFRICA

R million	2022	2021
Company income tax and CGT	252	218
Assessment rates	7	6
Customs and excise duty	172	168
Skills development levies, UIF and COIDA	24	27
Value-added tax not recognised as input credit	3	3
Direct contribution to government	458	422
<i>Add the following collected on behalf of the government:</i>		
Value-added tax (net)	197	184
Employees' tax and UIF	188	163
	843	769



Review of operations

Consumer-related products	31
Engineering consumables	36
Black economic empowerment	41
Geographic footprint	42

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

Our businesses fall into two categories: consumer-related products and engineering consumables.

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 data networking products.



This segment comprises the following main businesses and activities:

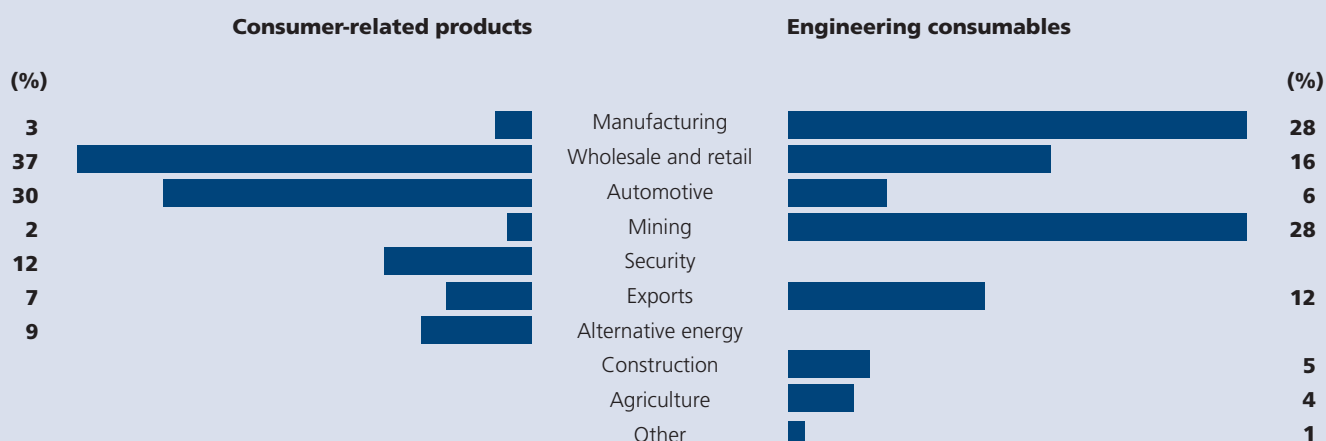
- Partquip distributes a select range of automotive components.
- A-Line Wheels distributes alloy and steel automotive wheels and accessories.
- Ironman 4X4 distributes 4X4 suspension and accessories.
- Abes Technoseal distributes light and heavy-duty clutch kits, ignition leads, oil seals and wiper blades.
- Rutherford distributes Makita industrial power tools, Mercury marine engines, survey equipment and nuclear gauges.
- Boltworld supplies a comprehensive range of fasteners, including rivets, screws, bolts, nuts and washers.
- MiRO and SS Telecoms are value-added distributors of IP convergence technologies, including wireless networking, IoT, VoIP and physical security solutions.

- The Elvey Security group, which comprises Elvey Security Technologies, Pentagon, Commercial ICT and Global Communications distribute intruder detection, surveillance, access control, fire detection and telecommunications infrastructure, both analogue and digital.
- Eternity Technologies, Deltec, Specialised Battery Systems and Hudaco Energy distribute traction, automotive, stand-by and solar battery systems, providing solar power and storage solutions for the commercial, industrial and residential markets and provide comprehensive forklift battery management services to distribution centres and warehouses.
- Cadac distributes gas and outdoor leisure products under the iconic South African CADAC brand to major retailers and independent traders throughout southern Africa.

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

35

SALES BY MARKET SECTOR – 2022



Performance

The consumer-related products segment comprises 12 businesses. In 2022, it made up 52% of Hudaco's sales and 58% of operating profit. In 2021, this segment contributed 52% of Hudaco's sales and 60% of the group's operating profit.

Consumer spending was under pressure again because of significantly increased inflation, rising interest rates, unemployment and a depressed economy. Nevertheless, almost all businesses in this segment had a good year despite volume reduction in some businesses. The security division delivered a vastly better performance. Unfortunately, our traction battery business performed poorly, so we have changed the management team and are looking forward to a much-improved result in 2023.

Segment sales increased by 13.0% to R4.3 billion. Having the right stock available alleviated the pressure on gross margins, so the operating profit increased by 19.8% to R661 million, and the operating profit margin was a very healthy 15.5%.

Automotive aftermarket:

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

During turbulent economic times, with limited consumer disposable income, the aftermarket parts market is usually resilient, since vehicle repair is more affordable than replacement. Despite the many trading challenges caused by adverse economic conditions during the 2022 year, and in the context of subdued growth, the automotive aftermarket businesses held their own in a highly competitive and price sensitive market.

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

A-Line Wheels distributes alloy and steel wheels, under its own A-Line trademark, together with accessories, to both OEMs and wheel and tyre fitment centres. Its wheels meet strict safety criteria and it seeks to deliver the latest trends and most attractive designs to suit all automotive enthusiasts.

Ironman 4X4, with its primary supplier Ironman 4X4 International in Australia as a 50% shareholder, represents the Ironman 4X4 vehicle accessory brand as sole distributor for the southern Africa market. It had a successful year with strong growth from its Gauteng retail fitment centre and from exports into southern Africa.

Abes Technoseal distributes light and heavy duty Valeo and PHC Valeo clutch kits, Bougicord ignition leads and Valeo cabin air filters. The sealing division offers hydraulic and pneumatic seals to the industrial and construction equipment markets and rotary shaft seals for the automotive and general engineering sectors. Despite supply chain issues, Abes Technoseal produced strong results due to clutch volume growth and increased stock availability throughout the range. New product lines and the expansion of new and existing target markets should lead to continued growth in 2023.

PRINCIPAL BRANDS: AUTOMOTIVE AFTERMARKET

	Select range of quality guaranteed automotive components.	Own brand since 1984
	Select range of alloy and steel wheels.	Own brand since 1999
	4-wheel drive suspension, accessories and camping equipment.	Sole distributor since 2005
	Light and heavy duty clutch kits from France.	Exclusive distributor since 2005
	Clutch kits from Korea.	Exclusive distributor since 1994
	Oil seals from Germany.	Preferred distributor since 1950
	Ignition cables from France.	Exclusive distributor since 2007

Power tools and fasteners:

Rutherford and Boltworld

Rutherford represents Makita Japan, a market leader in the production of industrial power tools and outdoor power equipment. Makita has seen growth in cordless power tool and outdoor power equipment sales due to its improvement in battery technology. Rutherford markets both the premium industrial Makita range and the excellent second-tier industrial power tool range, Makita MT. After a very strong 2021, in 2022 the division was significantly impacted by supply chain disruptions caused by the war in Ukraine and the Covid-19 lockdown in China. In addition, the weaker rand and loadshedding negatively impacted sales volumes.

Boltworld is a leading distributor of industrial fasteners, offering a comprehensive range of bolts and fasteners. The business continues to grow by leveraging off the Rutherford branch network in Johannesburg, Cape Town and Durban, and exporting into Africa. It also has a branch in Klerksdorp. In 2022, Boltworld again produced exceptional results, focusing on stock turn, business development and operational efficiency.

Rutherford Marine, the southern African distributor for both the Mercury outboard and the Mercruiser inboard motor brands, also offers a wide range of marine accessories and boat-motor-trailer packages to dealers. The business delivered a stable performance in 2022.

VI Instruments, Rutherford's survey instrumentation division, promotes both the South and Ruide survey instrumentation brands, which offer high-quality value to the market. In addition, VI markets the American Troxler brand of nuclear density gauges throughout Africa. In 2022, VI Instruments produced a pleasing result.

PRINCIPAL BRANDS: POWER TOOLS AND FASTENERS

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

Security and communication equipment:

Elvey Security Technologies, Pentagon, Commercial ICT and Global Communications (Elvey group)

After several years of decline, Elvey group has recovered well during 2022. Its profits and return on net assets were well up and were better than expected due to solid inventory management and strong sales growth. The new management team has performed extremely well and has put in place a solid foundation for further improvement.

Elvey group is the distribution business of security-related products and communication solutions within the Hudaco group. It goes to market through its national infrastructure of 17 branches and a network of sub-distributors. It seeks to drive value to the market through its system integrators, security partners and installers.

The new management team has rebuilt strong relationships with suppliers and clients and has improved Elvey Security Technologies' run-rate business significantly. In addition, they are especially pleased with the successful delivery by both Global Communications and Pentagon of high-value projects with system integrators. Economic pressure on end users still impacted sales through installers and security solution partners, but innovation and the introduction of new exclusive products has assisted these partners to take value to their marketplace. Project business in both Global Communications and Pentagon has grown and improved profitability through the implementation of project management disciplines and better management of risk through contract terms. Elvey group has invested in building strategic partnerships as the trusted advisor for security solutions in the retail, retail banking and mining sectors.

Inventory management through the Elvey value chain has been crucial in the turnaround strategy to optimise resources and improve the bottom line. The implementation of new inventory management software provided better visibility of stock across the businesses and facilitated much tighter control over procurement.

Elvey group supplements its product offering with superior service, training, and top-class technical support. The journey to become the most influential distributor of security and communications-related products and solutions is well on track.

PRINCIPAL BRANDS: SECURITY AND COMMUNICATION EQUIPMENT

	A leading manufacturer of alarm systems from the UK.	Sole distributor since 2018
	Canadian manufacturer of intrusion detection products.	Distributor since 1990
	Japanese intrusion detection devices.	Distributor since 1987
	Ukrainian manufacturer of wireless self-contained intruder detection and smart home systems.	Distributor since 2021
	Mobile radio solutions and networks.	Sole distributor since 1987
	South African manufacturer of access control systems.	Distributor since 2011
	Designer and manufacturer of integrated video management system (VMS) software and servers from Canada.	Distributor since 2018
	Manufacturer of building performance and analytics solutions.	Distributor since 2018
	Manufacturer of security and safety systems.	Distributor since 2011
	Manufacturer of video surveillance products.	Distributor since 2019
	Manufacturer of globally distributed body-worn cameras.	Sole Distributor since 2022

Data networking equipment:

MiRO and SS Telecoms

The persistent global chipset shortage continued to put pressure on the MiRO supply chain and resulted in extended stock-outs on popular product lines. Product diversification and strategic inventory management allowed MiRO to navigate the supply disruptions and achieve respectable results. MiRO introduced new product ranges to serve the growing smart home, industrial and agricultural internet-of-things (IoT) markets as part of a future growth initiative.

Despite having to deal with unconventional challenges, MiRO performed well during a difficult year for the industry. As in previous years, the increasing demand for connectivity in southern Africa helped MiRO to achieve a healthy sales performance in fixed wireless broadband, Wi-Fi and fibre-based technologies. Additionally, with MiRO expanding its reach into home automation and IoT, it opened doors to new markets with resellers and installer bases taking full advantage of the complementary product range available under one roof.

The MiRO B2B/B2C e-commerce website continued to see new adopters and the online sales growth rate outperformed the rest of the business, as expected.

The product range of SS Telecoms is complementary to MiRO's offering, with additional cloud services and alternative solutions driving synergies between these two businesses. SS Telecoms gained substantial benefits leveraging off the MiRO operational infrastructure and proven industry best practises, allowing SS Telecoms to increase its reach and efficiency.

PRINCIPAL BRANDS: DATA NETWORKING EQUIPMENT

	Wireless data communication products from USA.	Distributor since 2008
	Wireless products and routers from Latvia.	Distributor since 2006
	Wireless broadband solutions from USA.	Master distributor since 2016
	Complete VoIP telephony solutions.	Distributor since 2005
	Smart home solutions from China.	Distributor since 2021

Batteries and sustainable energy:

Deltec, Specialised Battery Systems, Eternity Technologies and Hudaco Energy

2022 was a good year for Deltec. It successfully managed the uncertainty in the market arising from increased shipping costs, ineffective ports and ever-changing lead times. The expansion of its automotive, solar and lithium-based products in the context of continued loadshedding played a significant role in keeping the foundation of the business solid and in good shape.

Specialised Battery Systems (SBS) supplies stand-by battery systems for support infrastructure to the UPS, telecommunications and security alarm markets. SBS had an exceptional year supplying inverter and battery pack solutions to households and small industries faced with ongoing loadshedding. The larger data centre projects continued to be the backbone of the business in 2022.

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

Eternity Technologies had a very challenging year, with the global material handling equipment market suppressed due to a shortage in the semiconductor market. This, together with some poor management decisions, which included a reduction in local production, resulted in a very disappointing performance. Key management changes have been made and we believe meaningful recovery is underway. The business has secured some larger battery bay projects for 2023, pipelines are strong and there is potential for promising developments on the lithium-ion front.

Hudaco Energy was established late in 2021 to provide solar power and storage for commercial, industrial and residential applications, supporting other Hudaco businesses in its comprehensive solution offering. It is positioned as a value-adding distributor of premium (Tier 1) products. In addition to inverters and PV modules, Hudaco Energy incorporates products such as batteries, diesel generators, electrical cables and electrical accessories, sourced from within the group.

The business has grown rapidly, notwithstanding unexpected challenges in 2022. Initially, production problems in China meant that stock was unavailable and then heavy demand for installers because of increased loadshedding impeded capacity to grow the partner channel with qualified personnel. The intention is to expand the product offering to cover additional market segments which were excluded through the initial brand selection. This should facilitate expansion from only high-end homes into the mid-market customer segment. Focus for 2023 is on increasing the installer base and enhancing end-user engagement.



PRINCIPAL BRANDS: BATTERIES AND SUSTAINABLE ENERGY

	Sealed lead-acid batteries.	Own brand since 2000
	Batteries for golf carts and industrial machines.	Sole distributor since 2012
	Back-up power in UPS, telecoms security, etc.	Sole distributor since 2012
	Back-up power in UPS.	Sole distributor since 2000
	Back-up power (UPS) and solar systems.	Sole distributor since 2000
	48V Lithium battery modules for solar systems (energy storage systems).	Sole distributor since 2018
	Custom solar systems using the SBS solar products.	Sole distributor since 2009
	Full international range of British standard cells, DIN standard cells and BCI standard cells.	Sole distributor since 2014
	Innovative and tailor-made systems for charging batteries in intralogistics.	Sole distributor since 2013
	Improving the life and performance of industrial batteries.	Sole distributor since 2008
	Full range of all SMP Lithium-ion battery modules to accommodate all different OEM model types.	Sole distributor since 2018
	Wireless inductive charging for AGVs and traction applications.	Sole distributor since 2021
	Solar and hybrid inverters and lithium storage.	Distributor since 2021
	PV modules (solar panels).	Distributor since 2021

Gas and outdoor products:

CADAC

Hudaco acquired the business of Cadac South Africa with effect from 28 February 2022, including a 20-year distribution right for the iconic CADAC brand for southern Africa. The CADAC brand has been warming the hearts and homes of South Africans for the past 75 years and includes an extensive, product range trusted by consumers and synonymous with quality, safety and value for money. The business performed well above expectations, supported mainly by the need for cooking and heating energy sources because of increased loadshedding, as well as the devastating impact of the floods in KwaZulu-Natal. The CADAC business has enormous potential within the Hudaco group so, as we get to understand it better, we will be conducting a comprehensive review to identify opportunities over both the medium and long term, including the brand proposition, distribution channels, the product offering and innovation. The goal is to bring gas-related products to customers safely, conveniently and affordably.

PRINCIPAL BRAND: GAS AND OUTDOOR PRODUCTS

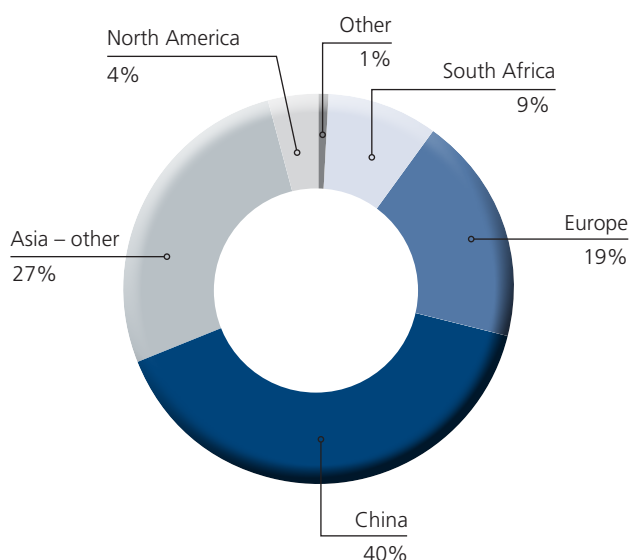


Gas-related products, parts and accessories.

Distributor since 2022

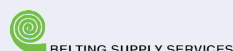
Consumer-related products

Source of products



Engineering consumables

Most businesses in this segment distribute mature industrial products to mature economic segments (mainly mining and manufacturing).



This segment comprises the following main businesses and activities:

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

Performance

The 18 businesses that constitute engineering consumables made up 48% of sales and 42% of operating profit. In 2021 this segment contributed 48% of sales and 40% of operating profit.

The segment increased turnover 11.6% to R3.9 billion and operating profit by 28.5% to R470 million. The two most significant market sectors in this segment are mining and manufacturing, and we have managed to grow sales again this year. Most of the businesses in this segment performed well, with outstanding performances coming from our businesses supplying diesel engines, specialised steel and dished ends, gear pumps, bespoke castings, filtration, bearings, modular belting and inverters. The operating profit margin increased from 10.4% to 12.0%, partly because we are seeing the benefits of cost rationalisations completed in recent years.

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

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

Most businesses in this segment distribute mature industrial products to mature economic segments (mainly mining and manufacturing). These market sectors were in decline for many years, partly due to natural boom and bust cyclicality of resources but also due to investment unfriendly regulations and political posturing. There has been a significant recovery in commodity prices in the last two years,

accompanied by greater activity in the mining sector in particular. This activity, together with strong stockholding, has contributed to the strong operating performance. While the expense structure of Hudaco's businesses in this segment is considerably higher because of the extensive branch network and the large number of separate businesses, the rationalisation of elements of this cost structure has also assisted in enhancing performance.

Refer to page 41 for a geographic analysis of the source of supply of the engineering consumables product range.

Thermoplastic pipes and fittings:

Astore Keymak

Astore Keymak is a leading supplier and manufacturer of a comprehensive range of thermoplastic pipes, pipe fittings, hoses, valves, and pipeline accessories in various engineered plastic materials. Its key market segments include irrigation, industrial, mining and infrastructure. Overall, the business recovered well from a disappointing 2021 performance. After a particularly difficult 2021, the Keymak manufacturing division had a record year. This was partly because it took the necessary remedial action by increasing selling prices in response to unprecedented raw material price increases experienced during 2021 and the first half of 2022. Furthermore, the addition of a new extrusion line at Keymak in July 2022 not only expanded its manufacturing capacity, which enabled it to secure new sales contracts, but also significantly improved operational efficiencies. On the other hand, the Astore division experienced a challenging year, with the industrial and infrastructure sectors in steady decline since 2016 as a direct result of little to no government investment in or maintenance of water and sanitation infrastructure, and the continued decline in the construction sector. The relocation and expansion of the Cape Town branch in the second half of 2022 is expected to strengthen its position in that region.

PRINCIPAL BRANDS: THERMOPLASTIC PIPES AND FITTINGS		
	Thermoplastic pipes and fittings from Austria.	Sole distributor since 1995
	Mechanical seal compression fittings from Italy.	Sole distributor since 1997
	PVC pipes, fittings, and valves from Italy.	Sole distributor since 1997

Bearings, belting and power transmission:

Bearings International, Belting Supply Services, Brewtech and Hudaco Power Transmissions

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

Bearings International celebrated its 65th anniversary in 2022 with another year of growth in both revenue and profitability. All four product categories (bearings and seals, power transmission, electric motors, and allied products) performed well across regions and within all major industry segments. This was achieved despite a raft of obstacles, including the very challenging economic environment, increased loadshedding, global supply chain constraints and the

aftermath of the devastating floods in KwaZulu-Natal in April 2022. Not only was Bearings International's branch in Prospecton, Durban completely flooded, but sales in the region were also negatively affected for some time thereafter, especially to Toyota South Africa, a consistent contract customer that had to close for several months. The addition of the ABB standard and premium efficiency electric motor ranges started yielding good results. Bearings International added four new branches to its network and launched an e-commerce on-line store that is starting to perform well. Exports into Africa showed meaningful recovery and will continue to be a focus area for the future. We feel that our slogan "Always there, making it work" and our people's commitment to this promise are key to our success.

Looking ahead we will continue to focus on enhancing the customer experience and the value proposition of related products and services. We will also continue to look for the right opportunities to expand the branch network and our network of partners in southern Africa.

Hudaco Power Transmissions is a distributor and repairer of geared and electric motors, industrial helical, bevel and worm transmissions and drive solutions. It had a reasonable 2022, even though many Eskom projects were postponed, hopefully to 2023. The introduction of new product ranges gave us access to new markets which will bear fruit in the coming years. A field repair service has recently been introduced as part of the growth strategy.

Belting Supply Services is a leading supplier of quality rubber and PVC belting-related products, industrial hose and cryogenic valves, instrumentation and sealing products predominantly into the food and beverage and industrial sectors. It is a distributor for Habasit and Forbo belting, NCR industrial hose, Bestobell valves as well as NDC, Sauter and Madelena instrumentation. As part of its value proposition, it offers a 24/7 on-site splicing service for large industrial customers.

Belting Supply Services delivered satisfactory results, on top of record growth in the prior year. Although the first half of the year was slow, there was good growth in the second half, despite continued supply chain challenges from foreign suppliers. The decision to increase stock holding across all product ranges served them well and supported sales of heavy rubber conveyors and idlers to the mining and manufacturing sectors and hose to the food and agricultural sectors. New product ranges launched in 2021, continued to deliver solid growth, especially within the mining and quarrying sectors, and will remain a key focus area for 2023. The cost savings initiatives implemented during 2021, especially the integration of Brewtech Engineering into the same facility, contributed to further cost savings in 2022. Collaboration with Hudaco's other material handling businesses and growth in sales into Africa remain high priorities for 2023.

Brewtech is a leading supplier of a range of stainless steel and plastic flat top chains, plastic modular and wire mesh belts, related conveyor components and specialised engineered plastic parts that are mainly produced in-house for applications within the food and beverage and related manufacturing and packaging sectors. It is a distributor of the Rexnord, System Plast, Marbett, MCC and Intralox ranges of chains and has in-house engineering capability to design and produce complete conveyor systems. Brewtech had another exceptional year with significant growth across all local market segments as well as exports into Africa. The strategy of targeting specific market sectors and expanding its product range accordingly is delivering positive results. It has also mitigated the prior risk of dependence on a single industry segment. Brewtech has now fully settled in after relocating its Johannesburg operations into the same premises as Belting Supply Services. The move has allowed for expansion of its manufacturing capacity. This investment and the securing of several new contracts during 2022 are expected to yield further growth for Brewtech in 2023.

PRINCIPAL BRANDS: BEARINGS, BELTING AND POWER TRANSMISSION		
	Precision bearings from Germany.	Distributor since 2005
	Ball and roller bearings from Japan.	Sole distributor since 1962
	Bearings and transmission from USA.	Distributor since 2001
	Chain and sprockets from the Netherlands.	Distributor since 2010
	Split roller bearings from UK.	Distributor since 1937
	Electric motors and smart sensors from Europe and Asia.	Distributor since 2020
	Industrial hose from Thailand.	Sole distributor since 2002
	Transmission and conveyor belting from Switzerland.	Distributor since 1970
	On-line or at-line analysers from the USA.	Sole distributor since 1994
	Building, HVAC and process control from Germany.	Sole distributor since 1980
	Plastic chain and modular belts from Italy.	Distributor since 2021
	Geared motors from Germany.	Sole distributor since 1989

Diesel engines and spares:

Deutz Dieselpower (DDP)

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

Therefore, DDP's principal activity is providing support for Deutz engines through service, spare parts, reconditioned engines, the sale of replacement engines to customers, and supplying new engines to the limited number of local OEMs in this region. The service business forms an integral part of DDP's activities, so a key strategy is to

continue growing the engine population and thereby secure the aftermarket business. DDP achieves this by offering excellent support for Deutz engines wherever they are located.

Despite the ongoing supply chain issues and pricing pressures from foreign suppliers, DDP performed exceptionally well in 2022, mainly due to a strong performance in the mining and power generation segments. Mining OEM business has recovered to pre-Covid levels while demand for service business from end-users remains strong.

DDP continued to benefit from the robust activity in copper mining in central Africa, resulting in another solid performance from our Zambian operation. In addition, we have managed to grow the business from Zambia into the neighbouring countries, in particular the DRC. Our export business, mainly to sub-Saharan Africa, performed very well in 2022, with sales to Zimbabwe and Botswana improving significantly.

The performance in the power generation market remains positive, mainly through sales of genset engines to local genset manufacturers and complete generating sets. Demand remains robust due to the ongoing loadshedding experienced throughout most of the year. We see this continuing in 2023.

PRINCIPAL BRANDS: DIESEL ENGINES AND SPARES		
	Air and liquid-cooled engines from Germany 12 – 620kW.	Sole distributor since 1969
	Exhaust after-treatment systems from Germany.	Distributor since 2018

Filtration:

Filter and Hose Solutions (FHS)

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

Tight trading conditions continued during 2022, with the business having to contend with volatile steel prices and rising EU energy costs on imported stock. Constraints continued through to the third quarter, which led to an increase in price sensitivity, particularly from mining customers, who were also affected by tight cash flows. Through effective and well-managed supply chain mechanisms, FHS ensured inventory availability and used this strength to attract new customers. Despite the challenges, FHS saw meaningful growth during 2022. The focus on a delineated route-to-market strategy has yielded positive results, particularly within the SME and reseller portfolio, as has the expansion of the product range into the industrial sector. FHS is well positioned to continue the positive trajectory, encouraged by customers' order books and excited about new customers and products being pursued.

PRINCIPAL BRANDS: FILTRATION

	Heavy duty filtration from USA.	Distributor since 1994
	High-performance hydraulic filtration from Italy.	Sole distributor since 2003
	German-based global technology leader in filtration.	Distributor since 2012

Electrical power transmission:

Powermite, Proof Engineering, Varispeed and Three-D Agencies

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

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

Powermite had a disappointing year with extended delivery times from principal suppliers of cable and material handling products and systems, as well as the deferral by customers of key projects to 2023. The outlook for 2023 is better, with a healthy project pipeline and a strong focus on new products and new markets.

Proof Engineering managed to get back onto some of the major coal mines' vendor lists towards the end of the year. This should secure growth in sales of the high-pressured metal (HPM) restrained range of products and an increase of the overall profitability of the business. The export market showed some growth in 2022 and this is expected to continue in 2023. Our Ampco range of industrial plugs and sockets, which is the market leader in South Africa, continued to meet a steady demand in both the local and export markets. The manufacturing facilities of both Proof and Ampco were closed towards the end of 2022 because outsourcing production is significantly more cost-effective. It is extremely difficult to run a profitable manufacturing facility in South Africa. The savings should reflect in 2023 performance.

Varispeed had another excellent year on the back of a record 2021, with continued growth in the wholesale, manufacturing, mining projects and OEM sectors. This was achieved despite the uncertainty around product availability, driven by core component shortages and other supply chain constraints. The continued proactive stockholding initiatives to combat global component shortages enabled us to take market share and deliver a solid set of results. Our focus on African project growth opportunities and acceleration of our small-works panel assembly facility in Johannesburg remains one of our priorities in securing new business.

Three-D Agencies experienced excellent growth in 2022, with volume growth across several product categories that significantly increased revenue, after a difficult 2021. Three-D will continue to expand its product range and footprint in South Africa, with a strong focus on new customers and new market segments. Effective and well-managed supply chain mechanisms have ensured continuous availability of inventory, which also contributed to the strong growth.

PRINCIPAL BRANDS: ELECTRICAL POWER TRANSMISSION

	Low and medium voltage variable speed drives, servos, motion controllers, PLCs and HMIs from Japan.	Distributor since 1992
	Low and medium voltage soft starters from Israel.	Distributor since 1999
	1 000V variable speed drives from America.	Distributor since 2021
	Plugs and sockets from Germany.	Sole distributor since 1974
	Own range of electrical plugs and sockets.	Since 1974
	Own range of mining connectors and lighting systems.	Since 1974
	Electrical cable from Poland.	Distributor since 1998
	Electrical feeder systems from Europe.	Distributor since 1970
	Uni-T instruments and meters from China.	Sole distributor since 2005

Hydraulics and pneumatics:

Ernest Lowe, HERS, Dosco and GPM

Gear Pump Manufacturing (GPM) manufactures in Cape Town and distributes high-quality bearing and bushing hydraulic gear pumps for both export and local markets. It also has a sales arm in the USA and in the UK an assembly and sales facility, which serves the European market. 70% of production is exported globally. GPM continued to experience high demand internationally, thus it delivered strong sales and operating profit growth, despite production interruptions caused by increased loadshedding, constraints in the outbound supply chain and the Transnet strike. Both USA and UK sales increased substantially as those businesses succeeded in penetrating new markets.

Dosco is a leading re-manufacturer of hydraulic pumps and motors and supplies new units as a distributor of the GPM, Kawasaki and Staffa brands. Operating in the OEM and mining space, where it has grown its customer base, Dosco has been resilient in traditional sectors, notwithstanding the mining strike over several months in 2022. Dosco aims to grow further in 2023 in the PGM areas in the North West and Limpopo provinces, targeting key customers together with strategic distributor partners.

Ernest Lowe is an authorised distributor of a wide range of globally branded hydraulic and pneumatic products. Its scope of supply far surpasses the industry norm, with in-house capabilities to assist with the design and manufacture of both hydraulic and pneumatic systems and cylinders to customer specification. The results were well up on 2021, with the business reaping the rewards of the product and service diversification strategy that was implemented during 2020. Opportunities for 2023 lie in the mobile hydraulic, industrial and agricultural sectors, with newly acquired agencies, expansion of the field service offering and the newly established Cape Town branch.

HERS is a specialist underground mining machine drivetrain repairer of axles, transmissions and torque converters, while also supplying and servicing other hydraulic products, such as hydraulic cylinders and rotary actuators. Healthy revenue growth was achieved in 2022 and further growth is expected in 2023 through entering the open-cast mining drivetrain market, among other strategic initiatives. Additional local distributors were appointed in key growth areas, which increased footprint and thus revenue. Stock levels were maintained amid fluctuating supplier lead times, which enabled HERS to continue meeting customer expectations. The field service offering has grown HERS' reputation in the market as a value adding supplier through assisting customers to correctly commission and decommission components, performing equipment audits and highlighting areas that improve equipment reliability, while reducing maintenance spend. The drivetrain division maintained its status as the only Kessler Trained Service & Repair Centre in Africa through onsite training by a Kessler representative.

PRINCIPAL BRANDS: HYDRAULICS AND PNEUMATICS

	European pneumatic equipment.	Sole distributor since 1959
	Kawasaki axial piston pumps and motors, as well as Kawasaki Staffa radial piston motors.	Distributor since 2000
	Hydraulic, grey iron, bearing and bushing gear pumps.	Manufacturer and distributor since 1985
	Axles (including sub-assembly components such as brakes, centre portions and planetary hub assemblies), transmissions and convertors.	Repairer since 2001 and official spares distributor and repairs agent in SADC since 2009 and holder of Kessler Trained Service & Repair Centre status since 2020, the only such centre in Africa.
	Axles, transmissions and torque converters, including assembly of components.	Repairer since 2001 and spares distributor since 2019

Specialised steel:

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

The Ambro Steel group comprises Ambro Steel, Sanderson Special Steels and Donsteel & Forgings. It is a market leader in supplying special steels and a heat treatment service to the engineering sector. The group thrives on providing an efficient and service-friendly customer experience. Extensive metallurgical knowledge and expertise in-house compliment the service offering, as does the wide range of engineering and tool steels and the heat treatment capacity. Despite relentless increases in prices, shipping delays and continued sourcing difficulties from both domestic and foreign manufacturers, well-managed stock and expense control ensured a very successful 2022. A strategy to grow the supply of tool steel and heat treatment services paid dividends and contributed to the excellent results.

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

Bosworth experienced a slow year with a dearth of project orders, as numerous large projects were pushed out to 2023, although this augurs well for the year ahead. Bosworth's operational efficiencies were also significantly impacted in the first half of the year due to loadshedding but it commissioned a 400 kW solar system and 1 MVA backup generators at its Alrode manufacturing site during the second half of the year, thereby becoming substantially self-sufficient. The lack of large export projects allowed Bosworth to focus its efforts on local business development and smaller projects, pulley repairs and expanding the capacity of its idler business, which now provides a good run rate base and makes Bosworth less reliant on large projects. Various initiatives to improve operational efficiencies and reduce manufacturing lead times were started during the year and will continue to be a critical focus area going forward.

Joseph Grieveson is predominantly a jobbing foundry that manufactures ferrous and non-ferrous castings. Sales were significantly up on 2021 despite persistently challenging trading conditions, the KwaZulu-Natal floods in April and the ensuing infrastructure damage. Significant focus was put into margin and cost management with very a pleasing impact on the profitability of the business. Operational efficiency improvement projects delivered increased capacity, which allowed for entry into several new markets. The focus in 2023 will be on continued growth and further profitability enhancement, through a more diversified product offering into new and existing markets. We caution that loadshedding has a devastating impact on running any foundry.

The Dished End Company specialises in manufacturing various types of dished ends, from 400 mm to 5.5 m in diameter and thicknesses ranging from 4 mm to 50 mm. It also offers the pressing and flanging of small conical sections and a range of single-pressed weld caps. Despite the ongoing material shortages and harbour delays, the business had significant growth in 2022. Although it will be difficult to grow to the same extent in 2023, indicators in the market are promising so we are optimistic for the coming year.

PRINCIPAL BRAND: SPECIALISED STEEL

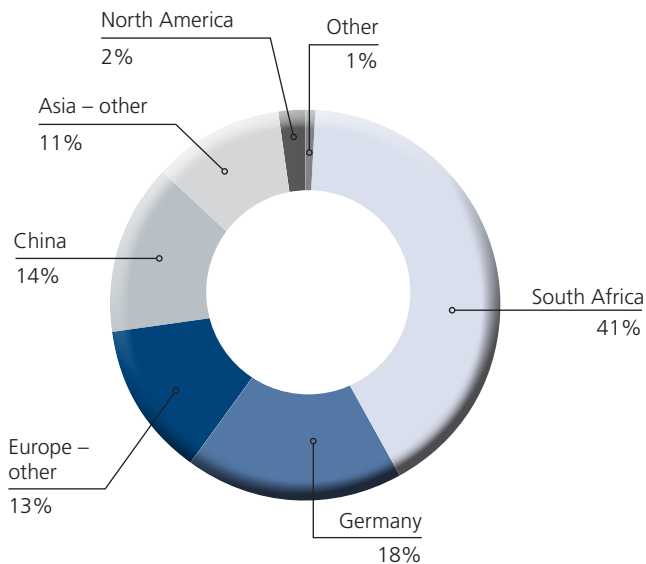


Ferrous and
non-ferrous castings.

Manufacturer and
distributor since 1915

Engineering consumables

Source of products



Black economic empowerment

The group is audited by an independent verification body. Hudaco Trading is rated as a level 3 B-BBEE contributor, which is advantageous and applies to all the Hudaco Trading businesses, meaning that customers are able to claim 110% of their spend with us for purposes of their own scorecards. The next rating will be conducted in the second quarter of 2023.

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

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

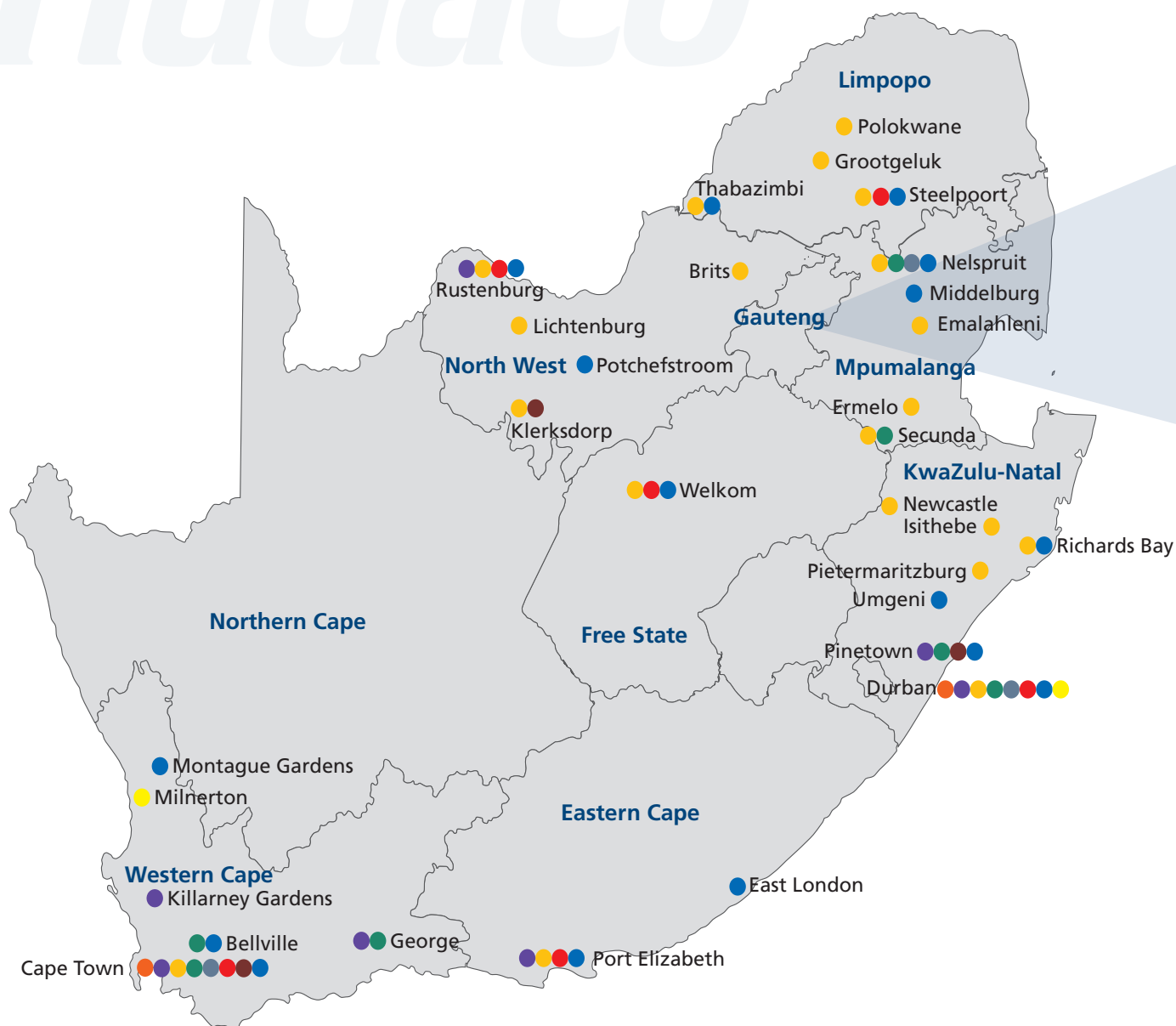
Two BEE trusts, which have identical trust deeds and beneficiaries, together own directly 15% of the shares in Hudaco Trading. The beneficiaries of these trusts are all black employees of Hudaco with at least three years' service. These trusts provide Hudaco's black employees with an economic interest in Hudaco and also enhance Hudaco's ownership component for the B-BBEE Codes. In February 2023, the trusts will distribute R11 million to approximately 1 750 black employees of Hudaco, with each beneficiary receiving R6 250.



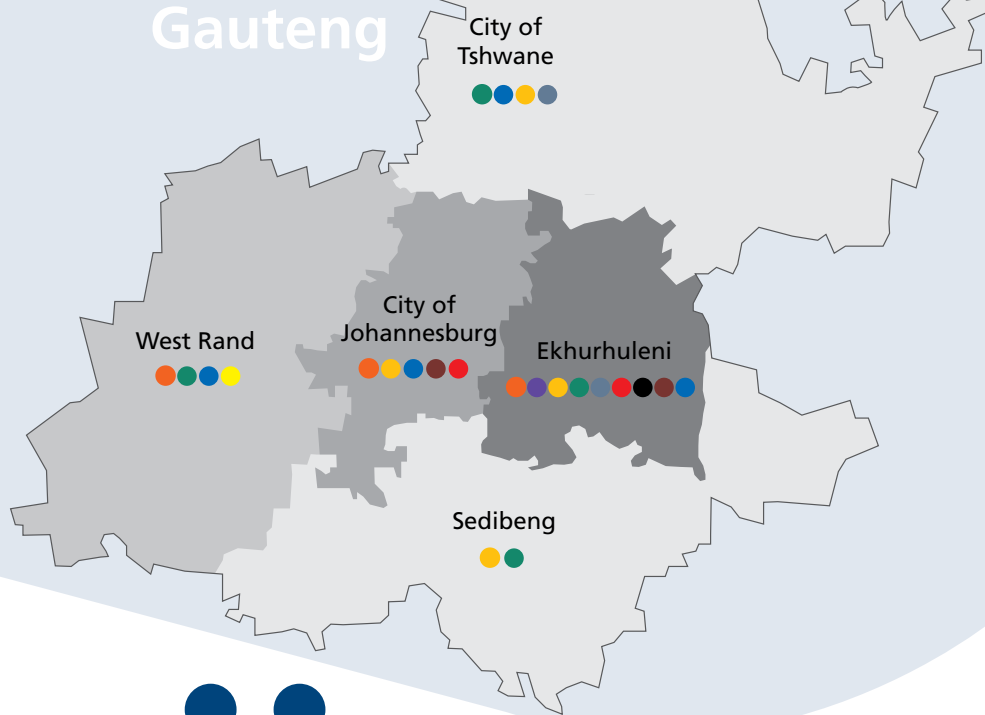
Geographic footprint

Location of businesses

Hudaco



Gauteng



Number of permanent employees



	2022	2021
Gauteng	2 347	2 352
Western Cape	454	484
KwaZulu-Natal	408	416
North West	82	81
Mpumalanga	65	74
Eastern Cape	60	61
Limpopo	50	49
Free State	29	30
Northern Cape		8
Namibia	15	12
Kenya	11	11
UK	7	7
Zambia	5	5
USA	3	3
	3 536	3 593

KEY

- AUTOMOTIVE AFTERMARKET PRODUCTS
- BATTERIES AND SUSTAINABLE ENERGY
- BEARINGS AND BELTING
- SECURITY AND COMMUNICATIONS
- DATA NETWORKING EQUIPMENT
- DIESEL ENGINES AND SPARES
- HEAD OFFICE
- POWER TOOLS AND FASTENERS
- OTHER ENGINEERING CONSUMABLES
- GAS AND OUTDOOR PRODUCTS



BEARINGS
INTERNATIONAL

Bearings & Seals
Chains & Sprockets
Electric Motors & Drives
Belts & Pulleys
Gearboxes & Couplings
Lubricants & Tools
Field Services

65
YEARS

ALWAYS THERE, MAKING IT WORK



in numbers

43

Branches Nationally

85 Years

Cooper Bearing Distributor

Level 3

BBBEE status

More than 450

Employees in the BI Network

More than 43

Leading International Brands distributed by BI

More than 12 Million

Km's BI travels annually to get stock to our customers

More than 150

Technical Sales Engineers who offer Professional On-Site Service

More than 108 000

Cubic Metre of Warehouse

24

Hours of National Assistance

1891

J Hubert Davies started an Industrial Equipment Supply Business today known as Hudaco

More than 130 Thousand

Line items listed

2022

2020

Bearings International launches E-Commerce Store

Bearings International signed up as Channel Partner with ABB

2012

Bearings International HO moved from 190 Barbara Rd to Parkhaven

2005

Bearings International was made an official FAG distributor

1985

Hubert Davies Engineering Supply Company is bought from Blue Circle Limited by its management, now known as Hudaco Industries

1978

Bearings International along with Deutz Dieselpower, Circle Pumps, The Roller Chain Company and other supply companies are reorganised into Hubert Davies Engineering Supply Company shortly before getting acquired by Blue Circle Limited

1968

Bearings International opens country wide depots

1966

Hubert Davies buys out Engineering Trust Company which was the holding company for G.H. Langer, Roger Jenkins, Bearings International and Charter Engineering and combined them to trade under Bearings International

1963

Koyo Bearing agency acquired from Koyo Seiko company, Japan

1957

Bearings International established and started trading



shop.bearings.co.za

Environmental, social and governance report

Commitment to sustainability

As a business that has grown and expanded its operations for over a century, Hudaco appreciates that operating sustainably has to be an integral part of its strategic framework and integrated in how it conducts everyday business. Hudaco's commitment as a responsible corporate citizen includes adopting responsible business practices and focusing on those areas where the management team believes we can make a meaningful and sustainable contribution for a better world in the future.

We believe that a sustainable business integrates a range of considerations affecting the environment, people and the needs of stakeholders, enabling it to create value in the long term and as a responsible corporate we will deliver products and services in a sustainable manner.

Our approach to sustainability is pragmatic and recognises that the work of integrating and embedding environmental, social and governance aspects is never-ending. We are, therefore, committed to learning and continuously adapting our approach on this journey.

Hudaco



Hudaco supports sustainable development goals



Environment

At Hudaco, we are fully aware that climate change is one of the most defining challenges of our times and we remain committed to being a responsible corporate citizen that plays an active role in the global response to climate change impact reduction, so we continue to review and shape our operations to support a low-carbon economy.

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 are committed to conducting business in a manner that complies with all relevant environmental legislation and 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.

Hudaco's environmental strategy aims at both proactively addressing environmental risk from its operations and contributing positively to environmental transformation and the global race to decarbonisation by:

- Reducing scope 1 and 2 carbon emissions through the evaluation and application of more efficient technologies in our operations;
- Preventing pollution and limiting harmful emissions;
- Reducing energy usage in its operations and moving to renewable energy sources where possible;
- Reducing water consumption; and
- Reducing waste to landfill and increasing recycling.

Social

Employee safety and health

The safety of our people always comes first in everything we do, and, we strive towards zero safety incidents in our operations. We have intensified our focus on safety in the workplace with accountability at all levels in the organisation and the ongoing implementation and application of Hudaco's QHSE (Quality, Occupational Health, Safety and Environmental) framework that drives standardisation of policies, processes and procedures, as well as continuous improvement through the deployment of best practices and sharing lessons learned across the businesses in the group.

Hudaco's safety and health strategy is underpinned by its commitment to create an inclusive and diverse work environment, with active engagement of our employees through continuous training and communication, pro-active identification and elimination of risks in the workplace and establishing a culture around safety and health at all levels. This inclusive approach not only makes our work environment safer but also creates a competitive advantage for our businesses and measures and monitors performance as a basis for improvement as follows:

- **Leading indicator** – Visual leadership engagement that measures the compliance of senior management conducting operational assessments to predefined minimum guidelines and requirements.
- **Lagging indicators** – the following key performance indicators (KPIs) have been adopted: LTIFR – Lost time injury frequency rate, LTISR – Lost time injury seriousness rate and AIFR – All Incident Frequency Rate.

Other social initiatives, including skills development and transformation

Other social initiatives, including for people outside the group and other elements of transformation, are very important aspects of Hudaco's commitment to sustainability. These include:

- the development of skills of employees and their immediate family members;
- the development of skills of unemployed young South Africans to enhance their employability;
- enterprise development;
- supplier development;
- socio-economic development initiatives;
- talent management;
- succession planning;
- corporate ethics;
- employee rights and collective bargaining;
- fair and responsible remuneration;
- risk benefits; and
- post-retirement benefits.

52

Information on these aspects is detailed in the human capital report commencing on page 52.

Governance

For extensive information on the overall governance of the company by its board and relevant committees, refer to the corporate governance report commencing on page 75. The paragraphs below are devoted to governance in the context of QHSE.

75

We are committed to regularly reviewing our QHSE policies, management system and performance in all our operations to ensure continued sustainable business practices and a safe working environment for our employees.

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

- Our integrated management system (IMS) covers the group's operations (manufacturing sites, distribution centres and commercial sites) particularly for ISO 9001, ISO 45001, and ISO 14001 compliance.
- Hudaco has developed its own QHSE framework to drive standardisation of policies, standards and guidelines and adopted best practices across the group to strengthen our health, safety and environmental risk assessments, management and assurance processes and learning from incident investigation, including sharing these learnings to prevent incidents.
- Annual risk assessments are conducted by all business units to identify health, safety and environmental risks and potential impact on the business. These are used as key inputs to drive management of control measures and improvement plans, with progress tracked by the cluster and group QHSE teams.
- Regular legal liability assessments are conducted by external legal experts in the field to identify potential gaps in legal requirements and compliance registers.
- The Hudaco group risk and internal audit department conducts independent QHSE audits as outlined in the group internal audit and risk management framework in all business units to determine compliance with requirements of the international standards (ISO 9001:2015; ISO 14001:2015 and ISO 45001:2018), relevant laws, regulations, and the group QHSE framework, which provides third line assurance. Progress of corrective actions on identified gaps are tracked by both the internal audit and risk management department and the group QHSE and continual improvement managers, with results reported to the social and ethics and audit and risk management committees of the Hudaco board.
- A baseline Greenhouse Gas (GHG) emissions assessment was conducted by a third-party climate change advisory firm to determine requirements for reporting GHG emissions to the Department of Environment, Forestry and Fisheries that takes specific technology capacity thresholds for activities listed in the GHG Reporting Regulations and the Technical Guidelines into account for GHG Reporting. Activities relevant to Hudaco's operations include the assessment of electricity generators, furnaces, boilers, and heat treatment processes.

Progress report on material ESG aspects

Material aspect	UN SDG	Hudaco governance	Responsibility	Objectives	Initiatives
ENVIRONMENTAL					
GHG emissions	 Affordable and clean energy  Responsible consumption  Climate action	QHSE policy Hudaco QHSE framework Environmental reporting	QHSE community Social and ethics committee EXCO	Reduce scope 1 and 2 carbon emissions 3% by 2025 from 2021 baseline. Increase renewable energy to 5% of total electricity consumption by 2025.	GHG reporting and monitoring by all business units with intensified focus. Ongoing awareness training. Lighting assessments done and targeting replacement of all conventional with LED lights. Installing solar on group owned buildings as priority and engaging with landlords to explore solar installations as part of lease renewal negotiations.
Sustainable water usage and reduction	 Clean water and sanitation  Responsible consumption and production  Climate action	QHSE policy Hudaco QHSE framework Environmental reporting	QHSE community Social and ethics committee EXCO	Reduce water consumption 3% by 2025 from 2021 baseline.	Water consumption reported and monitored monthly. Water effluent treatment being considered where applicable. Rainwater harvesting.
Waste management	 Responsible consumption and production  Life on land	QHSE policy Hudaco QHSE framework Environmental reporting	QHSE community Social and ethics committee EXCO	Reduce waste to landfill 2% and increase recycling 3% as % of total waste generated by 2025 from 2021 baseline.	Waste generated and recycling reported and monitored monthly. Introduced approved waste management service providers. Ongoing assessment of waste streams in accordance with cradle to grave principles.
Responsible packaging	 Responsible consumption and production  Climate action	QHSE policy Hudaco QHSE framework Environmental reporting	Business units and suppliers Social and ethics committee EXCO	Reduce the use of plastic in packaging.	Packaging assessment completed by all business units.

Scope 1 – Direct emissions from fuel combustion (CO₂e kilotons)

5%

Increase from 2021



Scope 2 – Indirect emissions from generated and purchased electricity (CO₂e kilotons)

4%

Increase from 2021



During the reporting period our operations generated 24.2 kilotons of CO₂ equivalent emissions (ktCO₂e) that represented a 4.5% increase compared to 2021.

Scope 1 emissions (direct from fuel combustion) increased significantly due to loadshedding (200 days) and related usage of diesel in generators that increased by 110% when compared to 2021.

Scope 2 emissions (indirect from generation and purchase of electricity) increased by 4% to 15.4 MWh of electricity used (55.4 GJ) compared to 2021 as a direct result of increased business activity and including branches in the reporting data that were not included during the 2021 reporting period. Various electricity reduction initiatives are ongoing that include converting conventional lighting in offices, warehouses and industrial operations to LEDs, energy management awareness programs, installing variable speed drives to reduce start-up loads in parts of our industrial operations and converting to solar power where possible. Energy produced from solar represents 1.4% of total energy consumption.

Renewable energy installation

Bosworth installed a solar energy system at its Alrode manufacturing operation in Gauteng. The system was installed by our business Hudaco Energy and comprises of 400 kWp Jinko solar panels with 3 x 110 kVa Sungrow invertors that have been integrated with a 950 kVa diesel generator set. The office block operates on an independent system of 13 kWp solar panels with a 10 kVa hybrid inverter and battery storage system.

Since installation in August, the system produced 142 MWh of electricity with a CO₂ reduction of 142 tons, which is the equivalent to 7 734 trees saved, with electricity drawn from the national power grid reducing by >60%.

Water consumption

25%

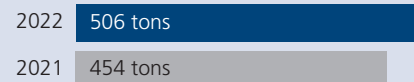
Increase from 2021



Waste to landfill (included under scope 3)

11%

Increase from 2021



During 2022 our water consumption increased by 25% to 111 Mℓ (29.2 m³/head) as a direct result of including branches in the reporting data that was not included during the 2021 reporting period and more employees working from the office and fewer remotely as water is predominantly used for sanitary purposes and only in a few select operations for industrial operations purposes. Although Hudaco's operations are not water usage intensive, we focus on initiatives to drive continuous reduction of water usage.

Waste to landfill increased by 11% to 506 tons due to increased scrapping of non-recyclable products in some operations and equates to 8% of total waste of 6 259 tons of waste generated in operations with 92% being recycled.



Material aspect	UN SDG	Hudaco governance	Responsibility	Objectives	Initiatives
SOCIAL					
Health and safety	 Good health and wellbeing  Quality education  Sustainable cities and communities	QHSE policy Hudaco QHSE framework Risk management Health and safety reporting	QHSE community Social and ethics committee EXCO	Reduce LTIFR and AIFR by 5% per annum. Introduce LTISR measure and reduce annually from 2022 baseline. Standardise risk management processes.	Root cause analysis and focused awareness campaigns. Visual leadership principles deployed. 6S implementation (priority in manufacturing sites). Hudaco standardised risk assessment and management process developed and deployed. Safety and health annual performance reviewed, and improvement targets defined per business.
Employee wellness	 Good health and wellbeing  Quality education  Sustainable cities and communities	QHSE policy Hudaco QHSE framework Health and safety reporting	Social and ethics committee EXCO Risk committee	Occupational health and hygiene monitoring and improvement from 2021 baseline.	Surveys conducted by accredited 3rd party service providers. Intensified focus on employee wellness since Covid-19 pandemic.
Product safety and quality Customer satisfaction	 Good health and wellbeing  Responsible consumption and production	QHSE policy Hudaco QHSE framework Integrated management system	QHSE community Social and ethics committee EXCO Risk committee	Aligned reporting and control registers. Customer satisfaction tracking against targets in all business units. Relevant product certifications in place (ie SANS, IEC, SABS).	Reporting standardisation as part of the integrated management system (IMS). Training on non-conformance reporting and tracking conducted. Two Six Sigma projects launched in to improve customer satisfaction.

Material aspect	UN SDG	Hudaco governance	Responsibility	Objectives	Initiatives
SOCIAL					
People training (QHSE related)	 Quality education  Reduce inequalities	QHSE policy Hudaco QHSE framework	QHSE community EXCO	QHSE training framework. Skills and competency frame of reference for QHSE community. Legal liability training for key position holders.	QHSE graduate interns deployed in some industrial operations. Legal liability training for 16.2 appointees. 6S, non-conformance, risk assessment, root cause analysis, QHSE framework, sustainability and visual leadership training conducted.

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

10%

Increase from 2021



LTISR = Lost time injury severity rate: standardised to 200 000 hours worked

3%

Decrease from 2021



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

32%

Decrease from 2021



The increase in LTIFR is due to an overall reduction in working hours by 3% and increase of lost time incidents by 7% from 45 to 48 during 2022. LTISR is a new measure introduced to track incident severity and decreased by 3% from the 2021 baseline established due to fewer days lost from injuries. AIFR decreased as all work-related incidents reduced from 119 in 2021 to 79 in 2022, due to increased leadership visibility, focused awareness campaigns and training on the various Hudaco QHSE framework elements including operational risk assessments, risk identification, and sharing of lessons learned from incident root cause analysis.

Human capital report

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

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

We also recognise that it behoves us to contribute to the development of human capital beyond just the people who work for Hudaco. As can be seen from the section on skills below, our initiatives also extend to benefit close family members of employees, enterprises undertaken by former employees and other young South Africans seeking an education that will enable them to participate in the economy, some of whom may ultimately find permanent employment within the Hudaco group.

Workforce profile

	2022	2021
Total workforce	3 762	3 768
Less: Non-permanent employees	226	175
Total permanent workforce	3 536	3 593
Racial and gender profile		
White males	623	667
White females	342	344
African, Indian and Coloured males	1 959	1 970
African, Indian and Coloured females	612	612
Occupational level profile		
Top and senior management	122	115
Other management	1 557	1 517
Non-management	1 857	1 961
Management profile by gender		
Females	498	474
Males	1 181	1 158
Management profile by race		
White	805	826
African, Indian and Coloured	874	806
Non-management profile by gender		
Females	456	482
Males	1 401	1 479
Non-management profile by race		
White	160	185
African, Indian and Coloured	1 697	1 776
Disability profile by gender		
Females	14	17
Males	30	20
Disability profile by race		
White	5	4
African, Indian and Coloured	39	33

The average staff turnover rate for 2022 was 20%.

This report describes in three sections how we interact with and develop human capital:

- Governance of matters pertaining to human capital;
- Steps to safeguard the safety and health of our people; and
- Development of skills inside and outside the group.

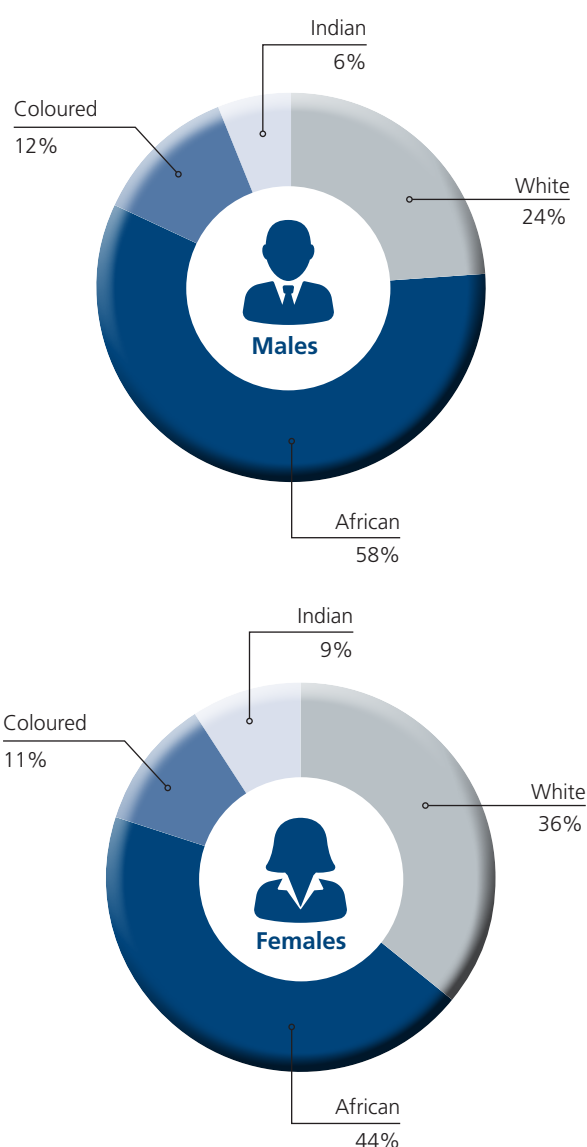
Governance of matters pertaining to human capital

Decentralised management

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

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

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



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

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

Corporate ethics and governance

The cost of compliance in corporate South Africa is significant.

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

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

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

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

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

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

Code of ethics

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

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

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

Ownership and BEE trusts

The beneficiaries of the Hudaco Trading BEE ownership trusts are all black South African employees of Hudaco Trading with more than three years' service. This means that Hudaco's black employees have 15% effective ownership in Hudaco Trading, the group's main operating company. The trustees have resolved that, in February 2023, the trusts will distribute R11 million to approximately 1 750 beneficiaries, with each beneficiary receiving R6 250. In February 2022, approximately 1 800 employees each received R5 000 from the trusts.

Transformation

We acknowledge that management control is still a key area of opportunity to improve our BEE rating. The development of black management is also a national priority for the sustainability of the economy. We acknowledge that still too many of our senior management are white males. The need for developing future black, female and disabled management talent continues to receive significant priority. Some important successes were achieved in high-level appointments in 2022, particularly at Partquip, Dosco and CADAC.

Our strategy for transformation is still largely unchanged:

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

Growing our own talent – succession planning

A formal performance management and succession policy is in place. Our executive development programme where we employ young black MBAs and give them a broad range of experience across the group over a period of three years, with a view to ultimately integrate them into the management teams of specific businesses as opportunities arise has continued only for those already on the programme. In future, we will assign new recruits to specific businesses, with a view to longer-term roles rather than a range of shorter-term opportunities. We feel that this will achieve a deeper level of commitment on the part of both the business and the individual to the individual's future and progression path. We continued to focus on communicating our succession plans with senior management during the year and ensuring that our training and development efforts and employment equity plans are aligned.

Organised labour and employee rights

There are eight trade unions that between them have 487 (2021: 582) employees of various Hudaco businesses as members. These employees are covered by collective bargaining agreements.

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

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

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

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

Remuneration

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

- **Guaranteed pay and benefits:** This level of remuneration applies to all employees within the group. In addition, employees are required to join a group negotiated medical aid scheme (unless they are below a certain earnings threshold or on a spouse's medical aid scheme) and a pension or provident fund if they are not on an industry fund. Employees earning below the compulsory threshold have the option to join Flexicare, the group's negotiated primary care offering.
- **Formula-based short-term incentives:** This level of remuneration applies to the top 100 or so senior managers in the group. For those employed in business units, this comprises two roughly equal annually measured performance criteria: RONTA, and growth in profits in the businesses under their control. The group chief executive and financial director are remunerated on primarily return on equity and growth in comparable headline earnings per share. A portion of their short-term incentive is based on the achievement of non-financial key objectives.
- **Long-term share-based arrangements:**
 - Share appreciation rights scheme: This level of remuneration applies only to the top about 230 managers in the group. It comprises a reward for share price appreciation realised through share appreciation rights that vest between three and five years after award. It is designed to ensure that management takes a medium to long-term view when acting on matters which may affect business performance and share price.
 - Retention-based share matching scheme: To align better the interests of the executives with those of shareholders and to ensure that the executives have capital at risk in Hudaco, a share matching arrangement is in place for executives and certain senior managers. Participants are entitled to invest in Hudaco shares up to a maximum of 50% of their maximum potential short-term incentive-based remuneration. These shares are to be acquired on the open market. Provided the participant holds these shares and remains in the employ of Hudaco for the specified service period, which is normally three years, the company will match the value of the shares by acquiring shares on the open market for the benefit of the executive at a ratio determined by the remuneration committee. Currently, 15 executives are eligible to participate in this scheme.

Further information on remuneration is set out in the remuneration report commencing on page 60.

60

Retirement funds

Employees who do not belong to an industry fund (ie unionised staff) contribute to the umbrella defined contribution pension and provident Superfunds administered by Old Mutual. Fund members receive risk benefits such as life cover, spouses and children pensions, funeral cover and disability cover, depending on the fund to which they belong. There are some businesses acquired by the group whose employees remain on their pre-acquisition retirement funds.

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

Hudaco is advised by employee benefit consultants, independent actuaries and risk benefit consultants to ensure retirement funding arrangements remain appropriate and up to date. Interaction with these advisers is through a committee with representatives from Hudaco head offices and some of the underlying businesses.

Socio-economic development

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

These funds are, in the main, managed and distributed by Hudaco's head office on behalf of business units. In 2022, Hudaco donated approximately R4 million to a variety of socio-economic development initiatives.

In 2022, Hudaco honoured Nelson Mandela Day in partnership with The Angel Network and The Almond Tree. Over and above a financial contribution, for the first time since the Covid-19 pandemic, employees had the opportunity to participate in the activities of the organisations and interact with their beneficiaries. This was achieved by preparing and serving meals at several soup kitchens.

Steps to safeguard the safety and health of our people

Employee safety

Steps to safeguard our employees are comprehensively set out in the ESG report on pages 45 to 51.

45

Employee health and wellness

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

Management approach and governance

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

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

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

Medical aid

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

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

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

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

There were, on average, 1 190 employees and 1 472 dependants on the medical scheme during the year to November 2022. 70 employees are currently on Flexicare while 380 employees have chosen to be members of Vitality. Annual contributions (excluding Vitality

contributions) totalled R80 million, of which R35 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 million, half of which was covered by Hudaco.

Gap payments to assist members with medical shortfalls exceeded R750 000. The highest in-hospital medical claim for a single employee was R461 000 whilst the highest out-of-hospital claim was R54 000. 42% of Hudaco members are classified by the medical aid as "healthy" whereas 7% are classified as "unhealthy", based on their claims history.

Employee wellness

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

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

Due to Covid-19 and the associated risks, no employee wellness events were held in 2020 or 2021. We resumed the programme towards the end of 2022 with wellness events at three businesses and will continue through 2023. The significant value of these onsite wellness days is demonstrated by the fact that only 72 members had their health screenings done at Clicks or Dis-Chem pharmacies, which was an option open to them despite the absence of wellness days at work.

At the events that were held in 2022, the major risk factors identified continued to be body mass index (BMI) and elevated blood pressure, as well as high cholesterol.

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

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

Development of skills inside and outside the group

Talent management

Learning and development of people is a core responsibility of the executive teams in all our businesses as this empowers employees to perform their functions effectively and to enhance their skills, thereby providing a pipeline for promotions and transfers between businesses. During 2022, 23 of our employees and 40 dependants furthered their studies with the assistance of the Hudaco B-BBEE bursary programme, striving to attain qualifications for their own betterment as well as that of Hudaco and the country at large. The bursary programme has been part of the group's value proposition to employees since 2009.

As far as possible, we try to maximise retention of key talent by providing incentives in the form of performance bonuses and developing long-term career path opportunities for our staff within the broader group. We communicate to our staff the opportunities for lateral movement between our businesses and internal promotions within the group. We feel that the group is diverse enough to be able to accommodate individual career aspirations without having to lose talent to competitors. However, one of the consequences of investing in skills development in South Africa, especially in black professionals, is that as these employees develop and gain experience and skills, they become a prime target for headhunting by larger organisations that 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.

Skills development and training

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

- **The senior management team:** We have identified members of the senior management team whom we believe have the qualities required for growth to executive level in due course. These people have been given expanded responsibilities and are being nurtured with a view to their being able to step into the breach as more senior managers reach retirement age. We are delighted that two of the people appointed to managing director positions this year are black executives who came through these ranks. Many members of the senior management team have attended Master of Business Administration (MBA) and other master's degree courses at various universities.
- **Technical expertise:** Critical relationships in the field are with the technical and maintenance teams of our customers. They place the orders upon which we depend for our turnover. We need a constant supply of new sales staff with the right technical skills to be able to adapt to and service our customers' changing needs. Although we are essentially a group of distribution businesses, we run in-house learnerships where we can and technical traineeships where we cannot.

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

Five of our businesses (Deutz Dieselpower, Gear Pump Manufacturing, Hudaco Power Transmissions, Hydraulic Engineering Repair Services and Joseph Grieveson) run SETA-accredited apprenticeship programmes with 22 participants in 2022 being trained in various trades. An additional 242 abled learners and 27 learners with disabilities were recruited for learnership programmes run by the Maharishi Institute and

ORT SA and they commenced their courses in 2022, for completion in 2023.

During the year under review, group expenditure on training amounted to approximately R20 million.

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

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

Hudaco conducts a graduate development programme with the aim of addressing skills shortages in our business. All of the participants are black and every effort is made to absorb the graduates into our employ as they qualify. The graduate development programme includes a range of disciplines such as engineering, finance, accounting, human resources, health and safety, sales and marketing and information technology. This new approach was implemented for the first time in 2021 with 11 junior managers, 91% of whom were absorbed into permanent positions during 2022. A further 17 junior managers were recruited for the graduate development programme in 2022. They completed a course in business administration with Siyanqoba Seminars to prepare them for the work environment and received on-the-job training at our businesses. Of these 17 graduate interns, 11 have been absorbed into permanent employment from February 2023 and the remaining six graduates have rotated to other businesses in the group for more exposure and for possible absorption by the end of the programme in May. A new cohort will begin during the course of 2023.

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

Staff education programme

Hudaco Trading empowers current black employees, their spouses and their children by granting tertiary education 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 2022, 63 students were granted bursaries, of whom 40 were women. Of these, six completed their qualifications. Feedback from some of the parents and the successful students is set out on pages 58 and 59. For the 2023 academic year, 60 students have been identified for bursaries, of whom 37 are women. Hudaco spent R2.9 million on these bursaries in 2022.

Enterprise 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 applied R19 million to various enterprise and supplier development initiatives during its 2022 financial year. Some of these included the following:

- Offering interest-free loans to qualifying black-owned businesses;
- Deutz Dieselpower continued its system of early payments to level 4 B-BBEE contributors and supported the services of a black woman optometrist;

- Ambro Steel provides facilities for a black woman optometrist on their premises. Hudaco assisted her with the purchase of another sophisticated piece of equipment that is geared towards providing eye care to the poor by keeping costs low. The equipment purchased in 2021 made a significant impact;
- Abes Technoseal subsidised canteen facilities, owned by a black woman, at their premises; and supported an SMME with rent-free premises, telephone line, internet usage and utilities. They also process early payments to a level 2 B-BBEE contributor;
- FHS and Dosco support a recycling initiative with black-owned SMMEs;
- Rutherford supports and subsidises a black-woman-owned canteen;
- Deltec supported a level 1 sustainable energy business; and
- Hudaco head office continued supporting a business in Thembisa, a car wash and Invincible Outsourcing and Invincible Nature, not-for-profit organisations that apply income earned to fund bursaries at the Maharishi Institute.

Bursary programme

Feedback on bursary programme



Linda Abel Mnisi

*Son of Lesley Mnisi,
an employee at
Eternity Technologies*

*Bachelor of
Accounting Sciences
in Financial Accounting*

I am sincerely honored to have been selected as a recipient of the bursary over the past three years to study Bcompt at UNISA. Thank you so much for your generosity, which has allowed me to move a few steps closer to my dream career. I became a student who studied without worrying about my fees.

As I complete my education at UNISA, I am very thankful for receiving this thoughtful

gift. Because of your scholarship I am now ready for the next step to becoming a Chartered Accountant.

Thank you again for your thoughtful gift, I will forever be grateful!



Happiness Motau

*Daughter of Amos
Motau, an employee at
Deutz Dieselpower*

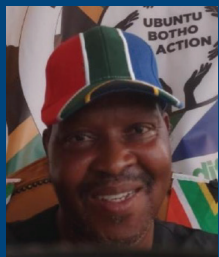
*Bachelor's degree in
Public Administration
and International
Relations*

My dad works at Deutz Dieselpower. I feel truly privileged to have been chosen as the recipient of the Hudaco bursary to pursue a bachelor's degree in Public Administration and International Relations. I appreciate your support, which has made it possible for me to successfully complete my studies at the University of Pretoria.

I appreciate your kind assistance very much as I was able to put all my attention into my

academics without having to worry about the financial aspect. Because of the Hudaco funding, I boldly look forward to the future with more confidence, as it has enabled me to be in a better position to explore opportunities ahead within my aspired career path.

Once again, I want to thank you for your thoughtful and kind support.



Amos Motau

*Father to Happiness Motau
Employee at
Deutz Dieselpower*

I Vesi Amos Motau would like to convey my utmost gratitude on behalf of my daughter Happiness Motau for making her dreams come true with her studies by awarding her a bursary. Thanks a million for your generosity that is aimed at making a difference in the country to bring better life for all and eliminate poverty.



Nqobile Mkhwanazi

*Daughter of
Sabelo Mkhwanazi –
Group QHSE*

*Bachelor of Arts in
Interior Design*

I am sincerely honoured to have been selected as the recipient of a bursary to study for Bachelor of Arts in Interior Design, over three years. Thank you for your generosity, which has allowed me to study for the career of my dreams. The institution that offered BA in Interior Design was so expensive and Hudaco gave me an opportunity that I will forever be grateful for. I was able to reach my fullest potential in my academics without stressing about whether I would be able to pay school fees.

As I complete my education at Vega School of Design, I am very thankful. Because of your scholarship, I will be able to secure myself an internship in an interior design firm and I hope to be able to start my own interior design business in future, helping me become the independent and professional woman that I have always wanted to become. This would not be possible without the Hudaco Bursary Fund.

**Shawn Manthata**

*Son of Nicholas Manthata,
an employee at Bearings
International*

*Bcom in Management
Marketing*

I am very thankful for receiving your thoughtful gift of the bursary over three years to study for my Bcom in Management Marketing at Boston City and Business College. The bursary has helped me to gain knowledge in many aspects of life throughout the years of my studies in college. It has played a vital role in my life since it gave me the opportunity to study further and expand my knowledge in the field of my studies.

I am so grateful for the opportunity that was given to me through your scholarship, as I am the only person in my family to study at a

tertiary level. Given this opportunity to study further, I grabbed it with both hands, carried on with my studies and made very good academic progress.

If it was not for the Hudaco Bursary Fund, I would not be where I am today nor have what I have at this very moment. The Hudaco Bursary Fund has been and will always be the stepping-stone in my life.

No words can express my appreciation to Hudaco. Thank you for your generosity and kindness. Thank you for the life changing opportunity.

**Nicholas Makgato Manthata**

Father to Shawn Manthata

*Employee at Bearings
International*

My name is Nicholas Makgato Manthata.

I work at Bearing International as a driver.

I would like to take this opportunity and thank you for your generosity and kindness of granting my son Shawn Manthata the opportunity to fund him for his studies. I am very grateful for the opportunity that Hudaco gave Shawn for his studies because I'm the bread winner in my family and I'm the only one

who is working, I couldn't have paid for my son's tuition fees because I could not afford it. Then came Hudaco to the rescue and granted the opportunity of my son to study further. Hudaco has made my life and my son's life a lot easier. It is because of Hudaco that my son is who he is today. My greatest thanks for the generosity of Hudaco.

**Paballo Motaung**

*Daughter of Mina Motaung
an employee at HERS*

*Diploma in Internal
Auditing*

My mother works at Hydraulic Engineering Repair Services. I am sincerely honoured to have been selected as a recipient of a bursary to study for a Diploma in Internal Auditing over three years. Thank you for your generosity, which has allowed me to fulfil my dream of becoming an auditor. Receiving this bursary has impacted my university experience in an amazing way, being able to focus on my studies not stressing about funding, knowing that all is sorted. I just had to study hard,

stress-free. Being the first one in my family to study at tertiary level, I feel that God has truly blessed me as one of the students to be granted this opportunity.

I completed my education at Vaal University of Technology and I am very thankful for your scholarship. I am now going to do my Advanced Diploma in Internal Auditing. Without Hudaco, I would have not achieved what I have achieved today.

**Mina Motaung**

Mother of Paballo Motaung

*Employee at Hydraulic
Engineering Repairs
Services*

My name is Mina Motaung, Paballo Motaung's mother. I want to thank Hudaco for granting my daughter the opportunity to further her studies. As a parent I am thankful that she was able to go to school and be a better person and have a bright future. I was not able to fund her studies, but Hudaco came to the rescue as I was not able to pay her university fees. All I could give her was my love as a

mother and the support she needs to study and follow her dreams.

I want to take this opportunity to say thank for helping my daughter to achieve her dreams. As a mother thank you so much for choosing Paballo to be one of your recipients of the bursary. May the almighty God give you the power and finance to bless other students out there.

**Caitlin McDonald**

*Daughter of Bernie
McDonald an employee at
Pentagon Distribution*

*Bachelor of Science in
Information Technology*

My mother works at Pentagon Distribution and I have been fortunate enough to be one of the recipients granted a Hudaco bursary for 2020 to 2022, to study for Bachelor of Science in Information Technology.

The bursary covered my tuition as well as my textbooks, which allowed me to be the first member in my family to attend a tertiary institution. Being granted this bursary will forever change my life and it will allow me to follow my dream of becoming a

software engineer. I was able to fully focus on my studies and not have to worry about any funding.

Because of this generous opportunity, I am now a fully educated and well-informed individual who understands how powerful education can be towards building your future. As I complete my education at Eduvos, I am very thankful for everything. It has been a privilege to be a recipient of a Hudaco bursary.

**Bernie McDonald**

Mother to Caitlin McDonald

*Employee at Elvey
Security Technologies*

As an employee I am so proud of my daughter's accomplishment which would not have been possible without the help and funding from Hudaco. This bursary that she has been granted will open so many doors for her and will help to give her a better quality of life. I will be forever grateful for the opportunity that has been given to my daughter.

Thank you very much for everything you have done for us.

Remuneration report

A background statement by the chairman of the committee

61

The remuneration policy

64

Implementation of the remuneration policy

68

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 executive directors are also in compliance with King IV.

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, and it continues to do so when appropriate. 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 2022 financial year, employees received approximately 55% 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

	2022	2021
Total number of employees	3 762	3 768
Total compensation to employees (Rm)	1 424	1 335
Total compensation as a % of revenue	17	18

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 Hudaco's employees have the opportunity to receive short-term bonus awards.

At executive director, executive committee and top senior management level – consisting of approximately 15 people – 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 interests of shareholders via performance measures that stress earnings growth, cash generation 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 (487 people) is determined collectively or based on sector norms. Hudaco endeavours to maintain positive day-to-day working relationships with unionised employees and to balance their right to industrial action with the right of the group to conduct its activities.

Internal and external factors that influence remuneration

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

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

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

During 2022, 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 17 March 2022, 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 82.18% of shareholders who voted and the implementation report received 82.20% approval.

Key areas of focus and key decisions

During the year the committee focused on:

- providing general salary increase guidelines;
- conducting performance appraisals for the executive directors and the other executive committee members;
- reviewing the guaranteed remuneration packages of the senior executives, comprising the executive directors, the other executive committee members and six of the other most senior executives in the group;
- approval of incentive bonus payments to senior executives for the previous year's performance, including any amounts subject to clawback on under-performance;
- approval of the short-term and long-term performance criteria for the year ahead for the senior executives;
- confirmation of share matching opportunities in terms of the share matching scheme;
- allocation of share appreciation rights;
- reviewing service agreements of the senior executives with special reference to restraint of trade clauses, severance packages (if any) and notice periods;
- proposing non-executive directors' fees;
- considering the effectiveness of the intrinsic value incentive; and
- reviewing the remuneration report for publication in the 2022 integrated report in the context of the King IV principles on remuneration and the JSE Listings Requirements.

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

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

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

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

- The management team – The board and the committee are very much of the view that Hudaco has a highly competent and effective leadership team and that this was once again clearly demonstrated:
 - by the way the businesses in the group responded to the challenges that confronted the group during the year, particularly in managing Inventories very well in the face of ongoing supply chain issues; and
 - in the sterling results produced in the 2022 financial year, particularly the large amount of intrinsic shareholder value added during the year.

- The entrepreneurial culture of the group – The board and the committee are also of the view that the entrepreneurial spirit that has long infused the culture of the group and been key to its success and an important element in its decentralised business model should be nurtured and encouraged. In this regard, the board and the committee are conscious of the characteristics of the entrepreneurial type of person that the group seeks to attract, retain and motivate: namely that they are highly effective people who “make things happen”; they are mobile – many of them have built and run businesses themselves; are confident in their own abilities; are much sought after as managers; and tend to be highly responsive to financial incentives and having “skin in the game”.

General salary increases

In June 2022 the committee approved average annual salary increases of 6% for those employees who earned above a threshold of R1.2 million per annum and 7% for those who earned below that threshold. This differential is a further step forward in addressing the pay gap. The Consumer Price Index (CPI) was an important metric in determining these increases. The remuneration of the senior executives was not benchmarked against the market in 2022 because this had been done by Khokhela Remuneration Advisors in 2021 and it is Hudaco's practice to use external consultants to conduct a benchmarking exercise every second year. Accordingly, the remuneration of senior executives will be benchmarked against the market again in 2023.

Short-term incentives

The short-term bonuses for the senior executives are largely formula-driven on criteria set at the beginning of the financial year.

The group performed extremely well again in 2022, with earnings and returns exceeding those of 2021 by a significant margin and strong cash generation enabling R400 million to be returned to shareholders in the form of dividends and share repurchases.

The 2022 performance again resulted in significant shareholder value creation (well more than the R20 per share value increase target set for the executive directors in terms of the 2022 intrinsic value incentive), comparable earnings per share growth of 21% and a return on equity of 22% and, in this context, the committee was satisfied that the bonuses approved were well justified. Bonuses paid to the top 15 executives for performance in 2022 totalled R41 million, compared with R40 million in 2021. A further R7 million that had been held back in 2021 subject to potential clawback if performance requirements for 2022 had not been met, also became payable.

The committee considered the intrinsic value incentive that was implemented on a trial basis in 2021 and 2022 and decided that it was effective in incentivising shareholder value creation. Accordingly, from 2023 this incentive is to be built into the normal incentive formula for the three executive directors at a rate of 15% of guaranteed fixed remuneration, counterbalanced by a reduction of 10% in the incentive based on growth in comparable earnings per share.

The model used to determine the intrinsic value incentive, which is regularly monitored by the board, is described in the fifth paragraph of the section headed “short-term performance-based remuneration” on page 66.

Long-term incentives

Performance-based share appreciation bonus scheme

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

Retention-based share matching scheme

The committee views this scheme as an important component of remuneration in the context of Hudaco. The scheme was put in place some eight years ago primarily as a retention incentive. It involves the 15 most senior executives being encouraged to invest their own money in Hudaco shares on the basis that, after three years, the number of shares purchased, and held unencumbered, by the participant over the period is matched in the matching ratio with shares acquired in the market (so as not to dilute existing shareholders). The committee views the scheme as more than just a retention incentive. It encourages the leaders of the group to have "skin in the game" via a direct financial commitment which aligns their interests directly with those of other shareholders. In terms of the scheme rules, the matching ratio is at the discretion of the committee. The committee is cognisant of the fact that the loss of business heads through emigration and for other opportunities remains a constant threat. This is a trend which the business can ill afford at this juncture, especially amongst the senior executive corps, which has proved itself yet again to be highly competent and effective in steering the group through challenging times. Taking all of this into account, the committee felt it appropriate to keep the matching ratio unchanged for the 2023 financial year at 1:1 on an after-tax basis, which equates to approximately 1.8:1 pre-tax.

Executive directors' remuneration

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.

Future areas of focus

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

- Hudaco will offer to engage with the shareholders as necessary in the event of any significant dissenting votes on either its remuneration policy or implementation report.
- The principle of fair and responsible remuneration, and the pay gap in particular, will be considered again during 2023, as is done each year.

Remuneration consultants

In order to ensure remuneration is fair and market-related, all elements of remuneration are subject to regular benchmarking exercises. Every two years the committee engages remuneration consultants to benchmark remuneration of executives against an appropriate peer group and to provide input on recent trends. This was done in June 2021 by Khokhela Remuneration Advisors, whom the committee satisfied itself were independent and objective. The exercise will be done again in 2023.

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 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 2022 financial year were achieved.



MR Thompson
Chairman of the remuneration committee

23 February 2023



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 and its performance.

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

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

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

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

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



Determination of performance incentives

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

Overview of remuneration

Hudaco's employees are critical to the achievement of the group's strategic objectives. Many of the business-critical skills that we require are in short supply and Hudaco recognises the importance of attracting, developing, retaining and motivating 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 more strongly 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 of the business in which they are employed.

Employees at the level just below senior managers (approximately 230 people) also qualify for participation in the group's share appreciation 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.

The remuneration policy is structured around the following key principles

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

Executive and senior management remuneration

Executives are responsible for leading others and taking significant decisions about the short and long-term operation of the business, its assets, funders and employees. They require specific skills and experience and are held to a higher level of accountability. Hudaco's remuneration policy is formulated to attract and retain high-calibre executives and motivate them to develop and implement the group's strategy to optimise long-term shareholder value. It also seeks to align the entrepreneurial ethos and long-term interests of the executive directors and senior management with those of the shareholders, while not diluting the equity stake of existing shareholders. Senior management remuneration policy places a significant portion of total remuneration "at risk" whilst not encouraging behaviour contrary to the company's approach to risk management and ethical conduct. The group's general philosophy for executive remuneration is that the performance-based pay of executive directors and senior managers should form a significant portion of their expected total compensation. There should also be an appropriate balance between rewarding operational performance (through annual incentive bonuses) and rewarding long-term sustainable performance (through share-based incentives).

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

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

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

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

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

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.

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 the individual bonuses of the 15 most senior executives annually and determines the level of each bonus based on performance criteria set at the beginning of the performance period. All the bonuses in the group are subject to approval at least one level above the person's direct manager.

Short-term performance-related remuneration for all three executive directors, from 2023, is based primarily on a pre-determined return on equity range, which is capped, the achievement of comparable earnings per share growth and intrinsic value-added. For 2023, no ROE bonus will be paid if ROE is below 14% and the primary target is 17%. As a stretch target, a cap will be reached at ROE of 23%. While the payment for comparable earnings per share growth is not capped, it is subject to partial clawback and increases more steeply once this growth exceeds 15%. Intrinsic value of R20 per share must be added to achieve the maximum capped bonus for that component.

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 the other 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.

An incentive directly linked to increasing the intrinsic value of Hudaco shares, and limited to 10% of their fixed guaranteed remuneration, was offered to the three executive directors on a trial basis in 2021 and 2022. The concept behind the incentive is that, using a standard point-in-time valuation methodology, as used by professional investment advisers, the value of the shares as at the beginning of the year is determined and, using the same methodology and capitalisation multiple, the value of the shares, including cash returned to shareholders during the year, is determined as at the end of the year. For 2021, the base was 30 November 2019 because Covid-19 rendered 2020 unsuitable to use as a base year.

For the 2022 financial year, the three executive directors would be entitled to receive the full 10% of their guaranteed remuneration if the intrinsic value of the shares so calculated increased by R20 per share or more, with a pro-rata entitlement to bonus for lesser (but positive) increases after accounting for the cost of the incentive. A clawback applies if the value were to decline in the following year to below the required level for the bonus. The committee had the discretion to make any adjustments to the 2022 valuation that it deemed necessary to ensure a fair comparison, but none was warranted. This incentive has been incorporated into the incentive formula for 2023 and the comparable earnings per share growth element of the formula has been reduced to accommodate this inclusion.

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

Long-term remuneration

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

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

Performance-based share appreciation rights

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

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 the participant's level of seniority and fixed guaranteed remuneration.

The performance requirement for grants awarded since 2017 to vest, which applies only to executives and top senior management (approximately 15 people), is set by the committee and comprises two elements:

- Portion is dependent on the achievement of a pre-determined average return on equity from the date of award to the vesting date (between 13% and 15% for the 2022 award); and
- Portion is dependent on the achievement of a cumulative increase in comparable earnings per share of CPI 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 3% or CPI plus 5%.

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

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

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

Retention-based share matching rights

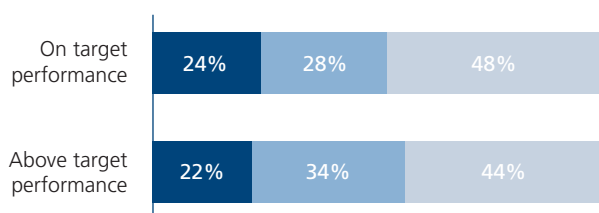
In order to serve as a retention strategy, to align better the interests of the executives with those of shareholders and to ensure that the executives have capital at risk in Hudaco, a share matching arrangement exists for executives and top senior managers (15 of the most senior people). Participants are encouraged 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 by the participants on the open market. Provided the participant holds these shares and remains in the employ of Hudaco for the matching period (normally three years), the company will match the number of shares at the matching ratio by acquiring shares on the open market for the benefit of the participant, at the end of the matching period. The remuneration committee determines the matching ratio at the time the invitation to invest is extended to the executives. The committee wishes to encourage executives to invest more of their own

personal wealth in the company, thereby increasing their “skin in the game”, further aligning their interests with those of the shareholders and binding them more tightly to the company. In the circumstances, for 2023 the committee decided to again invite executives to invest up to 50% of their maximum potential bonus in the scheme at a post-tax matching ratio of 1:1, which approximates 1.8:1 before tax. The rationale for this long-term incentive is further explained in the background statement, specifically on page 63.

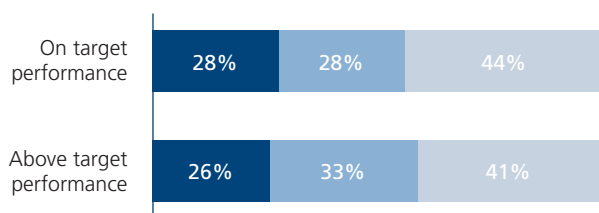
Comprehensive remuneration of the chief executive and group financial director

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

Chief executive



Group financial director



■ Fixed remuneration ■ Short-term bonus ■ Long-term benefits

Service contracts of executives

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

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

Non-executive directors' remuneration

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

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

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

The board recommends the fees payable to the chairman and non-executive directors for approval by the shareholders. Proposals for fees are prepared by management, for consideration by the remuneration committee and the board. Consideration has been given to the significant responsibility placed on non-executive directors due to the progressively burdensome legal and regulatory requirements and the commensurate risks assumed. Benchmarking information of companies of similar size and complexity are factors considered when reviewing the annual fees. An independent benchmarking exercise was conducted in January 2019 by Khokhela Remuneration Advisors and the fees were set at or close to the 50th percentile. In April 2021 no increase was granted as part of the response to Covid-19. Since then, increases have been slightly above the increases in fixed remuneration of the executive directors to make up some of the ground lost against market. In March 2022 the shareholders approved a 6.5% increase and the proposed revision being put to shareholders at the 2023 AGM is 7.5%.

Non-binding advisory vote

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



Section 3: Implementation of the remuneration policy



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

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

There was no deviation from the remuneration policy and the committee is satisfied that the remuneration policy achieved its objectives in the 2022 financial year.

Fair and responsible remuneration

Hudaco continues to work on ensuring that there is fair and responsible remuneration within the group. The principle of equal pay for work of equal value and the elimination of any gender-based pay gap is a priority. The fixed guaranteed remuneration of the executive directors and members of senior management was increased by 6% in July 2022, after having been benchmarked by Khokhela

Remuneration Advisors in June 2021 against companies with similar size, complexity and geographical spread. Increases for those members of the general body of staff whose remuneration exceeded R1.2 million were authorised at an average of 6%, and increased for those whose remuneration was below R1.2 million at an average of 7%.

After adjusting for amounts carried over from 2021, potentially subject to clawback, the bonuses in 2022 of the 15 top senior managers as a percentage of fixed remuneration, were lower by 19% than in 2021, whereas for the general body of staff the percentage was unchanged. This is consistent with the policy of having more remuneration at risk for senior management.

In 2022, 771 340 (2021: 854 370) share appreciation rights were awarded to a total of 229 people. For the share appreciation rights awarded to approximately 15 top senior managers, including the executive directors, to vest, performance conditions must be met. Rights awarded to the other 214 participants do not have performance conditions.

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

Executive directors' remuneration for the year ended 30 November 2022

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
2022	5 963	831	227	15 050	22 071	13 344	35 415
2021	5 679	760	234	12 753	19 426	20 235	39 661

Fixed guaranteed remuneration and benefits

Graham's total fixed cost-to-company remuneration increased by 6.0% on 1 July 2022 from R6 750 000 to R7 155 000. His position had been externally benchmarked by Khokhela Remuneration Advisors in June 2021 against companies with a similar size, complexity and geographical spread.

Annual short-term incentive bonus

The following short-term incentive performance criteria and weightings, as determined by the remuneration committee, were used to calculate Graham's annual bonus of R15 050 000 (2021: R12 753 565). This included the release of a bonus of 37.75% (R2 700 000) that had been earned in 2021 terms of the formula but was required to be held back until the following year, subject to clawback if performance criteria had not been met. In addition, a bonus of 15% has been earned in 2022 in terms of the formula but is required to be held back until 2023 and is subject to clawback if performance criteria are not met.

2022 measure		Measure achieved 2022	Maximum bonus % available	Bonus % achieved
Measurement	Target			
Return on equity	Minimum – 14% Primary – 17% Stretch – 23%	22%	54%	51.75%
Increase in ceps	Primary – 10% Stretched	21%	73% uncapped but subject to clawback	73% 15%
Increase in intrinsic value	R20 per share	R37	10%	10%
Personal non-financial objectives			25%	22.5%
Total percentage of guaranteed fixed remuneration – earned and payable for 2022			162% + ceps stretch	172.25%
Release of 2021 bonus held back subject to clawback				37.75%
Total percentage of guaranteed fixed remuneration payable				210%

Performance-based share appreciation bonus scheme

In line with long-term incentive benchmarks for executive directors, on 29 July 2022 Graham was awarded 122 100 share appreciation bonus rights to be measured off a 10-day VWAP base of R146.50 per share. Subject to the performance criteria, one-third of the allocation will vest three years from the allocation date with another third vesting at the end of year four and the balance at the end of year five.

On 24 February 2022 Graham exercised 39 545 rights awarded in 2014 at a base price of R92.04 and 15 000 rights awarded in 2015 at a base price of R125.24, shortly before they reached final exercise date in July. These rights were exercised at a 10-day VWAP of R154.87, resulting in a gain, settled by the delivery of 18 912 Hudaco shares acquired by the company on the open market at R2 819 078. He forfeited 54 289 rights because the performance factors were not met in full.

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

	Out-standing rights beginning of year	Strike price R	Granted during the year	Taken up during the year	Forfeited during the year	Out-standing rights end of year	Date granted	Number of tranches	Date benefit to be determined	Prospects of meeting performance requirements	Estimated value at end of year R000
2022	1 068 294		122 100	54 545	54 289	1 081 560					
	9 334	90.80			9 334		12-Jul-13	3	Jul 16 – Jul 22	Minimal	Nil
	139 000	92.04		39 545	29 955	69 500	25-Jul-14	3	Jul 17 – Jul 23	Partial	1 120
	90 000	125.24		15 000	15 000	60 000	10-Jul-15	3	Jul 18 – Jul 24	Partial	435
	115 860	102.93				115 860	20-Jul-16	3	Jul 19 – Jul 25	Partial	3 837
	105 000	125.10				105 000	24-Jul-17	3	Jul 20 – Jul 26	Partial	1 095
	102 000	149.51				102 000	23-Jul-18	3	Jul 21 – Jul 27	Minimal	Nil
	137 100	117.27				137 100	26-Jul-19	3	Jul 22 – Jul 28	Very good	3 116
	235 000	68.37				235 000	27-Jul-20	3	Jul 23 – Jul 29	Very good	16 833
	135 000	124.91				135 000	09-Jul-21	3	Jul 24 – Jul 30	Very good	2 037
	146.50	122 100				122 100	29-Jul-22	3	Jul 25 – Jul 31	Too soon	Nil
2021	1 022 793		135 000	44 480	45 019	1 068 294					
	10 666	109.26			10 666		27-Jul-12	3	Jul 15 – Jul 21	Nil	Nil
	18 667	90.80			9 333	9 334	12-Jul-13	3	Jul 16 – Jul 22	Minimal	Nil
	208 500	92.04		44 480	25 020	139 000	25-Jul-14	3	Jul 17 – Jul 23	Partial	3 002
	90 000	125.24				90 000	10-Jul-15	3	Jul 18 – Jul 24	Partial	415
	115 860	102.93				115 860	20-Jul-16	3	Jul 19 – Jul 25	Partial	3 333
	105 000	125.10				105 000	24-Jul-17	3	Jul 20 – Jul 26	Partial	988
	102 000	149.51				102 000	23-Jul-18	3	Jul 21 – Jul 27	Partial	Nil
	137 100	117.27				137 100	26-Jul-19	3	Jul 22 – Jul 28	Minimal	1 920
	235 000	68.37				235 000	27-Jul-20	3	Jul 23 – Jul 29	Very good	16 715
	124.91	135 000				135 000	09-Jul-21	3	Jul 24 – Jul 30	Too soon	1 773

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 2022 potential maximum short-term incentive bonus in Hudaco shares. Graham elected to make the maximum commitment of 50%, amounting to R5 130 000. To achieve this, on 7 February 2022 when the market price was R149.96 per share, Graham committed to the scheme 34 209 shares, which will be matched at a ratio of 1:1 post-tax so he received 1.818 rights for each share.

34 591 shares acquired by Graham in 2019 and held for three years in terms of the share matching scheme were released from their lock-up period and on 8 February 2022 the company purchased for Graham a matching 34 591 shares in the open market at a weighted average price of R159.21 per share, the consideration totalling R5 507 195. On 16 February 2023 Graham exercised the rights granted to him in 2020, so the company purchased for him a further 48 882 shares, in the open market at a weighted average price of R169.00 per share and a total consideration of R8 261 058.

Based on his potential maximum short-term bonus, he is entitled to commit to the scheme further shares up to a maximum value of R5 616 675 by 4 April 2023. These shares will be matched in 2026 at a ratio of 1:1 post-tax, which approximates 1.8:1 before tax, as set out in the background statement, specifically on page 63. On 16 February 2023, Graham committed 33 872 shares for this purpose, being the maximum permitted.

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

Rights	At 30 November 2022	At 30 November 2021	Year invested			
			2021	2020	2019	2018
Balance at beginning of year	269 447	98 527		48 882	34 591	15 054
Granted during year	62 198	185 974	185 974			
Matured during year	(34 591)	(15 054)				(15 054)
Balance at end of year	297 054	269 447	185 974	48 882	34 591	

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
2022	3 492	538	202	8 000	12 232	5 236	17 468
2021	3 295	509	202	6 537	10 543	9 558	20 101

Fixed guaranteed remuneration and benefits

Clifford's total fixed cost-to-company remuneration increased by 6% on 1 July 2022 from R4 100 000 to R4 346 000. His position had been externally benchmarked by Khokhela Remuneration Advisors in June 2021 against companies with a similar size, complexity and geographical spread.

Annual short-term incentive bonus

The following short-term incentive performance criteria and weightings, as determined by the remuneration committee, were used to calculate Clifford's annual bonus which amounted to R8 000 000 (2021: R6 537 110). This included the release of a bonus of 37.75% (R1 640 600) that had been earned in 2021 terms of the formula but was required to be held back until the following year, subject to clawback if performance criteria had not been met. In addition, a bonus of 15% has been earned in 2022 in terms of the formula but is required to be held back until 2023 and is subject to clawback if performance criteria are not met.

2022 measure		Measure achieved 2022	Maximum bonus % available	Bonus % achieved
Measurement	Target			
Return on equity	Minimum – 14% Primary – 17% Stretch – 23%	22%	44%	41.75%
Increase in ceps	Primary – 10% Stretched	21%	56% uncapped but subject to clawback	56% 15%
Increase in intrinsic value	R20 per share	R37	10%	10%
Personal non-financial objectives			25%	22.5%
Total percentage of guaranteed fixed remuneration – earned and payable for 2022			135% + ceps stretch	145.25%
Release of 2021 bonus held back subject to clawback				37.75%
Total percentage of guaranteed fixed remuneration payable			183%	183%

Performance-based share appreciation bonus scheme

In line with long-term incentive benchmarks for executive directors, on 29 July 2022 Clifford was awarded 28 900 share appreciation bonus rights to be measured off a 10-day VWAP base of R146.50. Subject to the performance criteria, 17 305 of the allocation will vest at the end of three years from the allocation date with the balance vesting at the end of year four.

On 22 February 2022 Clifford exercised 14 054 rights awarded in 2014 at a base price of R92.04 and 7 600 rights awarded in 2015 at a base price of R125.24, shortly before they reached final exercise date in July. These rights were exercised at a 10-day VWAP of R156.94, resulting in a gain, settled by the delivery of 7 346 Hudaco shares acquired by the company on the open market at R1 091 602. He forfeited 27 246 rights because the performance factors were not met in full.

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

	Out-standing rights beginning of year	Strike price R	Granted during the year	Taken up during the year	Forfeited during the year	Out-standing rights end of year	Date granted	Number of tranches	Date benefit to be determined	Prospects of meeting performance requirements	Estimated value at end of year R000
2022	459 760		28 900	21 654	27 246	439 760					
	9 000	90.80			9 000		12-Jul-13	3	Jul 16 – Jul 22	Minimal	Nil
	49 400	92.04		14 054	10 646	24 700	25-Jul-14	3	Jul 17 – Jul 23	Partial	398
	45 600	125.24		7 600	7 600	30 400	10-Jul-15	3	Jul 18 – Jul 24	Partial	221
	54 960	102.93				54 960	20-Jul-16	3	Jul 19 – Jul 25	Partial	1 820
	49 000	125.10				49 000	24-Jul-17	3	Jul 20 – Jul 26	Partial	511
	43 000	149.51				43 000	23-Jul-18	3	Jul 21 – Feb 27	Minimal	Nil
	58 200	117.27				58 200	26-Jul-19	3	Jul 22 – Feb 27	Very good	1 323
	99 600	68.37				99 600	27-Jul-20	3	Jul 23 – Feb 27	Very good	7 134
	51 000	124.91				51 000	09-Jul-21	3	Jul 24 – Feb 27	Very good	770
	146.50		28 900			28 900	29-Jul-22	2	Jul 25 – Feb 27	Too soon	Nil
2021	452 460		51 000	15 808	27 892	459 760					
	10 000	109.26			10 000		27-Jul-12	3	Jul 15 – Jul 21	Nil	Nil
	18 000	90.80			9 000	9 000	12-Jul-13	3	Jul 16 – Jul 22	Minimal	Nil
	74 100	92.04		15 808	8 892	49 400	25-Jul-14	3	Jul 17 – Jul 23	Partial	1 067
	45 600	125.24				45 600	10-Jul-15	3	Jul 18 – Jul 24	Partial	210
	54 960	102.93				54 960	20-Jul-16	3	Jul 19 – Jul 25	Partial	1 581
	49 000	125.10				49 000	24-Jul-17	3	Jul 20 – Jul 26	Partial	461
	43 000	149.51				43 000	23-Jul-18	3	Jul 21 – Feb 27	Partial	Nil
	58 200	117.27				58 200	26-Jul-19	3	Jul 22 – Feb 27	Minimal	815
	99 600	68.37				99 600	27-Jul-20	3	Jul 23 – Feb 27	Very good	7 084
	124.91		51 000			51 000	09-Jul-21	3	Jul 24 – Feb 27	Too soon	670

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 2022 potential maximum short-term incentive bonus in Hudaco shares. Clifford elected to make the maximum commitment of 50%, amounting to R2 562 000. To achieve this, on 7 February 2022 when the market price was R149.96 per share, Clifford committed to the scheme 17 088 shares, which will be matched at a ratio of 2:1 post-tax so he received 1.818 rights for each share.

17 192 shares acquired by Clifford in 2019 and held for three years in terms of the share matching scheme were released from their lock-up period and on 8 February 2022 the company purchased for Clifford a matching 17 192 shares in the open market at a weighted average price of R159.14 per share, the consideration totalling R2 736 011. On 16 February 2023 Clifford exercised the rights granted to him in 2020, so the company purchased for him a further 24 319 shares, in the open market at a weighted average price of R169.00 per share and at a total consideration of R4 109 911.

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 824 900 by 4 April 2023. These shares will be matched in 2026 at a ratio of 1:1 post-tax, which approximates 1.8:1 before tax, as set out in the background statement, specifically on page 63. On 16 February 2023, Clifford committed 17 036 shares for this purpose, being the maximum permitted.

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

Rights	At 30 November 2022	Year invested				
		2022	At 30 November 2021	2021	2020	2019
Balance at beginning of year	134 034		49 791		24 319	17 192
Granted during year	31 069	31 069	92 523	92 523		
Matured during year	(8 280)	(8 280)	(8 280)			
Balance at end of year	156 823	22 789	134 034	92 523	24 319	17 192

Louis Meiring – Executive 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
2022	3 395	525	257	6 600	10 777	6 117	16 894
2021	3 157	490	223	4 000	7 870	9 328	17 198

Fixed remuneration

Louis' total fixed cost-to-company remuneration increased by 6% on 1 July 2022 from R4 000 000 to R4 240 000. His position had been externally benchmarked by Khokhela Remuneration Advisors in June 2021 against companies with a similar size, complexity and geographical spread.

Annual short-term incentive bonus

The following short-term incentive performance criteria and weightings, as determined by the remuneration committee, were used to calculate Louis' annual bonus which amounted to R6 600 000 (2021: R4 000 000):

2022 measure	Measure achieved 2022	Maximum bonus % available	Bonus % achieved
Measurement	Target		
Return on net tangible operating assets	Varies by business	24.2%	39.2%
Operating profit	Primary – Varies by business		56%
	Stretched	uncapped but subject to clawback	15%
Company performance		15%	13%
Increase in intrinsic value (experimental)	R20 per share	R37	10%
Personal non-financial objectives		25%	22.5%
Total percentage of guaranteed fixed remuneration		150% + profit stretch	155.7%

Performance-based share appreciation bonus scheme

In line with long-term incentive benchmarks for executive directors, on 29 July 2022 Louis was awarded 50 640 share appreciation bonus rights to be measured off a 10-day VWAP base of R146.50 per share. Subject to the performance criteria, one-third of the allocation will vest three years from the allocation date with another third vesting at the end of year four and the balance at the end of year five.

Louis did not exercise any share appreciation bonus rights during 2022.

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

	Out-standing rights beginning of year	Strike price R	Granted during the year	Taken up during the year	Forfeited during the year	Out-standing rights end of year	Date granted	Number of tranches	Date benefit to be determined	Prospects of meeting performance requirements	Estimated value at end of year R000
2022	254 000		50 640			304 640					
	56 000	117.27				56 000	26-Jul-19	3	Jul 22 – Jul 28	Very good	1 273
	142 000	68.37				142 000	27-Jul-20	3	Jul 23 – Jul 29	Very good	10 171
	56 000	124.91				56 000	09-Jul-21	3	Jul 24 – Jul 30	Very good	845
		146.50	50 640			50 640	29-Jul-22	3	Jul 25 – Jul 31	Too soon	Nil
2021	198 000		56 000			254 000					
	56 000	117.27				56 000	26-Jul-19	3	Jul 22 – Jul 28	Minimal	784
	142 000	68.37				142 000	27-Jul-20	3	Jul 23 – Jul 29	Very good	10 100
		124.91	56 000			56 000	09-Jul-21	3	Jul 24 – Jul 30	Too soon	735

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 2022 potential maximum short-term incentive bonus in Hudaco shares. Louis elected to make the maximum commitment of 50%, amounting to R2 500 000. To achieve this, on 7 February 2022 when the market price was R149.96 per share, Louis committed to the scheme 16 671 shares, which will be matched at a ratio of 2:1 post-tax so he received 1.818 rights for each share.

16 827 shares acquired by Louis in 2019 and held for three years in terms of the share matching scheme were released from their lock-up period and on 7 March 2022 the company purchased for Louis a matching 16 827 shares in the open market at a weighted average price of R131.25 per share, the consideration totalling R2 208 535. On 16 February 2023 Louis exercised the rights granted to him in 2020, so the company purchased for him a further 21 052 shares, in the open market at a weighted average price of R169.00 per share and at a total consideration of R3 557 788.

Based on his potential maximum short-term bonus, he is entitled to commit to the scheme further shares up to a maximum value of R3 300 000 by 4 April 2023. These shares will be matched in 2026 at a ratio of 1:1 post-tax, which approximates 1.8:1 before tax, as set out in the background statement, specifically on page 63. On 16 February 2023, Louis committed 16 620 shares for this purpose, being the maximum permitted.

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

Rights	At 30 November 2022	Year invested					
		2022	At 30 November 2021	2021	2020	2019	2018
Balance at beginning of year	124 856		37 879		21 052	16 827	8 280
Granted during year	30 311	30 311	86 977	86 977			
Exercised during year	(16 827)	(16 827)					(8 280)
Balance at end of year	138 340	13 484	124 856	86 977	21 052	16 827	

Non-executive directors' remuneration

Non-executive directors' remuneration for the year ended 30 November 2022

R000 (excluding VAT)	2022	2021
SJ Connelly	1 183	1 134
N Mandindi	730	691
D Naidoo	847	343*
MR Thompson	725	695
Total	3 485	2 863

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

Proposed non-executive directors' fees for 2023/2024

At Hudaco's annual general meeting to be held on 30 March 2023, shareholders will be requested to approve the non-executive directors' fees for the period 1 April 2023 until 31 March 2024 as set out below. These proposed fees are up 7.5% from those of the past year, which accords well with the increase in the consumer price index.

R000 (excluding VAT)	Proposed 2023/24	
	Base fee	Penalty for non-attendance
Board		
Chairman of the board	1 298*	24
Lead independent non-executive	472	23
Board member	347	17
Audit and risk management committee		
Chairman of the committee	302	24
Committee member	167	17
Remuneration committee		
Chairman of the committee	212	24
Committee member	96	16
Nomination committee		
Chairman of the committee	*	17
Committee member	70	11
Social and ethics committee		
Chairman of the committee	196	24
Committee member	88	15

* 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 – R35 000 and member – R25 000.

Corporate governance

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

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

Hudaco's values support the approach adopted in the King IV Report on Corporate Governance for South Africa (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 King IV. The board is satisfied that the Hudaco group is in substantive alignment with the principles and has adopted relevant practices. The board is fully committed to the four outcomes of King IV being: an ethical culture, good performance, effective control and legitimacy.

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



Our governance framework and structure

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

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

Some members have, on occasion, attended board and committee meetings by video conference but, overwhelmingly, attendance has been in person.

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. To this end, the board 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, risk management, 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:

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

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

Focus areas for 2023 include the continued application of King IV practices, refreshing knowledge of risks pertaining to the Competition Act and ongoing training of employees on legislative compliance in identified areas and the review and updating of existing policies and procedures.

Board of directors

Board composition

Hudaco has a unitary board structure, comprising seven directors. Three are independent non-executive directors, one is a non-executive director and the remaining three are executive directors. An alternate executive director was appointed on 2 February 2023. A short *curriculum vitae* of each of the directors appears on pages 20 and 21 of the integrated report.

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

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

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

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

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

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

The lead independent director's role is to provide leadership and advice to the board, without detracting from the authority of the chairman, when the chairman has a conflict of interest. A formal mandate is in place 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;
- to chair discussions and decision-making by the board on matters where the chairman has a conflict of interest; and
- to chair discussions which deal with the succession of the chairman and the chairman's performance appraisal.

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

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

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

Independent non-executive directors

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

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

King IV further provides that any term beyond nine years for an independent non-executive should be subject to a particularly rigorous review by the board, not only of their performance but also the factors that may impair their independence. The assessment should show that the independent director's independence of character and judgement is in no way affected or impaired by the length of service. In this respect the board assessed and concluded that Daisy Naidoo continues to be independent in both character and judgement, notwithstanding that by the time of the annual general meeting in March 2023, she would have served 12 years on the board. In addition, a new firm of auditors was appointed for the 2022 audit and the board considered it in the best interests of the company that she continued as chairman of the audit and risk management committee while the auditor transition took place.

Notwithstanding the above, a process to identify a successor for Daisy Naidoo has commenced. She will continue in her current role to facilitate the transfer of knowledge once a suitable successor has been appointed and it is envisaged that she will step down from the board at the annual general meeting in March 2024.

Both the other non-executive directors are considered clearly independent.

The role of the board and board procedures

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

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

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

The board has unrestricted access to all company information, records, documents and resources to enable it to properly discharge its responsibilities. Management is tasked with ensuring that board members are provided with all relevant information 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 are appropriately applied.

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

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

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

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 MOI and all other applicable legislation. The salient features thereof are:

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

During the period under review, material issues discussed by the board were determined by assessing the external environment, the needs and expectation of Hudaco's key stakeholders and other significant topics and/or events. For 2022, the dominant issues were the group's response to degradation of local Infrastructure, loadshedding arising from the worsening shortage of electricity in South Africa and the impact on

the supply chain and on inflation of global economic uncertainty. In addition, the key strategic focus remained the management of the relationship between margins, inventories and costs in a particularly difficult economic environment.

Key focus areas for 2023 include:

- challenges and opportunities arising through degradation of local infrastructure;
- continuing to cope with the unpredictability of international supply chain challenges;
- further improving margins;
- containing the expense ratio as input costs rise from worldwide inflationary pressure;
- continue developing more black African managers within the group;
- improving the performance of the Eternity Technologies and Powermite businesses; and
- optimising capital allocation.

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

Board meeting attendance 2022

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

In terms of the MOI, every director must retire by rotation at least once in three years. A resolution was proposed at the annual general meeting in March 2022 to change the MOI to provide that only the non-executive directors must retire by rotation in future. Executive directors are employed by the company and subject to open-ended employment contracts, which is inconsistent with the requirement for executive directors to retire by rotation. The board considered it preferable, in order to mitigate the risk to the company, for the non-executive directors to assess the fitness of the executive directors to continue in employment and in office. While over 69% of votes were cast in favour of this amendment, the 75% support needed to pass the special resolution was not obtained. Accordingly, the requirement for the executive directors to retire by rotation remains in place.

The nomination committee assists the board with the recruitment, assessment and nomination of new directors, subject to the whole board approving these appointments. Board members are also invited to interview any potential appointees. In general, the attributes of prospective directors include individuals with the capacity to think strategically and contribute to the company's ongoing evolution of

strategy, ability to work collaboratively and integrity that is above reproach. The nomination committee also considers appropriate diversity in its assessment, including but not limited to race and gender diversity.

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

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

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

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

Succession planning

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

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

Board committees

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

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

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

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

Evaluation

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

The evaluation of the chairman is conducted by the board.

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

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

The questionnaire also afforded opportunity for comments on overall performance.

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

- regular training and continuous professional development; and
- POPI Act compliance reporting.

During a discussion on these two areas, it was noted that training on intrinsic shareholder value creation was provided at each board meeting during the 2022 financial year as a way of ensuring the continuous professional development of directors. With respect to the POPI Act, regular reporting regarding the group's compliance with the POPI Act has been added to the social and ethics committee's agenda to ensure adequate oversight thereover.

Remuneration committee

The members of the remuneration 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 remuneration committee meets twice a year, unless additional meetings are required.

The remuneration committee operates under a board-approved mandate and the terms of reference were reviewed in 2022. 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 2022

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

The remuneration report can be found on pages 60 to 74 of this report.

Nomination committee

The members of the nomination committee for the year under review were:

Stephen Connelly (chairman), Mark Thompson and Daisy Naidoo. All the members, with the exception of Stephen Connelly, are independent non-executives.

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

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

The nomination committee assists the board in ensuring that:

- the board has the appropriate composition to execute its duties effectively. Aspects that are considered regarding board composition include whether the candidates would enable the company to:
 - maintain a mixture of business skills and experience relevant to the company and balance the requirements of transformation, diversity, continuity and succession planning; and
 - comply with corporate governance requirements in respect of matters such as the balance between executive, non-executive and independent non-executive directors on the board;
- each potential director meets the appropriate fit and proper test;
- directors are appointed through a formal and transparent process;
- induction and ongoing training and development of directors takes place;
- formal succession plans for the board, chief executive and senior management are in place; and
- formal board and committee assessments are conducted at least every second year.

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

- are independent non-executive directors as contemplated in King IV and the JSE Listings Requirements;
- are suitably qualified and experienced for audit committee membership;
- have an understanding of integrated reporting (including financial reporting), internal financial controls, external and internal audit processes, risk management, sustainability issues and the governance process (including information technology governance) within the company;
- possess skills which are appropriate to the company's size and circumstances, as well as industry;

- understand International Financial Reporting Standards (IFRS) 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 skill set.

Nomination committee meeting attendance 2022

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

During the period under review, the nomination committee reviewed succession planning for the executive directors and key management positions and made recommendations for future non-executive director appointments.

Focus areas for 2023 include ensuring that appropriate succession plans are in place for senior management and the appointment of a suitable successor for Daisy Naidoo.

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

Audit and risk management committee

The members of the audit and risk management committee for the year under review were: Daisy Naidoo (chairman), Nyami Mandindi and Mark Thompson.

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

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

Meetings are held at least three times a year and the chairman of the board, all three executive directors, the head of group risk and internal audit and representatives from the external auditors attend committee meetings by invitation. The committee functions under written terms of reference which were most recently reviewed in October 2022. The audit and risk management committee is satisfied that it fulfilled its responsibilities in accordance with its terms of reference for the reporting period.

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

- considering and monitoring the independence of the external auditors and the appropriate rotation of the lead audit partner and to make recommendations to the board on the appointment and dismissal of the external auditor;
- requesting from the external audit firm the information detailed in the JSE Listings Requirements in its assessment of the suitability for appointment of the current or a prospective audit firm and designated individual partner both when they are appointed for the first time and thereafter annually for every reappointment;
- ensuring that the appointment of the external auditor is presented and included as a resolution at the annual general meeting of the company;
- overseeing the effectiveness of the group's internal control systems, ensuring that they are designed in response to identified key business and control risks, and have been effective throughout the year;

- overseeing the establishment of appropriate financial reporting procedures and that these procedures are operating;
- reviewing the scope and effectiveness of the external and internal audit functions;
- monitoring 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;
- considering 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 audit and risk management committee including the following:

- nominating for appointment a registered external auditor who is independent of the company;
- determining the fees to be paid to the external auditor and the external auditor's terms of engagement;
- ensuring that the appointment of the external auditor complies with the Companies Act and any other legislation relating to the appointment of external auditors;
- determining the nature and extent of any non-audit services which the external auditor may provide to the company;
- pre-approving any contract with the external auditor for the provision of non-audit services to the company
- preparing a report, to be included in the annual financial statements:
 - describing how the committee carried out its functions;
 - stating whether the committee is satisfied that the external auditor is 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
- receiving and dealing 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 line with the above, the audit and risk management committee reports that it has discharged all of its obligations. Specifically:

- To effect mandatory audit firm rotation, following a comprehensive process involving the consideration of several firms, Deloitte & Touche were appointed auditors for the 2022 financial year. After considering, in terms of paragraph 22.15(h) of the JSE Listings Requirements, their suitability for appointment, the audit committee again nominated the audit firm Deloitte & Touche and audit partner Petrus van Zijl for appointment by the shareholders at the forthcoming annual general meeting as the auditor for the 2023 financial year. The committee is satisfied that the firm and the individual auditor are independent of the

company and are accredited as auditors by the JSE. Any non-audit-related services to be performed by the external auditors require the approval of the audit and risk management committee on a case-by-case basis. The overarching criterion for approval is 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 Deloitte & Touche.

- Budgeted audit fees for the financial year ended 30 November 2022 were approved and the scope of the proposed audit work was agreed.
- The committee confirmed the independence of the internal audit function and satisfied itself that internal audit is functioning effectively.
- The internal and external auditors have unrestricted access to this committee. Members of the committee are also afforded the opportunity to meet with the head of internal audit and the external auditors without management being present.
- The committee reviewed the interim and annual financial statements and approved them for submission to the board. This review included a consideration of the estimates, judgements and assumptions set out in note 2 to the financial statements.
- The committee considered and noted the key audit matter as determined by Deloitte & Touche and described in the independent auditor's report.
- No complaints have been received relating to the accounting practices and internal audit of the company or to the content or auditing of the company's financial statements or its internal financial controls, or to any related matter.
- In terms of paragraph 3.84(g) of the JSE Listings Requirements, the committee has satisfied itself that: (i) the expertise and experience of the financial director are appropriate; (ii) Hudaco has established appropriate financial reporting procedures and that these procedures are operating adequately, after considering the group's structure, to ensure that the committee had access to all the financial information; (iii) in the assessment of the suitability for appointment of Deloitte & Touche and audit partner Petrus van Zijl, members considered the information detailed in paragraph 22.15(h) of the JSE Listings Requirements and also consulted Deloitte & Touche thereon; (iv) the appointment of Deloitte & Touche is presented and included as a resolution at the forthcoming annual general meeting of the company to be held in March 2023.

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

From a risk management perspective, the audit and risk management 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 audit and risk management committee discharged all of its duties in respect of risk management. Specifically, it:

- concluded 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
- satisfied itself that technology and information governance continued to form an integral part of the company's risk management processes.

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

In addition, the audit and risk management committee has overseen the introduction of processes in all the businesses to support the chief executive and financial director such that they are in a position to sign the responsibility statement required by the JSE and dealt with more fully on page 88.

Focus areas for 2023 include optimising risk management at operational level, with particular emphasis on enhancing IT governance and procedures pertaining to health and safety and environmental aspects.

Audit and risk management committee meeting attendance 2022

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

Financial control and risk management

The committee recognises the board's responsibility to report a balanced and accurate assessment of the group's financial results and financial position in terms of IFRS, 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;
- risk registers at operating and group level, which are monitored on a regular basis; and
- an internal financial control framework.

Chief executive's and financial director's responsibility statement

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

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

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

Delegation of authority

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

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

Risk

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

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

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

During 2022, an independent assessment of Hudaco's enterprise risk management was conducted by a practicing risk management professional, who is the head of risk at another group listed on the JSE. The objective of the review was to assess the adequacy and

effectiveness of risk management within the Hudaco group. The very pleasing conclusion by the independent reviewer included the following statements:

"A common theme that pervaded all interactions with the leaders across the group was that ERM is viewed as a practical enabler to the success of the business, which is precisely the objective of any ERM program. Another key observation across all discussions was a deep desire to constantly improve everything that Hudaco embarks on, a mindset that in my opinion lends itself to excellent risk management.

I am therefore able to satisfy myself that Hudaco's ERM program not only meets but exceeds King 4 requirements, more specifically principle 11 ie. "The governing body should govern risk in a way that supports the organisation in setting and achieving strategic objectives"."

Litigation and legal

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

Technology and information governance

Protecting electronic assets is increasingly complex as networks, systems and electronic data expand. Depending on the internet for communication attracts additional risk. Ensuring proper system security, data integrity and business continuity is the responsibility of the board but is overseen by the executive committee and the audit and risk management committee. IT systems at Hudaco are decentralised, with each business determining the most appropriate systems 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:

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

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

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

The IT governance committee, chaired by the group financial director, currently comprises the chief executives of all Hudaco's businesses as well as IT professionals from the larger businesses within Hudaco. The committee's charter is fully aligned with King IV requirements. Following an independent review during 2022 of IT governance within the group, an IT forum has been established to provide guidance to the IT governance committee. The IT forum consists mainly of IT professionals within the group's businesses and has an independent expert as a member to bring an external perspective. It will commence formal activities in the first quarter of 2023.

Focus areas for 2023 include the following:

- continuing to align IT strategies with business strategies at individual businesses;
- reducing the number of separate IT facilities in line with the combination of certain businesses into clusters for back-office purposes;
- further developing group-wide IT policies and minimum requirements;
- auditing business compliance with specified minimum IT standards, policies and controls;
- enhancing IT risk identification and maintenance of IT risk registers at individual businesses;
- standardising and improving IT governance reporting across the group; 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 social and ethics committee for the year under review were:

Nyami Mandindi (chairman), Louis Meiring and Daisy Naidoo.

The chairman and one other member of the committee are independent non-executive directors, while the remaining member is an executive director. The social and ethics committee meets twice a year and reports to the board. Meetings are also attended by the group financial director (Clifford Amoils), group secretary, transformation and human resources executive (Esther Nkosi), the executive responsible for health and safety and environmental issues (Ernie Smith) and the group QSHE manager (Firdaws Ismail). The head of risk and internal audit and the QSHE internal audit attend for the agenda items to which their activities are relevant. Furthermore, the social and ethics committee is entitled to invite other executives and senior managers of Hudaco to attend meetings as required to fulfil its mandate.

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

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

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

Role and responsibilities

During the 2022 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 social and ethics committee's terms of reference were reviewed during October 2022.

The social and ethics 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 social and ethics 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 30 March 2023, the chairman of the social and ethics committee will be available to report to shareholders on the matters within the committee's mandate in accordance with regulation 43(5)(c) of the Companies Act.

Focus areas for 2023 include continuing to monitor the group's implementation of health and safety standards and environmental impact initiatives and compliance with the POPI Act. The committee will also seek reconfirmation that there are no gender-based pay gaps or pay gaps prejudicing historically disadvantaged individuals in the group.

Social and ethics committee meeting attendance 2022

	Mar	Oct
N Mandindi	✓	✓
LFJ Meiring	✓	✓
D Naidoo	✓	✓

Executive committee

The members of the executive committee are:

Graham Dunford (chairman), Clifford Amoils, Louis Meiring, Barry Fieldgate, Ernie Smith, Chris Pillay, Esther Nkosi (joined June 2022), Lavern Jacobs and Burtie Roberts (both of whom joined on 2 February 2023). Carl Rogers and Phylla Jele left the group during the year and David Allman has recently stepped down from the committee pending his retirement. The head of risk and internal audit and other senior executives have standing invitations to attend the meetings.

The executive committee is chaired by the chief executive, Graham Dunford, and meets quarterly, prior to the board meeting. Its principal terms of reference are to advise the chief executive on the formulation of operating policy, the implementation of group strategy and the management of key group risks. The committee incorporates a quality, health, safety and environment subcommittee which has its own written terms of reference.

Executive committee meeting attendance 2022

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

* Became a member in June 2022.

Group secretary

Acorim Secretarial and Governance Services, represented by Natasha Davies, is the group secretary of Hudaco.

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 2022 the board considered and was satisfied with the competence, qualifications and experience of Natasha Davies, who represents the group secretary. It concluded that during this time, an arm's length relationship had been maintained between the board members and the group secretary. This conclusion was based on the fact that she performed her role independently from the board or any individual board member and without the directors having an undue influence over her.

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 88.

Share dealings

Hudaco has adopted a closed-period policy, which precludes directors, officers, participants in share-based payment arrangements and staff who may have access to price-sensitive information from dealing in Hudaco shares prior to the release of interim and final results as well as during other price-sensitive periods.

All the directors, the members of the executive committee and their personal assistants are required to obtain written clearance from the chief executive before dealing in Hudaco's securities. The chief executive and financial director require prior clearance from the chairman.

Details of share dealings by directors and the group secretary are disclosed through the Securities Exchange News Service (SENS).

The group secretary maintains a record of all dealings in Hudaco shares by directors and affected employees.

No major subsidiary has any director who is not also a director of Hudaco.

Relationship with stakeholders

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

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

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

Hudaco acknowledges the importance of its shareholders attending the company's annual general meetings as these meetings offer an opportunity for the shareholders to participate in discussions relating to general meeting agenda items and to raise additional issues. To this end, online attendance was facilitated for the 2022 annual general meeting and will be available again in 2023. Explanatory notes setting out the effects of all proposed resolutions have been included in the notice of annual general meeting. The company's transfer secretaries attend every meeting of shareholders to assist with the recording of shareholders' attendance and to tally the votes.

The chairmen of board-appointed committees, as well as the executive directors, are required to attend annual general meetings or other general meetings to respond to questions from shareholders.



Audited annual financial statements

Institutional investors, private shareholders, bankers, corporate finance houses, analysts and government

Audit and risk management committee's report	88
Group chief executive's and group financial director's responsibility statement	88
Certificate by the group secretary	88
Directors' report	89
Independent auditor's report	92
Group statement of comprehensive income	96
Group statement of financial position	97
Group statement of cash flows	98
Group statement of changes in equity	99
Notes to the annual financial statements	100
Company financial statements	130
Shareholder information	134

Audit and risk management committee's report

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

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 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 81 to 84.

The audit and risk management committee has satisfied itself that:

- the auditors are independent of the company and are thereby able to conduct their audit without any influence from the company;
- the auditor, the partner and the firm, have complied with the suitability requirements of the JSE as detailed in paragraph 22.15(h) of the JSE Listings Requirements;
- the accounting practices and systems of internal control are appropriate, adequate and monitored effectively; and
- the committee considered and noted the key audit matter determined by Deloitte & Touche as described in the independent auditor's report.

The audit and risk management committee has evaluated the group and company annual financial statements for the year ended 30 November 2022 ("the annual financial statements") and considers that they comply, in all material aspects, with the requirements of the Companies Act and International Financial Reporting Standards. The audit and risk management committee therefore recommended the annual financial statements for approval by the board. The board has subsequently approved the annual financial statements, which will be presented at the forthcoming annual general meeting.



D Naidoo

Chairman of the audit and risk management committee

23 February 2023

Group chief executive's and group financial director's responsibility statement

Each of the directors, whose names are stated below, hereby confirms that:

- (a) the annual financial statements set out on pages 96 to 133 fairly present in all material respects the financial position, financial performance and cash flows of Hudaco Industries Limited and its subsidiaries ("Hudaco") in terms of IFRS;
- (b) to the best of our knowledge and belief, no facts have been omitted or untrue statements made that would make the annual financial statements false or misleading;
- (c) internal financial controls have been put in place to ensure that material information relating to Hudaco and its consolidated subsidiaries have been provided to effectively prepare the financial statements of Hudaco;
- (d) the internal financial controls are adequate and effective and can be relied upon in compiling the annual financial statements, having fulfilled our role and function as executive directors with primary responsibility for implementation and execution of controls within the combined assurance model pursuant to principle 15 of the King Code;
- (e) where we are not satisfied, we have disclosed to the audit and risk management committee and the auditors any deficiencies in design and operational effectiveness of the internal financial controls and any fraud that involves directors, and have remediated the deficiencies; and
- (f) we are not aware of any fraud involving directors.



GR Dunford

Chief executive

23 February 2023



CV Amoils

Group financial director

23 February 2023

Certificate by the group secretary

In accordance with the provisions of section 88(2)(e) of the Companies Act, I certify that, to the best of my knowledge and belief, the company has filed for the financial year ended 30 November 2022 all such returns and notices as are required of a public company in terms of the said Act, and that all such returns and notices appear to be true, correct and up to date.



Acorim Secretarial and Governance Services

Represented by Ms N Davies

23 February 2023

Directors' report

Reporting period

The directors have pleasure in presenting their report for the company's financial year ended 30 November 2022. The annual financial statements for the year ended 30 November 2022 were authorised for issue in accordance with a resolution of the directors on 23 February 2023. Hudaco Industries Limited is a public company incorporated and domiciled in South Africa whose shares are publicly traded.

The principal activities of the group are described below:

Nature of business

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

Hudaco businesses fall into the following categories:

Consumer-related products	Engineering consumables
Supplied to markets with a bias towards consumer spending and generally sold to installers ■ Automotive aftermarket products ■ Power tools and fasteners ■ Data networking equipment ■ Batteries and sustainable energy products ■ Security and communication equipment ■ Gas and outdoor products	Products generally used in the maintenance of machines and sold mainly to mining and manufacturing customers ■ Bearings, belting and power transmission ■ Diesel engines and spares ■ Electrical power transmission ■ Filtration ■ Hydraulics and pneumatics ■ Specialised steel ■ Thermoplastic pipes and fittings

Hudaco sources branded products, mainly on an exclusive basis, directly from leading international manufacturers and to a lesser extent from local manufacturers. Hudaco seeks out niche areas in markets where customers need, and are prepared to pay for, the value Hudaco adds to the products it distributes.

The value added includes product specification, technical advice, application and installation training and troubleshooting, combined with ready availability at a fair price. The group has a network of specialised branches and independent distributors throughout southern Africa to ensure product availability to its customers.

Financial results

Earnings attributable to equity holders of the parent for the year ended 30 November 2022 were R596 million (2021: R499 million).

The results represent basic earnings per share of 2 007 cents (2021: 1 643 cents). Headline earnings per share were 2 007 cents (2021: 1 641 cents) and comparable earnings per share were 1 951 cents (2021: 1 613 cents).

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

Dividends

R million	2022	2021
Dividend number 69 of 520 cents per share declared on 3 February 2022	155	126
The record date was 4 March 2022 and the dividend was paid on 7 March 2022		
Dividend number 70 of 300 cents per share declared on 30 June 2022	89	73
The record date was 12 August 2022 and the dividend was paid on 15 August 2022		

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

On 2 February 2023 the directors declared dividend number 71 of 625 cents per share, being the final dividend in respect of the year ended 30 November 2022. The record date will be Friday, 3 March 2023 and the dividend will be paid on Monday, 6 March 2023.

Acquisition

In order to increase the revenue capacity of the group, on 28 February 2022, the group acquired the South African operations of Cadac (Pty) Ltd for a maximum consideration of R100 million based on future profits, with an initial payment of R76 million. The remainder of the purchase price is payable in May 2023.

Directors' report continued

Authority to buy back shares

At the forthcoming annual general meeting in March 2023, shareholders will be asked to provide the directors with authority to purchase up to 1 544 799 (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 1 544 799 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 8.12% of its issued capital at the date of this report, by way of treasury shares.

Share capital

Authorised

The authorised share capital remained unchanged during the year.

Issued

During the period between 8 December 2021 and 8 November 2022, the company repurchased 928 740 of its ordinary shares on-market at an average price of R142.81, excluding transaction cost, and a total cost of R133.2 million. The buy-back was approved by shareholders at the last annual general meeting. These repurchased shares were all delisted and cancelled before 30 November 2022. On 6 and 7 February 2023, the company repurchased a further 695 000 shares at an average price of R159.99, excluding transaction costs, and a total cost of R111.7 million. These shares were delisted and cancelled on 15 February 2023.

Full details of the authorised and issued capital of the company at 30 November 2022 are contained in notes 18.1 and 18.2 to the financial statements.

Share-based remuneration schemes

Full details of the company's share-based remuneration schemes are set out in note 18.6 to the financial statements.

Directorate

Information on the directors of the company in office at the date of this report appears on pages 20 and 21 of the integrated report.

Ernie Smith was appointed alternate director to Louis Meiring on 2 February 2023.

In terms of the company's Memorandum of Incorporation, Stephen Connelly, Clifford Amoils and Daisy Naidoo are required to retire by rotation at the forthcoming annual general meeting. Ernie Smith is required to retire at the forthcoming annual general meeting as he was appointed since the previous 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 68 to 73.

Directors' remuneration and details of their service agreements

The remuneration of executive and non-executive directors is recommended to the board by the company's remuneration committee.

Further information relating to the remuneration of the directors, together with details relating to the value of share appreciation right and share matching right allocations during the year, are set out in the implementation of the remuneration policy section of the remuneration report, specifically dealing with executive directors' remuneration as set out on pages 68 to 73 and non-executive directors' remuneration on page 74.

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

Secretary

Acorim Secretarial and Governance Services, represented by Natasha Davies, is the secretary of the company. The address of the secretary is set out on page 145.

Borrowing powers

The borrowing powers of the Hudaco group are unlimited. At 30 November 2022 unutilised borrowing facilities amounted to R1 220 million (2021: R1 386 million), of which R500 million is uncommitted.

Material risks disclosure

A description of all material risks which are specific to Hudaco Industries and/or the industries in which the company operates is set out on pages 18 to 19. The manner in which the company manages risk is explained on pages 82 to 84.

Social and ethics committee

In compliance with Regulation 43 of the Companies Regulations 2011, the company has a social and ethics committee, comprised of two independent non-executive directors and one executive director. The members are N Mandindi (chairman), D Naidoo and L Meiring (executive director). The activities of the committee are detailed in the corporate governance section, on pages 84 and 85 of the integrated report.

Statement of directors' responsibility

The directors of the company are responsible for the preparation of the annual financial statements and related financial information that fairly presents the state of affairs and the results of the company and the group.

The annual financial statements set out in this report have been prepared under the supervision of CV Amoils CA(SA), financial director, in accordance with statements of International Financial Reporting Standards, the financial reporting pronouncements as issued by the Financial Reporting Standards Council, the requirements of the South African Companies Act and the JSE Listings Requirements. These are based on appropriate accounting policies, consistently applied, which are supported by reasonable 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 92 to 95.

To enable the board to meet its responsibilities, systems of internal control and accounting and information systems have been implemented. These are aimed at providing reasonable assurance that risk of error, fraud or loss is reduced. The group's internal audit function, which has unrestricted access to the group's audit and risk management committee, evaluates and, if necessary, recommends improvements to the systems of internal control and accounting practices, based on audit plans that take cognisance of the relative degrees of risk of each function or aspect of the business.

The audit and risk management committee, together with the internal auditors, plays an oversight role in matters relating to financial and internal control, accounting policies, reporting and disclosure.

To the best of its knowledge and belief, based on the above and after making enquiries, the board of directors confirms that it has every reason to believe that the company and the group have adequate resources in place to continue in operational existence for the foreseeable future. For this reason, it continues to adopt the going concern basis in preparing the annual financial statements. The board of directors further confirms that, to the best of its knowledge and belief, the company is in full compliance with the provisions of the Companies Act No 71 of 2008, as amended, specifically related to its incorporation and that it is operating in conformity with its Memorandum of Incorporation.

The annual financial statements for the year ended 30 November 2022, which appear on pages 96 to 133, were approved by the board on 23 February 2023 and are signed on its behalf by:



SJ Connelly
Chairman

23 February 2023



GR Dunford
Chief executive

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 96 to 133 and 68 to 74, which comprise the consolidated and separate statements of financial position as at 30 November 2022, and the consolidated and separate statements of profit or loss and other comprehensive income, the 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 the Group and Company as at 30 November 2022, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act of South Africa.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements section of our report. We are independent of the Group and Company in accordance with the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the corresponding sections of the International Ethics Standards Board for Accountants' (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matter

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 are 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.

Key audit matter - Group	How the matter was addressed in the audit
Valuation of goodwill related to the Eternity Technologies cash generating unit	
IAS 36: Impairment of Assets (“IAS 36”) requires an entity to assess at the end of each reporting period whether goodwill and other indefinite life intangible assets are impaired. Management has performed the required impairment test on goodwill, as disclosed in note 13 of the consolidated financial statements. The discounted cash flow model used to determine the recoverable amount of the cash generating units (CGUs) is detailed and complex and included the following key inputs which are subject to estimation uncertainty and judgment by management: • Revenue growth • Working capital growth • Pre-tax discount rate • Terminal growth rate • Operating profit margin Whilst the impairment test for the Eternity Technologies CGU did not result in an impairment, the assessment included sensitive judgements as disclosed in note 13.2, and the relative sensitivity of the outcome of the assessment to movements in the inputs when compared to other CGUs is the main factor resulting in this being regarded as a key audit matter.	We evaluated the design and implementation of the Group-wide controls implemented by the directors in the execution of the Group’s year-end impairment tests. These included controls designed and implemented to ensure the robustness of the key assumptions used in the impairment tests, such as the utilisation of in-house corporate finance expertise and detailed scrutiny of operational forecasts by the management team of each cash generating unit. We performed further audit procedures on the following assumptions in the Eternity Technologies CGU: • Revenue growth • Operating profit margin These procedures included the following: • Comparison to prior performance • Comparison to budget approved by the board • Sensitivity analysis of the inputs mentioned in note 13.2 • Assessment of growth prospects based on current available asset base. With respect to the impairment models, we utilised internal valuation specialists on the audit team to assist with: • assessing the construct of the 5-year discounted cash flow valuation model, to ensure that it complied with the requirements of IAS 36; • testing the mathematical integrity and formulas in the model; • auditing and challenging the weighted average cost of capital (WACC) used by comparing key inputs to external market data, industry practice and relevant industry data published by specialist agencies. • auditing and challenging the cost of debt and equity, including adjustments specific to Group, utilised in the WACC calculation. We considered the disclosure in note 13 against the requirements of IAS 36. Based on our procedures performed, the significant judgements and inputs used in the estimations and related disclosures appear appropriate.

We do not have a key audit matter to report for the Company.

Other matter

The consolidated and separate financial statements of Hudaco Industries Limited for the year ended 30 November 2021 were audited by another auditor who expressed an unqualified opinion on those statements on 17 February 2022.

Independent auditor's report continued

Other information

The directors are responsible for the other information. The other information comprises the information included in the document titled Hudaco Integrated Report 2022, which includes the Group overview, Review of operations, Environmental social and governance report, Human capital report, Remuneration report, Corporate governance, Audit and risk management committee's report, Group chief executive's and group financial director's responsibility statement, Certificate by the group secretary, Directors' report, and Shareholder information, which we obtained prior to the date of this report. 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/or the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated and separate financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and/or the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

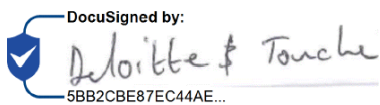
We communicate with the Audit and Risk Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit and Risk Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit and Risk Committee, 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 Deloitte & Touche has been the auditor of Hudaco Industries Limited for 1 year.

DocuSigned by:

 5BB2CBE87EC44AE...

Deloitte & Touche

Registered Auditor

Per: PWM van Zijl

Partner

23 February 2023

5 Magwa Crescent, Waterfall City, 2090, South Africa

Group statement of comprehensive income

for the year ended 30 November 2022

R000	Notes	2022	2021
Turnover	5	8 151 403	7 258 087
– Ongoing operations		7 915 975	7 258 087
– Acquisition		235 428	
Cost of sales		(5 159 718)	(4 570 935)
Gross profit		2 991 685	2 687 152
Other income – proceeds from insurance claims		27 210	
Decrease in expected credit losses		2 686	
Operating expenses	6	(2 002 463)	(1 861 234)
Operating profit before fair value adjustments		1 019 118	825 918
– Ongoing operations		991 829	825 918
– Acquisition		27 289	
Fair value adjustments	7	(1 111)	9 835
Profit before interest		1 018 007	835 753
Interest on lease liabilities	19.2	(29 293)	(32 026)
Finance costs		(57 350)	(35 984)
Profit before taxation		931 364	767 743
Taxation	9	(256 687)	(218 464)
Profit for the year		674 677	549 279
Other comprehensive income that will subsequently be reclassified to profit or loss		18 314	4 513
Profit on fair value of cash flow hedges – current year		13 924	943
Adjustments for amounts transferred to the initial cost of inventory			1 070
Tax effect of the above		2 950	(564)
Exchange gain on translation of foreign operations		1 440	3 064
Total comprehensive income for the year		692 991	553 792
Profit attributable to:			
– Equity holders of the parent		596 267	498 715
– Non-controlling shareholders	18.5	78 410	50 564
		674 677	549 279
Total comprehensive income attributable to:			
– Equity holders of the parent		611 215	502 092
– Non-controlling shareholders	18.5	81 776	51 700
		692 991	553 792
Basic earnings per share (cents)	10	2 007	1 643
Diluted earnings per share (cents)	10	1 927	1 610

Group statement of financial position

at 30 November 2022

R000	Notes	2022	2021
Assets			
Non-current assets		1 993 686	1 977 895
Property, plant and equipment	11	309 155	284 623
Right-of-use assets	12	382 166	422 062
Goodwill	13	1 182 116	1 170 294
Intangible assets	14	38 522	25 786
Deferred taxation	15	81 727	75 130
Current assets		3 948 741	3 472 170
Inventories	16	2 355 407	2 004 106
Trade and other receivables	17	1 365 794	1 244 507
Taxation		899	252
Bank deposits and balances	22.6	226 641	223 305
Total assets		5 942 427	5 450 065
Equity and liabilities			
Equity		3 254 387	2 976 204
Equity holders of the parent		3 096 263	2 863 497
Non-controlling interest	18.5	158 124	112 707
Non-current liabilities		1 081 103	1 003 307
Amounts due to bankers	19.1	750 000	630 000
Lease liabilities	19.2	330 584	372 332
Deferred taxation	15	519	975
Current liabilities		1 606 937	1 470 554
Trade and other payables	20	1 321 658	1 271 858
Bank overdraft	22.6	97 855	61 973
Amounts due to vendors of businesses acquired		23 667	
Lease liabilities	19.2	110 202	104 355
Taxation		53 555	32 368
Total equity and liabilities		5 942 427	5 450 065

Group statement of cash flows

for the year ended 30 November 2022

R000	Notes	2022	2021
Cash flow from operating activities			
Operating profit before fair value adjustments		1 019 118	825 918
<i>Adjusted for non-cash items:</i>			
– Equity-settled share-based payments	18.6	55 762	36 083
– Depreciation and profit on disposal of plant and equipment	6, 11	48 503	41 903
– Depreciation on right-of-use assets	6, 12	118 402	107 711
– Amortisation and loss on scrapping of intangible assets	6, 14	7 070	13 805
Increase in working capital	22.1	(355 428)	(116 291)
Cash generated from operations		893 427	909 129
Taxation paid	22.2	(244 018)	(219 726)
Net cash from operating activities		649 409	689 403
Cash flow from investing activities			
Additions to property, plant and equipment	11	(78 072)	(69 469)
Additions to intangible assets	14	(5 816)	(6 423)
Proceeds from disposal of property, plant and equipment		7 687	8 388
Acquisition of business	22.3	(80 942)	
Decrease in amounts owed by non-controlling shareholders		145	41
Receipts from vendors of businesses acquired	22.4		9 347
Net cash from investing activities		(156 998)	(58 116)
Cash flow from financing activities			
Advances from non-current amounts due to bankers		400 000	40 000
Repayment of non-current amounts due to bankers		(280 000)	(190 000)
Share-based payments settled		(35 587)	(16 108)
Repurchase of shares		(133 202)	(69 029)
Repayment of lease liabilities (rent paid)	19.2	(143 700)	(125 178)
– Capital		(114 407)	(93 152)
– Interest		(29 293)	(32 026)
Finance costs paid		(57 350)	(35 984)
Dividends paid	22.5	(276 398)	(213 067)
Net cash from financing activities		(526 237)	(609 366)
(Decrease) increase in net bank balances		(33 826)	21 921
Foreign exchange translation gain		1 280	3 061
Net bank balances at the beginning of the year		161 332	136 350
Net bank balances at the end of the year	22.6	128 786	161 332

Group statement of changes in equity

for the year ended 30 November 2022

R000	Share capital	Non-distributable reserves	Retained income	Equity holders of the parent	Non-controlling interest	Equity
Note	18.2	18.4			18.5	
Balance at 1 December 2020	3 313	123 387	2 485 495	2 612 195	75 966	2 688 161
Repurchase of shares	(61)		(68 968)	(69 029)		(69 029)
Advances to non-controlling shareholders					41	41
Comprehensive income for the year		3 377	498 715	502 092	51 700	553 792
Movement in equity compensation reserve		9 635	25 377	35 012		35 012
Dividends (note 21)			(198 067)	(198 067)	(15 000)	(213 067)
Balance at 30 November 2021	3 252	136 399	2 742 552	2 882 203	112 707	2 994 910
<i>Less: Shares held by subsidiary company</i>	(251)	(41)	(18 414)	(18 706)		(18 706)
Net balance at 30 November 2021	3 001	136 358	2 724 138	2 863 497	112 707	2 976 204
Balance at 1 December 2021	3 252	136 399	2 742 552	2 882 203	112 707	2 994 910
Repurchase of shares	(93)		(133 109)	(133 202)		(133 202)
Advances to non-controlling shareholders					145	145
Transfer to cost of inventory		(21 424)		(21 424)	(4 104)	(25 528)
Comprehensive income for the year		14 948	596 267	611 215	81 776	692 991
Movement in equity compensation reserve		28 308	(8 133)	20 175		20 175
Dividends (note 21)			(243 998)	(243 998)	(32 400)	(276 398)
Balance at 30 November 2022	3 159	158 231	2 953 579	3 114 969	158 124	3 273 093
<i>Less: Shares held by subsidiary company</i>	(251)	(41)	(18 414)	(18 706)		(18 706)
Net balance at 30 November 2022	2 908	158 190	2 935 165	3 096 263	158 124	3 254 387

Notes to the annual financial statements

for the year ended 30 November 2022

1. Accounting policies

1.1 Basis of preparation

The group and company annual financial statements are prepared on the historical cost basis adjusted for certain financial instruments measured at fair value, and incorporate the following principal accounting policies, which conform with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), the financial reporting pronouncements as issued by the Financial Reporting Standards Council and the requirements of the South African Companies Act and the JSE Listings Requirements. Except for the adoption of amendments to IFRS 9, IAS 39, IFRS 7 and IFRS 16 as part of the IBOR reform project phase 2, the group did not change any accounting policies or adopt any new accounting standards during the year. This had no impact on the financial statements of the group.

1.2 Basis of consolidation

The group financial statements incorporate all the assets, liabilities and results of the company and all entities that are controlled by the company. In all cases results are reported from the effective date of acquisition to the effective date of disposal using the acquisition method.

The company controls an entity when it is exposed or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through power over the entity.

Non-controlling interests in the net assets of consolidated entities are identified and recognised separately from the group's interest therein, and are recognised within equity on a proportionate share basis.

1.3 Business combinations

The consideration transferred by the group to obtain control of a subsidiary is calculated as the sum of the acquisition date fair values of assets transferred, liabilities incurred and the equity interests issued by the group, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred.

The group recognises identifiable assets acquired and liabilities assumed in a business combination regardless of whether they have been recognised in the acquiree's financial statements prior to the acquisition. Assets acquired and liabilities assumed are measured at their acquisition date fair values in terms of IFRS 3.

Goodwill is stated after separate recognition of identifiable intangible assets. It is calculated as the excess of the sum of:

- fair value of consideration transferred;
- the recognised amount of any non-controlling interest in the acquiree; and
- acquisition date fair value of any existing equity interest in the acquiree, over the acquisition date fair values of identifiable net assets.

If the fair values of identifiable net assets exceed the sum calculated above, the excess amount (ie gain on a bargain purchase) is recognised in profit or loss immediately.

Contingent liabilities are only included in the identifiable assets and liabilities of the acquiree where there is a present obligation at the acquisition date.

Any contingent consideration to be transferred by the group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration, which is deemed to be a liability, is recognised in accordance with IFRS 9 in profit or loss.

1.4 Revenue

The group's revenue is predominantly derived from the sale of products and related services of high-quality branded engineering consumables and consumer-related products, overwhelmingly in South Africa. A small portion of its revenue is earned over time.

Revenue from contracts with customers for the supply of goods at a point in time is recognised when the performance obligation is satisfied. Generally this means that the customer has taken undisputed delivery of goods and that all risks and rewards have been transferred to the customer. Revenue from contracts with customers for the supply of goods is recognised over time where there is no alternative use to the group and the group has an enforceable right to payment for performance completed to date. The contracts embody a single performance obligation and are measured on the percentage of completion method, as this is deemed the most appropriate. Revenue from contracts with customers to provide services to customers is recognised when the performance obligation is satisfied and could be over time as the services are rendered or at a point in time upon completion of the services.

Generally, customers are permitted to return faulty goods under the standard warranty terms. The warranties provide assurance that the goods are functioning as expected and they run for periods relevant to the nature of the product. Incidence of warranty claims is very low and in most cases responsibility for redress lies with the supplier. The group raises a warranty provision in terms of IAS 37 but the amount thereof is insignificant. In some businesses customers have a short-term right of return for credit but there is little usage thereof.

As the period of time between customer payment and performance will always be one year or less, the company applies the practical expedient and does not adjust the promised amount of consideration for the effects of financing. A large portion of the group's sales is for cash and the remainder is sold on credit with terms ranging from 30 days to 90 days.

1.5 Income from investments

In the company, dividend income from investments is recognised when the shareholder's right to receive payment has been established. Interest income is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable.

1.6 Other income

Other income is recognised when the group's right to receive payment has been established.

1.7 Cost of sales

When inventories are sold, the carrying amount is recognised as part of cost of sales. Any write-down of inventories to net realisable value and all losses of inventories or reversals of previous write-downs or losses are recognised in cost of sales in the period the write-down, loss or reversal occurs.

1.8 Short-term employee benefits

The cost of short-term employee benefits (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses and non-monetary benefits such as medical care) is recognised in the period in which the service is rendered and is not discounted.

The expected cost of incentive payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

1.9 Lease liabilities

The group assesses whether a contract is or contains a lease based on the definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. At inception or on reassessment of a contract that contains a lease component, the group allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices.

The company applies the short-term lease recognition exemption to its short-term leases of buildings (ie, those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases that are considered to be low value (<R100 000 per item). Lease payments on short-term leases and leases of low value assets are recognised as an expense on a straight-line basis over the lease term.

At the commencement date of a lease, the group recognises a lease liability measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments less any lease incentive receivable, variable lease payments that depend on an index or rate, and amounts expected to be paid under residual value guarantees and payments of penalties for terminating a lease, if the lease term reflects the group exercising the option to terminate.

After the commencement date, the amount of the lease liabilities is increased to show the accretion of interest and reduced for the lease payments made. The carrying amount of the lease liabilities is also remeasured if there is a modification, a change in the lease payments or a change in the lease term.

1.10 Share-based payments

The group operates equity-settled share-based compensation plans for senior and middle management including executive directors. The costs of these arrangements are measured by reference to their fair value at the dates on which they were granted. The fair values are charged as an expense in determining operating profit, with a corresponding credit to equity, on a straight-line basis over the initial vesting period of each grant. The costs take into account the best estimate of the number of rights that are expected to vest, taking into account non-market conditions such as exits from the schemes prior to vesting and operating performance compared to targets for vesting, where applicable. These estimates are revised at each reporting date and the impact of the revision is to spread the new estimated remaining cost over the balance of the vesting periods, including the current year. All differences between these recognised expenses and the actual payments on the exercise of these rights as well as the excess, if any, of any taxation benefit of the cash settlement over the equity accrual, are accounted for directly in retained earnings.

1.11 Retirement benefits

Defined contribution pension or provident schemes are operated by all group companies. Contributions made to these schemes are charged to profit or loss in the year in which they are payable.

By virtue of the types of schemes operated in the group, no past service costs or experience adjustments will arise in the retirement funding arrangements.

1.12 Borrowing costs

Borrowing costs are recognised in profit or loss in the period in which they are incurred, except where capitalisation is required in terms of IAS 23.

Notes to the annual financial statements continued

for the year ended 30 November 2022

1. Accounting policies *continued*

1.13 Current taxation

The tax currently payable is based on the taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income as it excludes items of income and expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The group's tax liability is calculated using tax rates that have been enacted or substantively enacted at the reporting date.

1.14 Property, plant and equipment

Buildings, plant and equipment are carried at cost less accumulated depreciation and impairment. They are depreciated on a straight-line basis to their expected residual values over their estimated useful lives. Both their residual values and useful lives (note 11) are reassessed annually. Land is stated at cost to the group.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in profit or loss when the item is derecognised.

1.15 Right-of-use assets

Right-of-use assets are presented on the statement of financial position and are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the shorter period of the lease term and useful life of the underlying asset. Depreciation starts at the commencement date of a lease and the charge for each year is recognised in profit or loss unless it is included in the carrying amount of another asset.

Initial measurement is at the amount of the lease liability, reduced for any lease incentives received, and increased for:

- lease payments made at or before commencement of the lease;
- initial direct costs incurred; and
- the amount of any provision recognised where the group is contractually required to dismantle, remove or restore the leased asset.

1.16 Investments in subsidiaries

In the company financial statements, investments in subsidiaries are carried at cost less accumulated impairments, if any. The cost of the investment in a subsidiary is the aggregate of the fair value of assets given, liabilities incurred or assumed, and equity instruments issued by the company.

1.17 Goodwill

Goodwill is initially measured and carried at cost. It represents the excess of the purchase consideration over the fair value of the group's share of the net fair value of identifiable assets, liabilities and contingent liabilities of the acquired entity at the date of acquisition. Goodwill is reviewed for impairment at least annually. Any impairment is immediately recognised as an expense and not reversed in future periods.

1.18 Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance and is initially recognised at fair value if acquired as part of a business combination and at cost if acquired separately.

If assessed as having a finite life, it is amortised over its useful life using the straight-line basis and tested for impairment if there is an indication that it may be impaired. Useful lives (note 14) are reassessed annually.

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

1.19 Deferred tax

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that 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 that is not a business combination and at the time of the transaction, affects neither accounting nor taxable profit.

A deferred tax asset is recognised for the carry forward of unused tax losses to the extent that it is probable that future taxable profit will be available against which these unused tax losses can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

1.20 Inventories

Inventories are valued at the lower of cost and net realisable value. The basis of determining cost is first-in-first-out or weighted average, and includes direct costs and where applicable, a proportion of manufacturing overheads. Each business unit applies one of these bases consistently from year to year.

1.21 Financial instruments

Financial instruments are initially measured at fair value when the related contractual rights or obligations arise. Subsequent to initial recognition these instruments are measured as follows:

- Trade and other receivables are stated at amortised cost less allowance for expected credit loss. Receivables are considered to be in default when they are in breach of their agreed credit terms and are written off when management considers the recoverability of the outstanding balance to be highly unlikely. The group and the company apply the IFRS 9 simplified approach to measure expected credit losses using a lifetime expected credit loss allowance for trade receivables.
- Cash and cash equivalents are measured at amortised cost less allowance for expected credit loss.
- Financial liabilities – non-derivative financial liabilities are measured at amortised cost, comprising net proceeds from original debt less principal payments.
- Financial liabilities – amounts due to vendors of businesses acquired are measured at fair value through profit or loss.
- Derivative instruments, including forward exchange contracts, are measured at fair value.
- Intercompany loans are stated at amortised cost less allowance for expected credit loss. The general model applies to intercompany loans. In terms of the general model, a loss allowance for lifetime expected credit losses (ECL) is recognised for an intercompany loan if there has been a significant increase in credit risk since initial recognition. When determining whether the credit risk of an intercompany loan has increased significantly since initial recognition and when estimating ECLs, the company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the company's historical experience and informed credit assessment and forward-looking information.

Hedge accounting transactions are classified into two categories:

- Fair value hedges, which hedge exposure to changes in the fair value of a recognised asset or liability, ie forward exchange contracts in respect of foreign trade liabilities.
- Cash flow hedges, which hedge exposure to variability in future cash flows attributable to forecasted transactions, ie forward exchange contracts in respect of orders placed with foreign suppliers but not yet shipped.

Gains or losses on subsequent measurements are treated as follows:

- Any gains or losses on fair value hedges are recognised in profit or loss for the year.
- Gains or losses on effective cash flow hedges are recognised in other comprehensive income. These gains or losses are recycled to profit or loss in the same period in which the hedged future transaction occurs and impacts profit or loss.
- The ineffective portion of any cash flow hedge is recognised in profit or loss for the year.
- Gains or losses from a change in the fair value of financial instruments that are not part of a hedging relationship are included in profit or loss for the period in which they arise.

1.22 Impairment

On an annual basis the group reviews goodwill carried on the statement of financial position for impairment and all tangible assets and definite life intangible assets for indicators of impairment. Where the recoverable amount of an asset or cash-generating unit is estimated to be lower than its carrying amount, its carrying amount is reduced to its recoverable amount. Impairment losses are charged against profit or loss in the period in which they are identified.

Except in the case of goodwill, where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount. Such increases in carrying amounts shall not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised in profit or loss in the period in which such reversal is identified.

Notes to the annual financial statements continued

for the year ended 30 November 2022

1. Accounting policies *continued*

1.23 Foreign currency transactions

The functional and presentation currency of all the entities in the group is Rand, except for the foreign operations in Botswana, Kenya, Namibia, UK, USA and Zambia.

Transactions in foreign currencies are initially recorded in the functional currency of the operation concerned at the exchange rate ruling at the date of the transaction.

All assets and liabilities denominated in foreign currencies are translated to the functional currency at the exchange rate ruling at the reporting date.

Exchange differences arising on the settlement of transactions at rates different from those at the transaction date, and unrealised exchange differences on unsettled foreign currency monetary assets and liabilities, are recognised in profit or loss for the year.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Rand at the appropriate exchange rate at the reporting dates. The income and expenses of foreign operations are translated to Rand at exchange rates at the dates of the transactions.

Foreign currency differences relating to foreign operations are recognised directly in equity in the foreign currency translation reserve (FCTR). When a foreign operation is disposed of, in part or in full, the relevant amount in the FCTR is transferred to profit or loss.

1.24 Contingencies

Contingent assets and liabilities that do not form part of a business combination are not recognised, but are disclosed in the notes to the financial statements.

1.25 Segment reporting

Hudaco's businesses have been divided into two primary reportable segments serving distinct markets. Hudaco's reportable segment information differentiates between consumer-related products, which markets are influenced mainly by consumer spending, and engineering consumables, which markets are influenced mainly by mining and manufacturing customers. These operations are monitored by the individuals as set out on pages 22 and 23.

The measurement policies the group uses for segment reporting under IFRS 8 are the same as those used in its financial statements. Corporate assets which are not directly attributable to the business activities of any operating segment are not allocated to a segment. In the financial period under review, this primarily applies to the group's headquarters.

2. Use of estimates, judgements and assumptions made in the preparation of the financial statements

Significant estimates and judgements are made in the following areas:

- Right-of-use assets – incremental borrowing rate – note 12
- Impairment of goodwill – future cash flows and determining the discount rate – note 13
- Inventories – allowance for slow-moving and obsolete inventory – note 16
- Trade and other receivables – allowance for expected credit loss – note 17
- Control assessment over subsidiary – note 18.5
- Fair value of share-based payments – estimate of the fair value of share rights – note 18.6
- Lease liabilities – incremental borrowing rate, reasonable certainty of renewal option exercise – note 19.2

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

3. Changes in accounting policies

Except for the adoption of amendments to IFRS 9, IAS 39, IFRS 7 and IFRS 16 as part of the IBOR reform project phase 2, the group did not change any accounting policies or adopt any new accounting standards during the year. This had no impact on the financial statements of the group.

4. Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the group

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective, and have not been adopted early by the group. Management anticipates that all of the relevant pronouncements will be adopted in the group's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new amendments that is expected to be relevant to the group's financial statements, is provided below. These amendments are not expected to have any material impact on the group's financial statements.

Standard	Details of amendments	Effective date
		Annual periods beginning on or after
IAS 1 <i>Presentation of Financial Statements</i>	■ Classification of Liabilities as Current or Non-current: Narrow-scope amendments to IAS 1 to clarify how to classify debt and other liabilities as current or non-current.	1 January 2023
(Amendment – <i>Classification of Liabilities as Current or Non-Current</i>)	■ In January 2020, the IASB issued amendments to IAS 1, which clarify how an entity classifies liabilities as current or non-current. The amendments initially had an effective date of 1 January 2022, however, in July 2020 this was deferred until 1 January 2023 as a result of the Covid-19 pandemic.	1 January 2023
	■ At the IFRS Interpretations Committee's December meeting, the Committee discussed the amendments due to feedback from stakeholders which indicated that the requirements of the amendments may be unclear.	
	■ These amendments are expected to have a significant impact on many entities, with more liabilities being classified as current, particularly those with covenants relating to borrowings.	
(Amendment – <i>Disclosure of Accounting Policies</i>)	■ The amendments require companies to disclose their material accounting policy information rather than their significant accounting policies, with additional guidance added to the Standard to explain how an entity can identify material accounting policy information with examples of when accounting policy information is likely to be material.	1 January 2023
<i>Conceptual Framework for Financial Reporting</i> (Amendments to IFRS 3)	■ In May 2020, the IASB issued amendments to IFRS 3, which update a reference to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations. The amendments are effective for annual reporting periods beginning on or after 1 January 2022. Earlier application is permitted.	1 January 2022
IAS 37 <i>Provisions, Contingent Liabilities and Contingent Assets</i> (Amendment – <i>Onerous Contracts – Cost of Fulfilling a Contract</i>)	■ In May 2020, the IASB issued amendments to IAS 37, which specify the costs a company includes when assessing whether a contract will be loss-making and is therefore recognised as an onerous contract. These amendments are expected to result in more contracts being accounted for as onerous contracts because they increase the scope of costs that are included in the onerous contract assessment.	1 January 2022
IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> (Amendment – <i>Definition of Accounting Estimates</i>)	■ The amendments clarify how companies should distinguish changes in accounting policies from changes in accounting estimates, by replacing the definition of a change in accounting estimate with a new definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty". The requirements for recognising the effect of a change in accounting estimate prospectively remain unchanged.	1 January 2023
IAS 12 <i>Income Taxes</i> (Amendment – <i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i>)	■ The amendment specifies how companies should account for deferred tax related to assets and liabilities arising from a single transaction. On transactions such as leases and decommissioning obligations. In specified circumstances, companies are exempt from recognising deferred tax when they recognise assets or liabilities for the first time. Previously, there had been some uncertainty about whether the exemption applied to transactions such as leases and decommissioning obligations – transactions for which companies recognise both an asset and a liability. The amendments clarify that the exemption does not apply and that companies are required to recognise deferred tax on such transactions.	1 January 2023

Notes to the annual financial statements continued

for the year ended 30 November 2022

R000	2022	2021
5. Revenue		
Turnover comprises		
Revenue from contracts with customers		
Sales of products	7 895 016	7 020 480
Rendering of services	256 387	237 607
	8 151 403	7 258 087
Timing of revenue recognition		
Goods and services transferred at a point in time	7 976 196	7 041 742
Goods and services transferred over time ⁽¹⁾	175 207	216 345
	8 151 403	7 258 087
⁽¹⁾ The remaining transaction price allocated to unsatisfied performance obligations will be satisfied within one year.		
Geographical disaggregation		
Goods and services sold in South Africa	7 348 687	6 711 410
Goods and services sold outside South Africa	802 716	546 677
	8 151 403	7 258 087
Refer to note 27 for further disaggregation of turnover.		
6. Operating expenses		
Operating expenses comprise		
Employee-related expenses	1 423 512	1 335 415
Property rentals under short-term operating leases	12 132	7 387
Depreciation – property, plant and equipment	49 039	45 824
Depreciation – right-of-use assets	118 402	107 711
Amortisation – intangible assets	6 989	11 045
Profit on disposal and scrapping of plant and equipment	(536)	(3 921)
Loss on scrapping of intangible assets	81	2 760
Acquisition costs – new businesses	389	1 058
Other expenses – including non-executive directors' fees	628 742	570 751
Allocated to cost of sales	(236 287)	(216 796)
	2 002 463	1 861 234

7. Fair value adjustments**Fair value of amounts due to vendors of businesses acquired**

Adjustment to estimated capital amounts due		9 835
Adjustment for time-value of money	(1 111)	
	(1 111)	9 835

8. Auditor's remuneration

Audit fees – current year	11 500	10 360
	11 500	10 360

9. Taxation**9.1 Taxation comprises**

South African normal taxation		
Current year	266 104	238 565
Prior years over provision	(5 726)	(4 208)
Deferred taxation		
Current year	(13 023)	(26 408)
Prior years under provision	2 440	6 406
Rate change	2 712	
Foreign normal taxation	4 180	4 109
	256 687	218 464

9.2 Reconciliation of rate of taxation

	%	%
Normal rate	28.0	28.0
Non-deductible holding company and other expenses	0.2	0.3
Prior year (over) under provision	(0.4)	0.3
Rate differential	0.1	0.4
Adjustment to capital amounts due to vendors		(0.4)
Learnership allowances	(0.6)	(0.1)
Rate change	0.3	
	27.6	28.5

Notes to the annual financial statements continued

for the year ended 30 November 2022

R000	2022	2021
10. Earnings, headline earnings and comparable earnings per share		
Calculation of headline earnings		
Profit attributable to equity holders of the parent	596 267	498 715
<i>Adjusted for:</i>		
Profit on disposal of plant, equipment and intangible assets	(455)	(1 161)
Tax effect	127	325
Non-controlling interest	67	133
Headline earnings	596 006	498 012
Calculation of comparable earnings		
Headline earnings as per above	596 006	498 012
<i>Adjusted for:</i>		
Fair value adjustment on capital amounts due from vendors of businesses acquired		(9 835)
Other income – proceeds from insurance claims	(27 210)	
Tax effect	7 619	
Non-controlling interest	2 938	1 475
Comparable earnings (Non-IFRS measure)	579 353	489 652
Earnings per share (cents)		
Basic	2 007	1 643
Diluted basic	1 927	1 610
Headline	2 007	1 641
Diluted headline	1 926	1 608
Comparable	1 951	1 613
Diluted comparable	1 873	1 581

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 29 701 990 (2021: 30 356 525) shares in issue during the year, taking account of shares held by a subsidiary.

Comparable earnings and comparable earnings per share are calculated, as the directors of the company believe these are more reliable measures of the ongoing trading performance of the group.

The calculation of diluted earnings per share is based on 30 938 436 (2021: 30 975 667) shares, being the weighted average number of shares in issue of 29 701 990 (2021: 30 356 525) plus 1 236 446 (2021: 619 142) 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 R140.00 (2021: R139.50) per share. The number of deemed free issue shares is the difference between the number of shares assumed to have been taken up and the number of shares that could have been acquired with such proceeds less the future IFRS 2 charge on the unvested rights, at the average market price per share.

11. Property, plant and equipment

R000	Freehold land	Buildings	Plant	Computer hardware	Motor vehicles	Other assets	2022 Total
Cost							
Opening balance	19 037	73 826	269 437	72 309	138 118	81 332	654 059
Derecognised/scrapped			(11 118)	(3 507)	(1 318)	(1 714)	(17 657)
Exchange differences			(5)	(76)	61	10	(10)
Acquisition of business			1 414	271	191	1 052	2 928
Additions		3 379	29 586	12 320	24 893	7 894	78 072
Disposals			(9 098)	(7 188)	(17 188)	(8 297)	(41 771)
Closing balance	19 037	77 205	280 216	74 129	144 757	80 277	675 621
Accumulated depreciation							
Opening balance		19 219	157 920	55 328	80 394	56 575	369 436
Derecognised/scrapped			(10 682)	(3 507)	(1 318)	(1 714)	(17 221)
Exchange differences			(14)	(100)	45	(2)	(71)
Acquisition of business			93	13	52	181	339
Depreciation for the year		2 061	16 995	8 803	13 636	7 544	49 039
Disposals			(7 952)	(6 600)	(13 568)	(6 936)	(35 056)
Closing balance		21 280	156 360	53 937	79 241	55 648	366 466
Net book value	19 037	55 925	123 856	20 192	65 516	24 629	309 155

R000	Freehold land	Buildings	Plant	Computer hardware	Motor vehicles	Other assets	2021 Total
Cost							
Opening balance	19 037	73 826	248 484	68 189	136 146	78 004	623 686
Exchange differences			57	11	89	20	177
Additions			26 129	13 322	20 441	9 577	69 469
Disposals			(5 233)	(9 213)	(18 558)	(6 269)	(39 273)
Closing balance	19 037	73 826	269 437	72 309	138 118	81 332	654 059
Accumulated depreciation							
Opening balance		17 484	147 363	55 930	82 291	55 208	358 276
Exchange differences			57	11	62	12	142
Depreciation for the year		1 735	14 954	8 435	13 076	7 624	45 824
Disposals			(4 454)	(9 048)	(15 035)	(6 269)	(34 806)
Closing balance		19 219	157 920	55 328	80 394	56 575	369 436
Net book value	19 037	54 607	111 517	16 981	57 724	24 757	284 623
The initial expected useful lives are set within these ranges (years):							
		20 – 40	3 – 25	2 – 10	3 – 10	3 – 25	
The remaining useful lives are set within these ranges (years):							
		11 – 35	2 – 20	1 – 10	1 – 8	1 – 19	

As the residual values and remaining useful lives are reassessed on an annual basis, there are assets outside these ranges. Details of freehold land and buildings are available at the registered office of the group.

Notes to the annual financial statements continued

for the year ended 30 November 2022

R000	2022	2021
12. Right-of-use assets		
Cost – Buildings		
Opening balance	628 736	533 235
Derecognised	(31 771)	(19 992)
Effect of reassessment of the probability that options to renew will be exercised	38 312	5 783
Acquisition	3 464	
Leases concluded during the year	36 730	109 710
Closing balance	675 471	628 736
Accumulated depreciation – Buildings		
Opening balance	206 674	118 955
Derecognised	(31 771)	(19 992)
Depreciation for the year – note 6	118 402	107 711
Closing balance	293 305	206 674
Net book value	382 166	422 062
The disclosure of the lease liabilities in respect of these assets is in note 19.2.		
13. Goodwill		
13.1 Goodwill comprises:		
Goodwill at cost	1 582 461	1 570 639
Accumulated impairment	(400 345)	(400 345)
	1 182 116	1 170 294
13.2 Movement for the year		
Balance at the beginning of the year	1 170 294	1 170 294
Acquisition during the year	11 822	
	1 182 116	1 170 294
The net book value of goodwill has been allocated to the following cash-generating units (CGUs):		
Partquip	249 747	249 747
Filter and Hose Solutions	226 784	226 784
MiRO	171 069	171 069
Eternity Technologies	157 838	157 838
Rutherford – Boltworld	66 016	66 016
Joseph Grieveson	55 834	55 834
The Dished End Company	51 212	51 212
Dosco Precision Hydraulics	40 932	40 932
Astore Keymak	24 397	24 397
Hydraulic Engineering Repair Services	22 850	22 850
Gear Pump Manufacturing	21 011	21 011
Specialised Battery Systems	14 955	14 955
Abes Technoseal	14 435	14 435
CADAC	11 822	
Varispeed	11 586	11 586
Three-D Agencies	9 968	9 968
Deltec	8 114	8 114
Brewtech Engineering	7 389	7 389
Powermite group	5 235	5 235
Ironman 4X4	3 400	3 400
Other	7 522	7 522
	1 182 116	1 170 294

13. Goodwill continued

13.2 Movement for the year continued

Goodwill arises on acquisitions because the cost of acquisitions includes amounts that are not recognised separately from goodwill as they do not meet the recognition criteria for identifiable intangible assets. These include premiums paid for control, amounts in relation to the benefit of expected synergies, revenue growth, future market development and diversification of revenue streams.

Goodwill arising in business combinations is allocated, at acquisition, to the CGUs acquired and those expected to benefit from that business combination. The group tests goodwill for impairment at least annually by estimating the recoverable amount of any CGU to which goodwill has been allocated. The recoverable amount of all significant amounts of goodwill are estimated by using the higher of the value-in-use method and the fair value less cost to sell. During the current year, all recoverable amounts were based on value-in-use.

A discounted cash flow valuation model is applied using five-year forecasts with terminal values, as all CGUs have an expected life beyond five years. Detailed budgets, prepared by the management of the CGU and approved by the Hudaco board, are used to determine the cash flow for the first year and are the quantification of strategies of the specific CGU. The process ensures that any significant risks and sensitivities are appropriately considered and factored into these forecasts. Key assumptions are based on industry-specific performance levels as well as economic indicators, especially forecast consumer price index increases, approved by the executive and their impact on turnover and operating margins. Assumptions are generally consistent with external sources of information and with past experience of the impact thereof on the group's cash flow. In the absence of specific factors or strategies that may be expected to have a significant impact on margins, it is assumed that these will remain unchanged from those of recent years.

Cash flows for the second and third years are forecast by applying individual estimated sustainable levels of growth for the specific businesses, taking into account the drivers of the economic sectors in which they operate and their expected impact on turnover and margins, their business strategies and the risks they face. For the fourth and fifth years and terminal value, cash flows are determined by using estimated sustainable growth levels of turnover for CGUs ranging from 5% to 9% and 5.0% (2021: 5% to 8% and 4.25%) per annum, respectively, which rates are considered reasonable in context of the industries in which they operate. Beyond the short-term, they are derived from the use of a common forecasting process followed across the group.

Discount rates applied to cash flow projections are based on a South African specific pre-tax weighted average cost of capital (WACC), which takes into account appropriate risk-free rates adjusted for market risk, company-specific risk, cost of debt and the relevant weighting between debt and equity. The WACC applied to CGUs ranges from 20.9% to 24.9% (2021: 16.5% to 21.3%). The increase in WACC is mainly attributable to an increase in the risk-free rate.

With the exception of Eternity Technologies, the calculated goodwill of all the other CGUs are well above the carrying values and would only be subject to an impairment if the assumptions are materially wrong. The two main factors affecting the calculated goodwill of Eternity are revenue growth and profit margins. Should the forecast revenue growth decrease by more than 1.28% each year for the next five years, there would be a risk of impairment. Similarly, should the terminal profitability decrease by more than 0.73%, there would be a risk of impairment.

The recoverable amounts for the goodwill of the most significant CGUs have been determined by using the following main inputs:

	Revenue growth (%)		Working capital growth (%)		Pre-tax discount rate (%)		Terminal growth rate (%)	
	2022	2021	2022	2021	2022	2021	2022	2021
Partquip	5 – 12	5 – 7	4 – 7	5 – 7	20.9	18.4	5.0	4.25
Filter and Hose Solutions	5 – 10	5 – 7	5 – 28	5 – 7	21.9	18.3	5.0	4.25
MiRO	5 – 10	5 – 11	-8 – 7	5 – 11	24.2	17.7	5.0	4.25
Eternity Technologies	5 – 29	5 – 17	-5 – 20	5 – 17	23.0	19.8	5.0	4.25

In the current year, the recoverable amounts determined for goodwill exceed the carrying values thereof.

Notes to the annual financial statements continued

for the year ended 30 November 2022

14. Intangible assets

R000	Customer relationships	Trade names	Computer software	2022 Total
Cost				
Opening balance	7 748		66 754	74 502
Derecognised	(6 467)		(3 854)	(10 321)
Acquisition of new business	2 538	11 452		13 990
Additions			5 816	5 816
Scrapping			(3 565)	(3 565)
Closing balance	3 819	11 452	65 151	80 422
Accumulated amortisation				
Opening balance	6 539		42 177	48 716
Derecognised	(6 467)		(3 854)	(10 321)
Scrapping			(3 484)	(3 484)
Amortisation for the year	1 319	640	5 030	6 989
Closing balance	1 391	640	39 869	41 900
Net book value	2 428	10 812	25 282	38 522

R000	Customer relationships	Trade names	Computer software	2021 Total
Cost				
Opening balance	30 290	19 306	63 174	112 770
Derecognised	(22 542)	(19 306)		(41 848)
Additions			6 423	6 423
Scrapping			(2 843)	(2 843)
Closing balance	7 748		66 754	74 502
Accumulated amortisation				
Opening balance	22 351	17 710	36 541	76 602
Derecognised	(19 542)	(19 306)		(38 848)
Scrapping			(83)	(83)
Amortisation for the year	3 730	1 596	5 719	11 045
Closing balance	6 539		42 177	48 716
Accumulated impairment				
Opening balance	3 000			3 000
Derecognised	(3 000)			(3 000)
Closing balance				
Net book value	1 209		24 577	25 786
The initial expected useful lives are set within these ranges (years):	4 – 10	3 – 20	1 – 35	
The remaining useful lives are set within these ranges (years):	1 – 9	2 – 19	1 – 9	

The costs attributable to intangible assets that were acquired as part of the acquisition of a business and the annual impairment reviews have been determined by valuation specialists and management, applying recognised valuation techniques and exercising judgement on the same basis as for goodwill, as described in note 13.

15. Deferred taxation

15.1 Deferred taxation comprises temporary differences arising from:

Capital allowances	(28 305)	(31 469)
Amounts due to vendors	(155)	
Intangible assets	(7 819)	(1 444)
Right-of-use assets	(102 487)	(115 206)
Lease liabilities	118 207	130 388
Allowance for expected credit loss	10 389	11 264
Leave pay, bonus accruals and share-based payments	86 334	79 256
Calculated tax loss		397
Fair value of cash flow hedges	2 949	(265)
Other	2 095	1 234
Net deferred taxation asset	81 208	74 155
Deferred taxation is reflected on the group statement of financial position as follows:		
Deferred tax assets	81 727	75 130
Deferred tax liabilities	(519)	(975)
	81 208	74 155

The deferred tax asset has been raised as it is probable that taxable profit will be available against which deductible temporary differences can be utilised.

15.2 Movement for the year

Balance at the beginning of the year	74 155	39 681
Arising on acquisitions during the year		
Amounts due to vendors	(472)	
Intangible assets	(3 917)	
Right-of-use assets	(970)	
Lease liabilities	970	
Allowance for expected credit loss	52	
Leave pay and bonus accruals	141	
Other	164	
Raised (utilised) during the year (including prior years under/over provision and rate change)		
Capital allowances	3 164	(1 867)
Amounts due to vendors	317	
Intangible assets	(2 458)	439
Right-of-use assets	13 689	(2 483)
Lease liabilities	(13 151)	6 519
Allowance for expected credit loss	(927)	(614)
Leave pay, bonus accruals and share-based payments	6 937	40 530
Calculated tax loss	(397)	(4 188)
Fair value of cash flow hedges	3 214	(564)
Other	697	(3 298)
	81 208	74 155
The movement has been recognised as follows:		
– in the current year tax charge (note 9)	7 871	20 002
– in other comprehensive income	2 950	(564)
– acquisition	(4 032)	
– directly in equity	264	15 036
	7 053	34 474

Notes to the annual financial statements continued

for the year ended 30 November 2022

R000	2022	2021
16. Inventories		
Finished goods and merchandise	2 253 991	1 910 401
Raw materials and components	53 340	40 873
Work in progress	48 076	52 832
	2 355 407	2 004 106
Cost of inventory recognised as an expense in cost of sales	4 923 431	4 354 139
Write-down of inventory to net realisable value and losses of inventory	15 185	51 668
Amounts removed during the year from the cash flow hedging reserve increasing the initial cost of inventories	25 528	1 070
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.		

17. Trade and other receivables

Trade receivables	1 259 520	1 097 462
Allowance for expected credit loss	(64 916)	(67 378)
Fair value of forward exchange contracts		13 645
Other receivables (including indirect taxes)	124 710	91 286
Pre-payments and deposits	46 480	109 492
	1 365 794	1 244 507

Allowance for expected credit loss

Balance at the beginning of the year	67 378	63 638
Exchange differences	(86)	31
Additional allowance charged to profit or loss	15 257	21 071
Allowance reversed to profit or loss	(8 764)	(1 706)
Allowance utilised	(8 869)	(15 656)
	64 916	67 378

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

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

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

	2022			2021		
	Expected credit loss rate	Total gross carrying amount	Expected credit loss	Expected credit loss rate	Total gross carrying amount	Expected credit loss
Ageing of trade receivables	%	R000	R000	%	R000	R000
Less than 30 days	1	809 538	9 123	1	659 602	7 442
31 to 60 days	2	264 082	4 266	2	234 443	4 074
61 to 90 days	4	70 077	2 723	3	86 323	2 603
91 to 120 days	6	31 992	2 030	13	31 312	4 022
121 days and more	42	46 687	19 402	31	50 204	15 453
Specifically impaired		37 144	27 372		35 578	33 784
		1 259 520	64 916		1 097 462	67 378

There is no significant concentration of credit risk in any one customer of the group. At 30 November 2022, of gross trade receivables of R1 260 million, there were only 19 customers across the group owing more than R5 million individually and together these comprised only 17% of the book, with the largest representing 4%.

18. Shareholders' equity

18.1 Authorised share capital

40 000 000 ordinary shares of 10 cents each	4 000	4 000
---	-------	-------

18.2 Issued share capital

32 519 720 (2021: 33 128 931) ordinary shares outstanding at the beginning of the year	3 252	3 313
928 740 (2021: 609 211) ordinary shares repurchased during the year	(93)	(61)
31 590 980 (2021: 32 519 720) ordinary shares	3 159	3 252
Less: 2 507 828 ordinary shares held by subsidiary company	(251)	(251)
Net 29 083 152 (2021: 30 011 892) ordinary shares outstanding at the end of the year	2 908	3 001

During the year the company repurchased 928 740 of its own shares for R133.2 million. Of these, 737 354 were withdrawn from the market and cancelled on 24 August 2022, 113 877 on 2 November 2022 and 77 509 on 29 November 2022, reducing the number of issued shares at year-end to 31 590 980 ordinary shares of which 2 507 828 are held by a subsidiary company. After year-end the company repurchased a further 695 000 shares at a total cost of R111.7 million. These shares were delisted and cancelled on 15 February 2023.

18.3 Unissued shares

4 003 000 unissued shares have been made available to the employee share incentive scheme although it is not policy to issue new shares to meet the obligations under the scheme (see note 18.6).

18.4 Non-distributable reserves

R000	Special reserve account	Cash flow hedging reserve	Foreign currency translation reserve	Equity compensation reserves	BEE transaction share-based payments	Total
Note		24.2.1				
Balance at 1 December 2020	332	(660)	(2 121)	88 510	37 326	123 387
Other comprehensive income for the year		1 269	2 108			3 377
Increase in equity compensation reserves				9 635		9 635
Balance at 30 November 2021	332	609	(13)	98 145	37 326	136 399
Less: Shares held by subsidiary company	(41)					(41)
Net balance at 30 November 2021	291	609	(13)	98 145	37 326	136 358
Balance at 1 December 2021	332	609	(13)	98 145	37 326	136 399
Other comprehensive income for the year		14 049	899			14 948
Transfer to cost of inventory		(21 424)				(21 424)
Increase in equity compensation reserves				28 308		28 308
Balance at 30 November 2022	332	(6 766)	886	126 453	37 326	158 231
Less: Shares held by subsidiary company	(41)					(41)
Net balance at 30 November 2022	291	(6 766)	886	126 453	37 326	158 190

Notes to the annual financial statements continued

for the year ended 30 November 2022

18. Shareholders' equity continued

18.5 Non-controlling interest

	2022		
	Ironman 4X4 Africa RF (Pty) Ltd ⁽¹⁾	Hudaco Trading (Pty) Ltd	DD Power Holdings (Pty) Ltd
R000			
Proportion of ownership held by non-controlling interests	50%	15%	30%
Turnover	53 013	8 120 597	374 031
Profit after tax for the year	12 651	355 730	62 417
Profit allocated to non-controlling interests for the year	6 325	53 360	18 725
Dividends paid to non-controlling interests for the year	(7 500)	(9 000)	(15 900)
Total comprehensive income for the year allocated to non-controlling interests	6 325	51 931	19 416
Accumulated equity allocated to non-controlling interests	13 881	96 594	48 526
Cash flow from operating activities	13 771	687 659	62 211
Cash flow from investing activities	(776)	(155 674)	(1 100)
Cash flow from financing activities	(16 574)	(571 936)	(53 000)
Non-current assets	15 110	2 618 050	7 027
Current assets	26 800	3 793 808	219 464
Non-current liabilities	8 136	4 130 584	603
Current liabilities	6 011	2 550 431	64 135
	2021		
	Ironman 4X4 Africa RF (Pty) Ltd ⁽¹⁾	Hudaco Trading (Pty) Ltd	DD Power Holdings (Pty) Ltd
R000			
Proportion of ownership held by non-controlling interests	50%	15%	30%
Turnover	41 812	7 230 975	309 461
Profit after tax for the year	5 440	230 628	44 139
Profit allocated to non-controlling interests for the year	2 720	34 595	13 249
Dividends paid to non-controlling interests for the year			(15 000)
Total comprehensive income for the year allocated to non-controlling interests	2 720	34 813	14 167
Accumulated equity allocated to non-controlling interests	15 056	53 633	45 010
Cash flow from operating activities	457	706 573	57 914
Cash flow from investing activities	(1 297)	(56 276)	(2 029)
Cash flow from financing activities	(1 139)	(630 987)	(50 000)
Non-current assets	11 362	2 607 605	7 203
Current assets	29 268	3 327 136	201 011
Non-current liabilities	3 995	4 014 600	1 053
Current liabilities	6 523	2 473 517	57 210

(1) The group has voting control of Ironman 4X4 Africa RF (Pty) Ltd by agreement between the shareholders.

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

18. Shareholders' equity continued

18.6 Employee share-based remuneration schemes

Senior employees, including executive directors, participate in two equity-settled share-based remuneration schemes. They are the share appreciation bonus scheme and the share matching scheme, in which only executive directors and nominated senior managers participate.

	Number of shares	
	2022	2021
000		
Shares currently available to be granted in terms of the share appreciation bonus scheme in the future ⁽¹⁾	1 580	1 656
Shares potentially required to meet obligations in terms of the share appreciation bonus scheme ⁽²⁾	1 085	391
Shares available	495	1 295

⁽¹⁾ Authorised at the annual general meeting held on 17 March 2022.

⁽²⁾ The number of shares varies in accordance with the Hudaco share price. This number has been calculated using the share price at year-end. Group policy is not to issue new shares but to acquire them on the open market.

Share appreciation bonus scheme

The following share appreciation bonus rights have been granted in terms of the scheme, an update of which was approved by shareholders in March 2011:

	Weighted average strike price in cents		Number of rights (000)	
	2022	2021	2022	2021
Rights not taken up at the beginning of the year	10 688	10 485	4 975	5 425
Rights granted during the year	14 650	12 491	770	861
Forfeited during the year	(9 532)	(11 314)	(49)	(768)
Rights exercised during the year	(11 395)	(10 630)	(547)	(543)
Rights not taken up at the end of the year	11 216	10 688	5 149	4 975
Already exercisable	12 202	11 522	1 468	1 473
First exercisable in the financial years ending:				
November 2022		12 930		590
November 2023	9 775	9 775	904	904
November 2024	9 674	9 674	984	984
November 2025	10 537	9 042	1 017	746
November 2026	13 534	12 491	536	278
November 2027	14 650		240	
	11 216	10 688	5 149	4 975

Participants in this scheme will receive a bonus, settled in Hudaco shares at market price, equal to the appreciation in the Hudaco share price between the date of grant (strike price) and the date of exercise, multiplied by the number of rights granted. It is Hudaco's policy to acquire these shares on the open market and not to issue new shares. Tranche 1 vests three years after grant, tranche 2 vests four years after grant and tranche 3 vests five years after grant. Each tranche must be taken up within four years of vesting.

For executive directors and nominated senior managers, the number of rights that may be taken up in each tranche is subject to performance tests. For other participants there are no performance tests. For rights awarded prior to 2015, the performance test was based on the growth in Hudaco's comparable earnings per share during the period exceeding inflation plus 5%. For rights awarded in 2015 and thereafter there are two performance tests. For full vesting, return on equity from date of the award until vesting date must be at least 18% per annum for 2015 to 2019, 17% for 2020 and 2021, and 15% for 2022, while comparable earnings per share growth must exceed inflation plus 3% for 2015 to 2021 and inflation for 2022. For the rights awarded in 2015 the two performance measures carry equal weighting. For those awarded in 2016 the weighting is 60% on return on equity and 40% on ceps growth, while for those awarded in 2017, 2018 and 2019 the weighting is 70% on return on equity and 30% on ceps growth and for those awarded in 2020, 2021 and 2022 the weighting is 50% each.

Notes to the annual financial statements continued

for the year ended 30 November 2022

18. Shareholders' equity continued

18.6 Employee share-based remuneration schemes continued

Share matching scheme

The following share matching rights have been granted in terms of the scheme that was introduced by the remuneration committee in January 2014:

	Weighted average strike price in cents		Number of rights (000)	
	2022	2021	2022	2021
Rights not taken up at the beginning of the year	9 190	10 997	753	287
Rights granted during the year	12 912	8 660	183	516
Rights forfeited during the year	(8 668)	(12 345)	(7)	(14)
Rights exercised during the year	(11 915)	(14 779)	(105)	(36)
Rights not taken up at the end of the year	9 674	9 190	824	753

130 550 of these shares are first exercisable in the financial year ending November 2023, 510 544 in the financial year ending November 2024 and the remaining 182 537 in the financial year ending November 2025.

Participants in the scheme will receive one Hudaco share for each right if they remain in Hudaco's employ and hold on to their shares for three years after the date on which they were acquired.

Cost of share-based payments

The estimated fair value of these rights was calculated at grant date using a modified binomial tree option pricing model with the following inputs:

Share appreciation bonus scheme

Date of grant	25 Jul 14	10 Jul 15	20 Jul 16	24 Jul 17	23 Jul 18	26 Jul 19	27 Jul 20	9 Jul 21	29 Jul 22
Number of rights granted	932 080	710 300	787 420	698 950	751 410	882 870	1 469 675	860 695	769 500
Rights forfeited/expired	(307 642)	(253 365)	(222 554)	(195 981)	(207 280)	(216 968)	(75 825)		
Rights taken up	(490 881)	(313 642)	(329 638)	(194 050)	(9 919)				
Rights still outstanding	133 557	143 293	235 228	308 919	534 211	665 902	1 393 850	860 695	769 500
Vested rights	133 557	143 293	235 228	308 919	354 255	188 239			
Unvested rights					179 956	477 663	1 393 850	860 695	769 500
Exercise price (R) – strike price (10-day VWAP)	92.04	125.24	102.93	125.10	149.51	117.27	68.37	124.91	146.50
Share price at grant date (R)	91.92	129.63	104.21	127.40	150.00	117.96	70.00	129.39	149.56
Expected volatility (%) ⁽¹⁾	21	21	28	28	27	27	29	31	31
Expected dividend yield (%)	4.6	4.3	4.8	4.7	4.1	5.5	8.3	4.9	6.3
Risk-free rate (%)	7.6	7.8	8.1	7.7	8.1	7.3	6.4	7.4	8.7
Vesting period (years)	3 to 5	3 to 5	3 to 5	3 to 5	3 to 5	3 to 5	3 to 5	3 to 5	3 to 5
Estimated fair value per right (R)	18.96	29.88	29.54	37.23	45.41	32.22	13.07	40.48	43.51

Share matching scheme

	2019	2020	2021	2022
Granted during				
Number of rights granted	115 878	133 386	515 976	182 537
Number of rights forfeited	(10 690)	(2 836)	(5 432)	
Number of rights exercised	105 188			
Unvested rights		130 550	510 544	182 537
Share price at grant date (R)	119.63	95.10	95.56	148.00
Expected volatility (%) ⁽¹⁾	27	29	31	31
Expected dividend yield (%)	5.5	8.3	4.9	6.3
Risk-free rate (%)	7.3	6.4	7.4	8.7
Vesting period (years)	3	3	3	3
Estimated fair value per right (R)	119.15	90.64	86.60	129.12

⁽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.

18. Shareholders' equity continued

18.6 Employee share-based remuneration schemes continued

Employee share-based payment expense included in operating profit arising from:

Share appreciation scheme	29 987	16 129
Share matching scheme	25 775	19 954
	55 762	36 083

19. Non-current liabilities

19.1 Amounts due to bankers

Unsecured borrowings on a R500 million general banking facility from FirstRand Bank Limited bearing interest at rates that vary between prime minus 2.00% and prime minus 1.85%.

250 000

Unsecured borrowings on a R500 million 21 months revolving credit facility from Absa Bank Limited, with an option to extend. The facility bears interest at a rate of JIBAR plus 1.44%.

250 000

100 000

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%.

250 000

500 000

Unsecured borrowings on a R600 million evergreen revolving credit facility from FirstRand Bank Limited and The Standard Bank of South Africa Limited (50% each). This facility has been cancelled.

30 000

For each of the facilities, the bank has the right to call it up on 367 days' notice and the primary financial covenants are that the interest cover to EBITDA ratio shall exceed 4:1 (RMB – 3.5:1) and the net debt to EBITDA ratio shall not exceed 2.5:1 (RMB – 3:1). At year-end these were 20.8:1 (2021: 27.5:1) and 0.5:1 (2021: 0.5:1), respectively. The basis of calculation for RMB is slightly different from the others.

750 000

630 000

19.2 Lease liabilities

Measurement of lease liabilities

440 786

476 687

Less: Payable within 12 months

110 202

104 355

330 584

372 332

In calculating the present value of lease payments, the group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. The discount rate applied to leases concluded during the year varied between 5.2% and 7.1% (2021: 4.77% and 4.96%), being the borrowing rate of the group at the time of entering a new lease agreement.

Lease liabilities mostly relate to warehouse and office facilities and represent the financial obligation of the group to make lease payments to landlords to use the underlying leased premises (right-of-use assets), during the lease term. The majority of leases cover an initial period of three to five years, and some include an option to renew on expiry. The lease term includes the renewal period only if the group has agreed terms with the landlord and the renewal contract is enforceable by both parties, and the probability of exercising the renewed option is reasonably certain.

Balance at the beginning of the year

476 687

454 346

New leases concluded during the year

36 730

109 710

Acquisition

3 464

Effect of reassessment of the reasonable certainty that extension options will be exercised

38 312

5 783

Interest charged to lease liability during the year

29 293

32 026

Repayments of principal and interest during the year (rent paid)

(143 700)

(125 178)

Balance at the end of the year

440 786

476 687

Notes to the annual financial statements continued

for the year ended 30 November 2022

R000	2022	2021
19. Non-current liabilities continued		
19.2 Lease liabilities continued		
The lease liability will be settled as follows:		
– during the year ending 30 November 2022		131 062
– during the year ending 30 November 2023	134 107	117 853
– during the year ending 30 November 2024	108 677	93 669
– during the year ending 30 November 2025	90 325	74 221
– during the year ending 30 November 2026	69 390	54 760
– during the year ending 30 November 2027	44 523	34 066
– during the year ending 30 November 2028 and thereafter	66 523	60 102
	513 545	565 733
Imputed interest	(72 759)	(89 046)
	440 786	476 687
The assets relating to the liabilities are disclosed in note 12.		
20. Trade and other payables		
Trade payables	870 511	920 561
Fair value of forward exchange contracts	19 389	
Payroll accruals	165 915	148 821
Indirect taxes	56 927	41 595
Other payables	208 916	160 881
	1 321 658	1 271 858
21. Dividends		
Dividends paid to equity holders of the parent were:		
Dividend number 69 of 520 cents per share declared on 3 February 2022	167 304	135 829
The record date was 4 March 2022 and the dividend was paid on 7 March 2022		
Dividend number 70 of 300 cents per share declared on 30 June 2022	97 258	78 539
The record date was 12 August 2022 and the dividend was paid on 15 August 2022		
Dividends paid to subsidiary company	(20 564)	(16 301)
	243 998	198 067
On 2 February 2023 the directors declared dividend number 71 of 625 cents per share, being the final dividend in respect of the year ended 30 November 2022. The record date will be 3 March 2023 and the dividend will be paid on 6 March 2023. This dividend has not been included as a liability in these financial statements.		
22. Notes to the statement of cash flows		
22.1 Increase in working capital		
Increase in inventories	(292 361)	(405 607)
Amounts from cash flow hedging reserve allocated to initial value of inventories	(943)	1 070
Increase in trade and other receivables	(83 390)	(52 092)
(Decrease) increase in allowance for expected credit loss	(2 772)	3 771
Exchange differences	99	(31)
Decrease in trade and other payables	34 864	335 655
Fair value of current year cash flow hedges included in working capital	(10 925)	943
	(355 428)	(116 291)
22.2 Taxation paid		
Net amounts owed at the beginning of the year	(32 116)	(13 376)
Current tax charge	(266 104)	(238 565)
Prior year over provision	5 726	4 208
Foreign tax charge	(4 180)	(4 109)
Net amounts owed at the end of the year	52 656	32 116
	(244 018)	(219 726)

22. Notes to the statement of cash flows continued

22.3 Acquisition of business

	CADAC 28 February 2022	
Effective date of control		
Fair value of net assets acquired:		
Plant and equipment	2 589	
Right-of-use assets	3 464	
Goodwill	11 822	
Intangible assets	13 990	
Inventories	58 940	
Trade and other receivables	35 125	
Trade and other payables	(14 936)	
Bank overdraft	(5 184)	
Lease liabilities	(3 464)	
Deferred taxation	(4 032)	
Net operating assets acquired	98 314	
Bank overdraft assumed	5 184	
Balance owed to vendors at acquisition date	(22 556)	
Net cash outflow on acquisition	80 942	
Profit after tax since acquisition date included in the consolidated results for the year	19 011	
Turnover since acquisition date included in the consolidated results for the year	235 428	
Group profit after tax had the business combinations been included for the entire year	676 657	
Group turnover had the business combinations been included for the entire year	8 191 750	

Refer to page 89 in the directors' report for further information.

22.4 Receipts from vendors of businesses acquired

Amounts owed at the beginning of the year		(488)
Acquisition during the year	(22 556)	
Amounts owed at the end of the year	23 667	
Adjustment to fair value of amounts due to vendors of businesses acquired	(1 111)	9 835
		9 347

22.5 Dividends paid

To equity holders of the parent	(243 998)	(198 067)
To non-controlling shareholders	(32 400)	(15 000)
	(276 398)	(213 067)

22.6 Net bank balances

Bank deposits and balances	226 641	223 305
Bank overdraft	(97 855)	(61 973)
	128 786	161 332

23. Commitments

The group has budgeted to spend R94 million (2022: R88 million) to acquire plant and equipment and computer software in 2023, none of which is committed or contracted for. A further R32 million is already contracted for in respect of the acquisition of property. Total capital expenditure will be financed by net cash flow from operations and the utilisation of unutilised borrowing facilities.

Notes to the annual financial statements continued

for the year ended 30 November 2022

R000	2022	2021
24. Financial instruments		
Details of the group's financial instruments are set out below:		
24.1 Summary of financial instruments		
Financial assets by class:		
Trade receivables – net	1 194 604	1 030 084
Trade receivables	1 259 520	1 097 462
Allowance for expected credit loss	(64 916)	(67 378)
Other receivables (excluding indirect taxes)	103 575	57 298
Pre-payments (excluding deposits)	37 546	103 176
Fair value of forward exchange contracts		13 645
Bank deposits and balances	226 641	223 305
	1 562 366	1 427 508
Financial assets by category:		
At amortised cost	1 562 366	1 413 863
Derivatives used for hedging at fair value		13 645
	1 562 366	1 427 508
Financial liabilities by class:		
Amounts due to vendors of businesses acquired	23 667	
Amounts due to bankers	750 000	630 000
Bank overdraft	97 855	61 973
Trade payables	870 511	920 561
Fair value of forward exchange contracts	19 389	
Other payables (excluding payroll accruals and indirect taxes)	208 916	160 881
	1 970 338	1 773 415
Financial liabilities by category:		
Financial liabilities at amortised cost	1 927 282	1 773 415
Financial liabilities at fair value through profit or loss	23 667	
Derivatives used for hedging at fair value	19 389	
	1 970 338	1 773 415

Forward exchange contracts are recognised at fair value in the statement of financial position. The fair value is indirectly derived from prices in active markets for similar liabilities, which means it is classified as a level 2 fair value measurement.

All other financial instruments are carried at amounts that approximate fair value. The fair values for bank deposits and balances, receivables, payables and bank overdraft approximate their carrying values due to the short-term nature of these instruments. The fair values have been determined by using available market information and appropriate valuation methodologies.

24.2 Market risk

24.2.1 Foreign currency risk

The group imports more than 70% of its inventories and consequently has significant exposure to currency risk arising from the volatility of the South African Rand against major currencies. Group policy is to use forward cover contracts to mitigate risk resulting from the future payment for goods where transactions are denominated in foreign currencies and to protect Hudaco's cash flows in the functional currency of ZAR. The Hudaco basket of currencies for the year ended 30 November 2022 was very typical for the group and comprised approximately 65% USD, 26% EUR, 5% YEN, 3% CNY and 1% GBP. Amounts for other currencies were insignificant. Management of foreign currency exposure is based on the principle of avoiding speculation and employing a hedging strategy designed to achieve high hedge effectiveness. All foreign currency liabilities are hedged directly by the time ownership of the asset passes to Hudaco, which is usually on bill of lading date.

In addition, on average about 30% of open orders on suppliers are also hedged directly to guard against spikes in exchange rates. Each business has its own mandate for covering orders varying from 0% to 100%. An important driver of the extent to which orders of a business are hedged is the opportunity to change selling prices between the time the order is placed on the supplier and the point at which a selling price is committed to the customer. It is understood that, in the context of Rand volatility, rather than the preferred gradual depreciation of the currency, this hedging strategy involves a risk of being locked in at weak exchange rates at times when the Rand strengthens. The FECs related to open orders are initially accounted for as cash flow hedges and once the related inventory and payable is recognised in the statement of financial position, the FECs are accounted for as fair value hedges.

24. Financial instruments continued

24.2 Market risk continued

24.2.1 Foreign currency risk continued

Hudaco's hedging policy has the objective of getting as close to 100% effectiveness as reasonably possible on the exposures that are hedged, and is designed accordingly. While Hudaco would consider 70% effectiveness of hedges to be acceptable because of vagaries in the supply chain, the targeted and actual effectiveness is expected to be above 90% for the group as a whole.

The hedge is assessed using the following criteria set out in IFRS 9:

- An economic relationship between the hedged item (payments to suppliers) and the hedging instrument (FEC in the same currency as the hedged item) exists in that the value attributable to the hedging instrument and to the hedged item move proportionately in opposite directions.
- Credit risk does not dominate value changes: Only the big four South African banks are used as counterparties, so credit risk is negligible and does not give rise to any value changes in the hedging relationship.
- The hedge ratio: The amount and nature of the hedged item and the amount of the hedging instrument are identical in all instances, except in the case of cancelled orders or short delivery. This results in a hedge ratio of 1:1 or 100%.

The above three criteria have been met and all hedges are effective.

The primary factor that could affect hedge effectiveness is the cancellation of orders or delays that are so long and unexpected or uncertain that an existing forward contract is used for a different transaction. The extent to which this happens is very small in the context of Hudaco's total imports.

Fair value hedges – during the year the group had entered into various forward exchange contracts to cover foreign currency liabilities. The cost of these fair value hedges amounted to R24.8 million (2021: R22.9 million). These contracts for the purchase forward currency will be utilised for the settlement of foreign accounts payable in the next year:

	Year-end spot rate R	Foreign amount 000	Contract rate R	Rand equivalent R000
US Dollar	16.92	17 330	17.38	301 257
Pound Sterling	20.31	167	20.50	3 422
Euro	17.57	7 468	17.69	132 109
Japanese Yen	8.23	237 317	8.06	29 438
Chinese Yuan	2.39	3 398	2.49	8 458
Other				307
Total cost of contracts				474 991
Rand equivalent, at year-end spot rates, of the foreign currency amounts in the above contracts				465 087
Fair value of forward exchange contracts on foreign accounts payable				9 904

The foreign currency liabilities covered by the forward exchange contracts above are as follows:

	Year-end spot rate R	Foreign amount 000	Rand equivalent R000
US Dollar	16.92	17 330	293 208
Pound Sterling	20.31	167	3 389
Euro	17.57	7 468	131 230
Japanese Yen	8.23	237 317	28 836
Chinese Yuan	2.39	3 398	8 122
Other			302
Total cost of contracts			465 087

Notes to the annual financial statements continued

for the year ended 30 November 2022

24. Financial instruments continued

24.2 Market risk continued

24.2.1 Foreign currency risk continued

Cash flow hedges – at 30 November 2022 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	16.92	11 138	17.76	197 787
Pound Sterling	20.31	87	20.47	1 775
Euro	17.57	3 644	17.90	65 238
Japanese Yen	8.23	88 184	8.15	10 824
Chinese Yuan	2.39	9 560	2.42	23 104
Other				18
Total cost of contracts				298 746
Rand equivalent, at year-end spot rates, of the foreign currency amounts in the above contracts				287 821
Loss recognised directly in equity on import orders				10 925
Taxation				(2 950)
Attributable to non-controlling shareholders				(1 209)
Attributable to equity holders of the parent (note 18.4)*				6 766

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

Significant export orders will also expose the group to currency risk. Group policy is to take forward cover on significant foreign currency accounts receivable (which effectively changes them from foreign to local currency assets). At 30 November 2022 the group had not entered into any forward exchange contracts relating to forecasted sale transactions and held the following exchange contracts in respect of foreign accounts receivable that will be utilised in the next year:

	Year-end spot rate R	Foreign amount 000	Contract rate R	Rand equivalent R000
US Dollar	16.92	3 189	17.32	55 241
Australian Dollar	11.38	493	11.67	5 753
Euro	17.57	26	17.73	457
Total cost of contracts				61 451
Rand equivalent, at year-end spot rates, of the foreign currency amounts in the above contracts				60 011
Fair value of forward exchange contracts on foreign accounts receivable				1 440

The group determines whether the forward exchange contracts being used in hedging transactions are indeed highly effective.

Hudaco's central treasury is responsible for the management of foreign currency exposure throughout the group. This is done within clear guidelines set by the board, and exposure and limits are reviewed at quarterly board meetings. There has been no change during the year to the group's approach to managing foreign currency risk.

24. Financial instruments continued

24.2 Market risk continued

24.2.1 Foreign currency risk continued

The group does not speculate in foreign currencies and hedging is only done where management is satisfied that there is a firm and ascertainable underlying commitment. As an element of control over input data, all information submitted is authorised by the chief financial officer of the business concerned.

The Rand remained volatile during 2022 and the conservative approach in the hedging policy was maintained so as not to expose the group to the continued volatility.

24.2.2 Interest rate risk

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

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

	Year of repayment	Interest rate %	2022 R000	2021 R000
Amounts due to bankers	2023	JIBAR plus premium	750 000	630 000

A change of 1% in the interest rate charged on non-current borrowings will affect profit after tax by approximately R5.4 million (2021: R4.5 million) per year and profit attributable to equity holders of the parent by R4.6 million (2021: R3.9 million).

24.3 Credit risk

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

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

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

The maximum credit risk to which the group is exposed is as follows:

R000	2022	2021
Trade receivables – net	1 194 604	1 030 084
Other receivables (excluding indirect taxes)	103 575	57 298
Pre-payments (excluding deposits)	37 546	103 176
Fair value of forward exchange contracts		13 645
Bank deposits and balances	226 641	223 305
	1 562 366	1 427 508

Notes to the annual financial statements continued

for the year ended 30 November 2022

24. Financial instruments continued

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 2022 were R1 447 million.

There is no restriction on borrowing powers in terms of the Memorandum of Incorporation and at 30 November 2022 the group's banking facilities substantially exceeded its forecast requirements for the forthcoming year.

The maturity profile of financial liabilities is as follows:

	Contractual cash flows during the year ending		
	Total	30 November 2023	30 November 2024 and thereafter
R000			
Amounts due to bankers	814 160	64 160	750 000
Lease liabilities	513 545	134 107	379 438
Bank overdraft	97 855	97 855	
Trade payables	870 511	870 511	
Other payables (excluding payroll accruals and indirect taxes)	208 916	208 916	
Amounts due to vendors	24 241	24 241	

	Contractual cash flows during the year ending		
	Total	30 November 2022	30 November 2023 and thereafter
R000			
Amounts due to bankers	661 028	31 028	630 000
Lease liabilities	565 733	131 062	434 671
Bank overdraft	61 973	61 973	
Trade payables	920 561	920 561	
Other payables (excluding payroll accruals and indirect taxes)	160 881	160 881	

24.5 Fair value of derivative financial instruments

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

R000	2022	2021
Cash flow hedges (note 24.2.1)	(10 925)	943
Fair value hedges (on import contracts of R465 million at year-end spot rates)	(9 904)	16 588
Fair value hedges (on export contracts of R60 million at year-end spot rates)	1 440	(3 886)
	(19 389)	13 645

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 interest-bearing debt not exceeding 2.0 times EBITDA.

In 2022 it was 1.8 times (2021: 0.5 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 interest-bearing debt less interest received. In 2022 it was 17.8 times (2021: 23.0 times) operating profit and 20.8 times EBITDA (2021: 27.5 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 R74.9 million (2021: R75.9 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 2022

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

	Direct Share register (own name)		Indirect Held by associates	
	2022	2021	2022	2021
SJ Connelly	274 139	274 139	1 680	1 680
CV Amoils	138 461	125 132	7 500	7 500
GR Dunford	313 860	291 712	407 212	647 212
LFJ Meiring	70 887	61 800		
	797 347	752 783	416 392	656 392

The direct shareholdings increased between 30 November 2022 and the date of the notice of the annual general meeting as follows:
CV Amoils 13 254 shares, GR Dunford 26 638 shares and LFJ Meiring 11 474 shares.

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 68 to 73 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 68 to 73 of the integrated report and non-executive directors' remuneration on page 74.

Notes to the annual financial statements continued

for the year ended 30 November 2022

27. Segment information

R million	Group		Head office, shared services and eliminations		Consumer-related products		Engineering consumables	
	2022	2021	2022	2021	2022	2021	2022	2021
Statement of net income								
Turnover ⁽¹⁾	8 151	7 258	(25)	(20)	4 269	3 777	3 907	3 501
EBITDA before other income	1 166	990	(110)	(88)	730	629	546	449
Other income – proceeds from insurance claims	27				5		22	
Depreciation less recoupments								
– property, plant and equipment	(49)	(42)	(1)	(2)	(21)	(23)	(27)	(17)
– right-of-use assets	(118)	(108)	(1)	(2)	(49)	(45)	(68)	(61)
Amortisation of intangible assets	(7)	(14)			(4)	(9)	(3)	(5)
Operating profit (loss) before fair value adjustments	1 019	826	(112)	(92)	661	552	470	366
Fair value adjustments	(1)	10			(1)	10		
Profit (loss) before interest	1 018	836	(112)	(92)	660	562	470	366
Statement of financial position								
Property, plant and equipment	309	285			84	84	225	201
Right-of-use assets	382	422		1	157	177	225	244
Goodwill	1 182	1 170			698	686	484	484
Intangible assets	39	26			21	10	18	16
Deferred taxation – net	81	74	69	59	5	10	7	5
Inventories	2 355	2 004			1 149	922	1 206	1 082
Trade and other receivables	1 366	1 245	46	18	700	656	620	571
Trade and other payables	(1 322)	(1 272)	(58)	(57)	(620)	(563)	(644)	(652)
Taxation – net	(53)	(32)	116	112	(104)	(95)	(65)	(49)
Net operating assets	4 339	3 922	173	133	2 090	1 887	2 076	1 902
Turnover comprises								
Revenue from contracts with customers	8 151	7 258	(25)	(20)	4 269	3 777	3 907	3 501
Sales of products	7 895	7 020	(25)	(20)	4 195	3 717	3 725	3 323
Rendering of services	256	238			74	60	182	178
Timing of revenue recognition	8 151	7 258	(25)	(20)	4 269	3 777	3 907	3 501
Goods and services transferred at a point in time	7 976	7 042	(25)	(20)	4 236	3 726	3 765	3 336
Goods and services transferred over time	175	216			33	51	142	165
Geographical disaggregation	8 151	7 258	(25)	(20)	4 269	3 777	3 907	3 501
Goods and services sold in South Africa	7 348	6 711	(25)	(20)	3 974	3 602	3 399	3 129
Goods and services sold outside South Africa	803	547			295	175	508	372
Additional information								
Average net operating assets ⁽²⁾	4 275	3 790	(40)	(101)	2 226	2 036	2 089	1 855
Capital expenditure	83	74			22	19	61	55
Operating profit margin (%)	12.5	11.4			15.5	14.6	12.0	10.4
Return on average net operating assets (%)	23.8	21.8			29.7	26.3	22.5	18.6
Number of permanent employees	3 536	3 593	24	23	1 724	1 608	1 788	1 962

⁽¹⁾ Of the R25 million (2021: R20 million) elimination, R22 million (2021: R19 million) relates to consumer-related products and the balance to engineering consumables.

⁽²⁾ The average is determined by using the monthly closing balances for 13 months.

No secondary segment information has been prepared as revenue and assets outside South Africa are less than 10% of the group total. The performance of operating segments is measured at operating profit level. Management of interest is centralised.

28. Related-party transactions

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

Hudaco has no holding company, nor is there a major shareholder that has significant influence over the group. Group companies have entered into transactions in the ordinary course of business with certain financial institutions that are also shareholders, or their affiliates. In the main, these transactions relate to property leases and financial services. All such transactions have been concluded under terms that are consistent with those entered into with third parties.

The company and its subsidiaries do have dealings with each other but these are eliminated on consolidation and are not dealt with in this note. A list of principal subsidiaries is provided on page 133.

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	2022	2021
Compensation of key management personnel (excluding non-executive directors)		
Short-term employee benefits	72 892	68 317
Value of long-term incentives awarded during the year	33 029	53 401
	105 921	121 718

In addition to the above, key management personnel exercised share appreciation rights during 2022 with a difference between the market price at exercise date and the strike price amounting to R8.5 million (2021: R4.1 million). The value of share matching rights maturing during the year was R13.8 million (2021: R3.1 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 68 to 73 of the integrated report and non-executive directors' remuneration on page 74.

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, Hudaco Power Transmissions, Dosco Precision Hydraulics, Gear Pump Manufacturing and Joseph Grieveson. Related party rentals paid in respect of these businesses are as follows:

R000	Expiry date	2022	2021
Ambro Steel	Feb 23	3 952	3 659
Hudaco Power Transmissions	Jun 24	2 737	2 479
Dosco Precision Hydraulics	Apr 27	2 045	2 020
Gear Pump Manufacturing	Jun 24	2 759	2 681
Joseph Grieveson	Jun 24	3 605	3 502

Before any lease is concluded with a related party, a third-party property expert is consulted to determine market related rental terms fair to both parties. Where a fairness opinion is required in terms of the JSE Listing Requirements, an additional independent expert is engaged to provide that opinion.

29. Events after reporting date

29.1 Dividends

Refer to note 21 for details of dividend 71 declared on 2 February 2023.

29.2 Repurchase of shares

After year-end the company repurchased 695 000 of its own shares at a total cost of R111.7 million. These shares were delisted and cancelled on 15 February 2023.

Company financial statements

for the year ended 30 November 2022

Hudaco Industries Limited

Statement of financial position

at 30 November 2022

R000	2022	2021
Assets		
Non-current assets		
Interest in subsidiaries (note 1)	92 275	92 275
Current assets		349 049
Amounts owed by subsidiaries (note 1)		348 459
Receivables		590
Total assets	92 275	441 324
Equity and liabilities		
Shareholders' equity	88 308	439 965
Current liabilities	3 967	1 359
Amounts owed to subsidiaries (note 1)	2 622	
Payables and taxation	1 345	1 359
Total equity and liabilities	92 275	441 324

Statement of comprehensive income

for the year ended 30 November 2022

R000	2022	2021
Dividends received from subsidiaries		
– Hudaco Investment Company (Pty) Ltd	51 000	
Operating costs	(4 895)	(4 394)
Profit before taxation	46 105	(4 394)
Taxation – prior years over provision		293
Profit (loss) after taxation	46 105	(4 101)

Hudaco Industries Limited

Statement of changes in equity

for the year ended 30 November 2022

R000	Share capital	Special reserve account	Retained income	Share-holders' equity
Note	3			
Balance at 1 December 2020	3 313	332	723 818	727 463
Loss after taxation			(4 101)	(4 101)
Repurchase of shares (note 3.2)	(61)		(68 968)	(69 029)
Dividends to shareholders			(198 067)	(198 067)
Dividends to subsidiary			(16 301)	(16 301)
Balance at 1 December 2021	3 252	332	436 381	439 965
Profit after taxation			46 105	46 105
Repurchase of shares (note 3.2)	(93)		(133 109)	(133 202)
Dividends to shareholders			(243 998)	(243 998)
Dividends to subsidiary			(20 562)	(20 562)
Balance at 30 November 2022	3 159	332	84 817	88 308

Statement of cash flows

for the year ended 30 November 2022

R000	2022	2021 Restated
Cash generated from operating activities		
Dividends received	51 000	
Operating costs paid	(4 895)	(4 394)
Decrease (increase) in working capital	576	(547)
Cash flow from operating activities	46 681	(4 941)
Cash flow from financing activities		
Repurchase of shares	(133 202)	(69 029)
Dividends paid	(264 560)	(214 368)
Cash flow from financing activities	(397 762)	(283 397)
Decrease in cash and cash equivalents	(351 081)	(288 338)
Cash and cash equivalent at the beginning of the year	348 459	636 797
Cash and cash equivalent at the end of the year*	(2 622)	348 459

* Group loan accounts have been reclassified as cash and cash equivalents in terms of IAS 7. Refer to note 6 for further details.

Company financial statements continued

for the year ended 30 November 2022

Notes to the company financial statements

for the year ended 30 November 2022

R000	2022	2021
1. Interest in and loans to subsidiaries		
Shares at cost less amounts written off	92 275	92 275
Loans (from) to subsidiaries (note 6)	(2 622)	348 459
	89 653	440 734
These loans are unsecured, interest-free and repayable on demand. The investment in a subsidiary company is carried at cost less impairment losses where applicable. The risk of default on the loans is considered to be highly unlikely and classified as stage 1 and therefore no allowance for expected credit loss has been raised. Details of subsidiaries are in note 5.		
2. Contingent liability		
The company has guaranteed the senior banking facilities of Hudaco Trading (Pty) Ltd, amounting to R750 million (2021: R630 million) at year-end. When allocating the risk to the various guarantors it is important to assess the structure of the transaction. The two primary guarantors within the structure are Hudaco Industries Limited and Hudaco Investment Company (Pty) Ltd. The difference in exposure of the two entities is, however, materially impacted by the intercompany loan between Hudaco Investment Company (Pty) Ltd and Hudaco Trading (Pty) Ltd. By acting as a guarantor Hudaco Investment Company (Pty) Ltd has structurally de facto subordinated itself to the lending banks. In the event of Hudaco Trading (Pty) Ltd defaulting, Hudaco Investment Company (Pty) Ltd will only be entitled to recover cash flows, against the intercompany loan, once the exposure to the banks has been settled. Given the structure above, Hudaco Industries Ltd will only be required to step in as guarantor if the cash flows realised from the Hudaco Trading (Pty) Ltd is not sufficient to settle the amounts due to the senior lenders. To assess the potential exposure of Hudaco Industries Limited the Loss Given Default was estimated after accounting for the structural de facto sub-ordination of the intercompany loan. The assessment resulted in a Loss Given Default of 0% indicating that Hudaco Industries Ltd has minimal exposure to a Hudaco Trading (Pty) Ltd default event. There has been no significant increase in credit risk.		
3. Share capital		
3.1 Authorised share capital		
40 000 000 ordinary shares of 10 cents each	4 000	4 000
3.2 Issued share capital		
32 519 720 (2021: 33 128 931) ordinary shares outstanding at the beginning of the year	3 252	3 313
928 740 (2021: 609 211) ordinary shares repurchased during the year	(93)	(61)
31 590 980 (2021: 32 519 720) ordinary shares outstanding at the end of the year	3 159	3 252
During the year the company repurchased 928 740 of its own shares for R133.2 million. Of these, 737 354 were withdrawn from the market and cancelled on 24 August 2022, 113 877 on 2 November 2022 and 77 509 on 29 November 2022, reducing the number of issued shares to 31 590 980 ordinary shares of which 2 507 828 are held by a subsidiary company. After year-end the company repurchased a further 695 000 shares at a total cost of R111.7 million. These shares were delisted and cancelled on 15 February 2023.		
4. Risk management		
Risk is managed under the same principles as set out in note 24 of the consolidated annual financial statements on pages 122 to 126 of this report. This include the amounts owed by subsidiaries of nil (2021: R348.5 million) which is classified as a cash and cash equivalent financial asset classified at amortised cost.		

5. Principal subsidiaries

	Interest of holding company						
	Issued share capital Rand	Group's effective interest		Book value of shares		Loans owing (to) by	
		2022 %	2021 %	2022 R000	2021 R000	2022 R000	2021 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	(2 622)	348 459
Ironman 4X4 Africa RF (Pty) Ltd ⁽⁴⁾	100	50 ⁽³⁾	50 ⁽³⁾				
DD Power Holdings (Pty) Ltd ⁽⁴⁾	300 000	70 ⁽²⁾	70 ⁽²⁾				
DD Power (Pty) Ltd ⁽⁴⁾	7 450 000	70	70				
Valhold Ltd	959 841	100	100	37 692	37 692		
Valard Ltd	874 149	100	100	6 423	6 423		
Interest in subsidiaries				92 275	92 275	(2 622)	348 459

⁽¹⁾ 15% of the shares in Hudaco Trading (Pty) Ltd are held by the following BEE shareholders: The Hudaco Trading Empowerment Trust Number 1 – 10%; The Hudaco Trading Empowerment Trust Number 2 – 5%.

⁽²⁾ 30% of the shares in DD Power Holdings (Pty) Ltd are held by Deutz AG, incorporated in Germany.

⁽³⁾ 50% of the shares in Ironman 4X4 RF (Pty) Ltd are held by Ironman 4X4 International (Pty) Ltd incorporated in Australia.

⁽⁴⁾ Indirectly held.

Refer to the group directory on pages 146 to 149 for a comprehensive list of all trading businesses.

A complete list of subsidiaries is available to shareholders on request at the registered office of the company.

6. Restatement: Reclassification of group loans and dividends paid in the statement of cash flows

The following amounts have been reclassified in the statement of cash flows of the company:

- The company does not have a day-to-day bank account. It utilises the loan accounts of subsidiary companies for operational matters. As these loan accounts can be called on demand without penalty and are readily convertible to a known amount of cash to meet the company's cash commitments, and are subject to an insignificant risk of change in value, they are classified as cash and cash equivalents. Consequently, movements in the group loan accounts have been reclassified in the statement of cash flows to movements in cash and cash equivalents. Previously, these movements were erroneously reflected as cash flows from investing activities.
- Dividends paid are reflected as financing activities to be consistent with the treatment in the group financial statements. Previously they were treated as operating activities.

These reclassifications have had no impact on the company's statement of comprehensive income, statement of financial position, or statement of changes in equity. The impact on the statement of cash flows is as follows:

R000	2021 as reported for the year ended 30 November 2021	2021 as reported for the year ended 30 November 2022
Dividends paid	(214 368)	
Cash flow from operating activities	(219 309)	(4 941)
Repayments of loans to subsidiaries	288 338	
Cash flow from investing activities	288 338	
Dividends paid		(214 368)
Cash flow from financing activities	(69 029)	(283 397)
Decrease in cash and cash equivalents		(288 338)
Cash and cash equivalents at the beginning of the year		636 797
Cash and cash equivalents at the end of the year		348 459

Shareholder information

Shareholder analysis	135
Share information	136
Notice of annual general meeting	137
Form of proxy	143
Corporate information	145
Shareholders diary	145
Group directory	146

Shareholder analysis

as at 30 November 2022

	Number of shareholders	Number of shares	% of issued shares
Shareholder analysis			
Portfolio size			
1 – 1 000 shares	2 983	756 779	2.60
1 001 – 5 000 shares	607	1 387 669	4.77
5 001 – 10 000 shares	106	788 023	2.71
10 001 – 100 000 shares	185	6 007 914	20.66
Over 100 000 shares	49	20 142 767	69.26
Total⁽¹⁾	3 930	29 083 152	100.00
Category			
Banks and nominee companies	46	2 884 304	9.92
Financial institutions and pension funds	631	21 884 790	75.25
Individuals	3 190	3 934 776	13.53
Other corporate bodies	63	379 282	1.30
Total⁽¹⁾	3 930	29 083 152	100.00
Shareholder spread			
Public shareholders	3 907	27 670 608	95.14
Non-public shareholders	23	1 412 544	4.86
Total⁽¹⁾	3 930	29 083 152	100.00

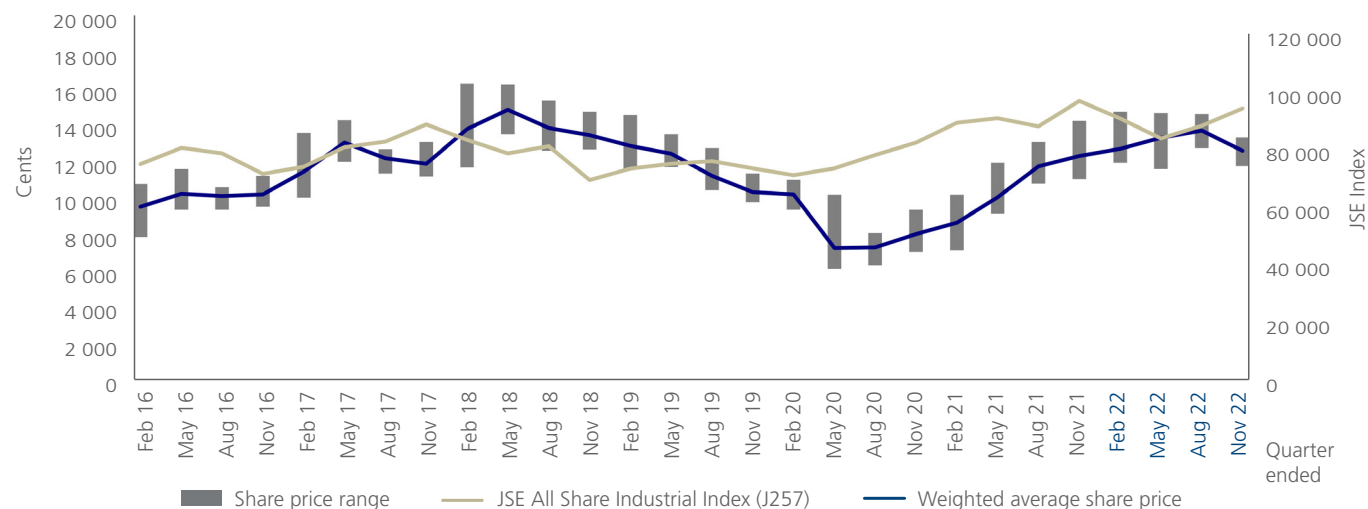
⁽¹⁾ Excludes 2 507 828 shares held by a subsidiary company.

Major shareholders

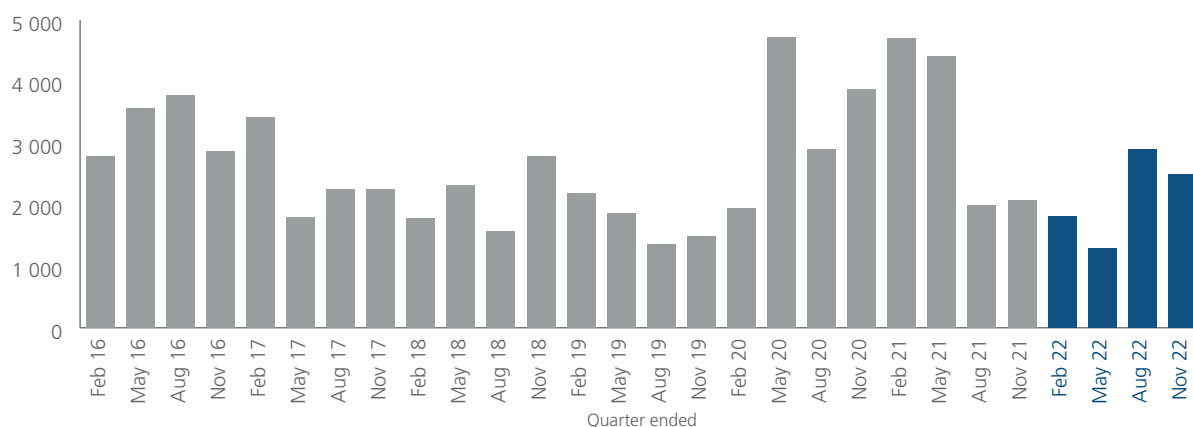
Beneficial shareholders holding more than 3%		
Public Investment Corporation GEPI	3 315 369	11.40
Ninety One Emerging Companies Fund	1 315 735	4.52
PSG Flexible Fund	1 139 663	3.92
Investec IAL Special Focus Fund	991 892	3.41
Fund managers holding more than 3%		
Public Investment Corporation	3 019 793	10.38
PSG Asset Management	2 848 831	9.80
Ninety One	2 307 969	7.94
Aylett & Co Fund Managers	1 788 889	6.15
Bateleur Capital	1 485 421	5.11
Abax Investments	1 446 568	4.97
Old Mutual Investments	1 410 036	4.85
Peregrine Capital	1 131 244	3.89
Sanlam Investments	1 006 528	3.46

Share information

Share price history



Volume of shares traded (000)



JSE statistics

	2022	2021	2020	2019	2018	2017	2016
Market price (cents)	14 000	13 950	8 550	10 808	14 200	13 600	10 850
NAV per share (cents)	10 647	9 541	8 470	8 666	7 927	7 252	6 525
Number of shares in issue (000)*	29 083	30 012	30 621	31 646	31 646	31 646	31 646
Market capitalisation (Rm)*	4 072	4 187	2 618	3 420	4 494	4 304	3 434
Price:earnings ratio (times)	7.7	9.1	8.1	8.4	10.9	11.0	9.3
All Share Industrial Index PE ratio (J257)	22.9	22.4	33.6	22.9	19.9	30.4	27.0
Dividend yield (%)	4.7	3.7	3.8	4.2	3.2	3.1	4.8
All Share Industrial Index dividend yield (J257) (%)	2.1	1.5	1.6	2.3	2.3	1.9	2.5

Annual trade in Hudaco shares

Number of transactions recorded	21 681	31 289	33 184	22 314	24 072	29 245	20 903
Volume of shares traded (000)	8 495	13 162	13 424	6 882	8 440	9 714	12 995
% of issued shares traded*	29	44	44	22	27	31	41
Value of shares traded (Rm)	1 191	1 377	1 041	863	1 272	1 234	1 341

* Excludes treasury shares.

Notice of annual general meeting

Hudaco Industries Limited

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

Notice to shareholders of the 38th annual general meeting (AGM) of Hudaco Industries Limited

Notice is hereby given that the 38th AGM of shareholders of the company for the year ended 30 November 2022 will be held at 11:00 on Thursday, 30 March 2023 in the boardroom at Hudaco's offices situated at Building 9, Greenstone Hill Office Park, Emerald Boulevard, Greenstone Hill, Edenvale. Registration for attendance will commence at 10:30.

Important dates and times ^{(1), (2)}	2023
Record date for determining which shareholders are entitled to receive the AGM notice	Friday, 17 February
Notice posted to shareholders on or about	Thursday, 23 February
Last day to trade to be eligible to participate and vote at the AGM	Monday, 20 March
Record date for attending and voting at the AGM ⁽³⁾	Friday, 24 March
AGM to be held at 11:00	Thursday, 30 March
Results of AGM to be released on SENS on	Thursday, 30 March

Notes

- (1) All times referred to in this notice are local times in South Africa.
- (2) Any material variation of the above dates and times will be announced on SENS.
- (3) The Hudaco board of directors (the board) has determined that the record date for the purpose of determining which shareholders are entitled to receive the AGM notice is Friday, 17 February 2023, and the record date for purposes of determining which shareholders of the company are entitled to participate and vote at the AGM is Friday, 24 March 2023. Accordingly, only shareholders who are recorded as such in the register maintained by the transfer secretaries of the company on Friday, 24 March 2023, will be entitled to participate in and vote at the AGM.
- (4) Kindly note that AGM participants (including shareholders and proxies) are required to provide satisfactory picture identification before being entitled to attend or participate at the AGM. Forms of satisfactory identification include valid identity documents, driver's licences and passports.

Business to be transacted

The purpose of the AGM is for the following business to be transacted and the following ordinary and special resolutions to be proposed:

1. Presentation of audited consolidated financial statements

To present the audited consolidated financial statements of the company (as approved by the board), as well as the reports of the external auditor, audit and risk management committee, social and ethics committee and directors for the financial year ended 30 November 2022, distributed as required.

Copies of the integrated report, which contains the full audited consolidated annual financial statements, for the year ended 30 November 2022 are obtainable from the company's website: www.hudaco.co.za or from the group secretary.

2. Ordinary Resolution Number 1: To re-elect directors retiring by rotation

To re-elect as directors, each by way of a separate vote, the following directors who are required to retire in terms of clause 21.6.1 of the company's Memorandum of Incorporation (MOI) and who are eligible and have offered themselves for re-election:

- 2.1 Ordinary Resolution Number 1.1: Re-election of Mr SJ Connelly;
- 2.2 Ordinary Resolution Number 1.2: Re-election of Ms D Naidoo; and
- 2.3 Ordinary Resolution Number 1.3: Re-election of Mr CV Amoils.

The nomination committee of the board has reviewed the composition of the board against corporate governance and transformation requirements and has recommended the re-election of the directors listed above. It is the view of the board that re-election of the candidates referred to above would enable the company to:

- responsibly maintain a mixture of business skills and experience relevant to the company and balance the requirements of transformation, continuity and succession planning; and
- comply with corporate governance requirements in respect of matters such as the balance of executive, non-executive and independent directors on the board.

Notice to annual general meeting *continued*

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 elect an alternate director appointed since the previous AGM

To elect as alternate director to Mr LFJ Meiring, Mr EJ Smith, appointed by the board during the course of the year and who is required to retire in terms of clause 21.2.6 of the company's MOI and who is eligible and has offered himself for election.

The nomination committee of the board has reviewed the composition of the board against corporate governance and transformation requirements and has recommended the election of Mr EJ Smith. It is the view of the board that the election of Mr EJ Smith 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.

A brief *curriculum vitae* of Mr EJ Smith is included on page 21 of the integrated report.

4. Ordinary Resolution Number 3: To approve the re-appointment of external auditors

To re-appoint Deloitte & Touche (Deloitte) as independent auditors of Hudaco and to note that the individual registered auditor who will undertake the audit for the financial year ending 30 November 2023 is Mr PWM van Zijl.

The audit and risk management committee of the company has concluded that the re-appointment of Deloitte will comply with the requirements of the Companies Act, 71 of 2008 (the Companies Act), the Companies Regulations 2011 and the JSE Listings Requirements and has accordingly nominated Deloitte for re-appointment as auditors of the company.

For Ordinary Resolution Number 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. Ordinary Resolution Number 4: 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 4.1: To elect Ms D Naidoo as member, subject to the passing of Ordinary Resolution Number 1.2;

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

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

Under the Companies Act the audit committee is a committee elected by the shareholders at each AGM. A brief *curriculum vitae* of each of the independent non-executive directors mentioned above appears on page 20 of the Hudaco integrated report.

The board has reviewed the proposed composition of the audit and risk management committee against the requirements of the Companies Act and the Companies Regulations 2011 and has confirmed that the proposed audit and risk management committee will comply with the relevant requirements and have the necessary knowledge, skills and experience to enable the committee to perform its duties in terms of the Companies Act. Accordingly, the board recommends the election of the directors listed above as members of the audit and risk management committee.

For Ordinary Resolution Numbers 4.1, 4.2 and 4.3 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.

6. 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 2023 until 31 March 2024, be and it is hereby approved as set out below:

R (excluding VAT)	Proposed 2023		Approved 2022	
	Base fee	Penalty for non-attendance	Base fee	Penalty for non-attendance
Board				
Chairman of the board	1 298 000	24 000	1 207 700*	22 000
Lead independent director	472 000	23 000	439 000	21 000
Board member	347 000	17 000	322 700	16 000
Audit and risk management committee				
Chairman of the committee	302 000	24 000	281 200	22 000
Committee member	167 000	17 000	155 500	16 000
Remuneration committee				
Chairman of the committee	212 000	24 000	197 000	22 000
Committee member	96 000	16 000	89 500	15 000
Nomination committee				
Chairman of the committee	*	17 000	*	16 000
Committee member	70 000	11 000	65 000	10 500
Social and ethics committee				
Chairman of the committee	196 000	24 000	182 500	22 000
Committee member	88 000	15 000	82 000	14 000

* All-inclusive fee.

The penalty incurred for non-attendance as chairman of a meeting would be paid to the member who stood in as chairman at that meeting.

The fee for additional meetings would be: Chairman – R35 000 (2022: R33 000) and member – R25 000 (2022: R23 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(1)(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 2023 until 31 March 2024. 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 74 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.

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

That shareholders endorse, through a non-binding advisory vote, Hudaco's remuneration policy. Hudaco's remuneration policy is set out on pages 64 to 67 of the Hudaco integrated report.

King IV as well as the JSE Listings Requirements require the board (with the assistance of the remuneration committee) to present Hudaco's remuneration policy to the shareholders. This non-binding resolution is of an advisory nature and failure to pass this resolution will therefore not have any legal consequences for existing arrangements. However, should the resolution be voted against by 25% or more of the voting rights exercised, the board undertakes to offer to engage with those opposed to the remuneration policy 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.

Notice to annual general meeting continued

8. 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 68 to 74 of its integrated report.

King IV as well as the JSE Listings Requirements require the board (with the assistance of the remuneration committee) to present Hudaco's remuneration implementation report to the shareholders. This non-binding resolution is of an advisory nature and failure to pass this resolution will therefore not have any legal consequences for existing arrangements. However, should the resolution be voted against by 25% or more of the voting rights exercised, the board undertakes to offer to engage with those opposed to the remuneration implementation report 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.

9. 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.

10. Special Resolution Number 3: General authority to repurchase up to 1 544 799 (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 1 544 799 (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 and full details of the programme have been submitted to the JSE in writing prior to the commencement of the prohibited period. Hudaco must instruct one independent third party, which makes its investment decisions in relation to the company's ordinary shares independently of, and uninfluenced by, Hudaco, 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 foregoing 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 135; and
- share capital – note 18 on page 115.

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 1 544 799 (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.

11. Ordinary Resolution Number 5: General authority to directors to allot and issue up to 1 544 799 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 5, 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 5 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 5.

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.

12. Ordinary Resolution Number 6 – 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 6 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.

Notice to annual general meeting *continued*

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, 24 March 2023.

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 Depository Participant (CSDP) or broker and wish to attend the AGM must instruct their CSDP or broker to provide them with their voting instruction in terms of the relevant custody agreement/mandate entered into between them and the CSDP or broker.

A form of proxy is attached but may also be obtained on request from the company's registered office. Completed forms of proxy should be returned to the transfer secretaries, Computershare Investor Services (Pty) Ltd, Rosebank Towers, 15 Biermann Avenue, Rosebank, 2196 (Private Bag X9000, Saxonwold, 2132), so as to reach them by no later than 11:00 on Tuesday, 28 March 2023. It may also be emailed to them at proxy@computershare.co.za. Any forms of proxy not submitted in this time may nevertheless be submitted to the transfer secretaries before the AGM or handed to the chairman of the AGM prior to the shareholder exercising any rights of a shareholder at the AGM.

Electronic participation

In terms of section 61(10) of the Companies Act, every shareholders' meeting of a public company must be reasonably accessible within South Africa for electronic participation by shareholders. Therefore, shareholders or their proxies may participate in a meeting by way of video conference if they wish to do so. In this event:

- Hudaco's company secretary must be contacted by email (at the address hudaco@acorim.co.za) by no later than 11:00 on Tuesday, 28 March 2023 in order to obtain dial-in details for participation;
- valid identification will be required:
 - if the shareholder is an individual, a certified copy of their identity document and/or passport;
 - if the shareholder is not an individual, a certified copy of a resolution by the relevant entity and a certified copy of the identity documents and/or passports of the persons who passed the relevant resolution, specifying the name of the individual that is authorised to represent the relevant entity at the AGM by way of video conference call as well as a valid email address and/or facsimile number; and
- no electronic voting facilities will be available so shareholders who wish to participate in the meeting by video conference and wish to vote are still required to submit their proxy forms in advance.

By order of the board



N Davies – Acorim Secretarial and Governance Services

Company secretaries

23 February 2023

Transfer secretaries

Computershare Investor Services (Pty) Ltd
Rosebank Towers, 15 Biermann Avenue
Rosebank, 2196
(Private Bag X9000, Saxonwold, 2132)

Form of proxy

To: **Computershare Investor Services Proprietary Limited**
Rosebank Towers, 15 Biermann Avenue, Rosebank, 2196
(Private Bag X9000, Saxonwold, 2132)
email: proxy@computershare.co.za

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

Proxy form for the 38th 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, 30 March 2023 at Hudaco's offices situated at Building 9, Greenstone Hill Office Park, Emerald Boulevard, Greenstone Hill, Edenvale, Gauteng at 11:00 (the annual general meeting).

I/We

of (address)

(PLEASE PRINT)

being the holder(s) of ordinary shares in the capital of the company, do hereby appoint (see note 2):

1 _____ or failing him/her

2 _____ or failing him/her

3 the chairman of the annual general meeting

as my/our proxy to act on my/our behalf at the annual general meeting, which will be held for the purpose of considering and, if deemed fit, passing, with or without modification, the resolutions to be proposed thereat and at any adjournment thereof, and to vote for and/or against the resolutions and/or abstain from voting in respect of all the above ordinary shares registered in my/our name/s, in accordance with the following instructions:

Please indicate with an "X" in the appropriate box below how you wish to vote.

	Number of ordinary shares		
	For	Against	Abstain
Resolution			
Ordinary Resolution Number 1: To re-elect directors retiring by rotation:			
1.1 SJ Connelly			
1.2 D Naidoo			
1.3 CV Amoils			
Ordinary Resolution Number 2: To elect an alternate director appointed since the previous AGM			
Ordinary Resolution Number 3: To approve the re-appointment of external auditors			
Ordinary Resolution Number 4: Appointment of the members of the audit and risk management committee:			
4.1 D Naidoo (subject to the passing of Ordinary Resolution Number 1.2)			
4.2 N Mandindi			
4.3 MR Thompson			
Special Resolution Number 1: Approval of non-executive directors' remuneration			
Non-binding Resolution Number 1: Approval of Hudaco's remuneration policy			
Non-binding Resolution Number 2: Approval of Hudaco's remuneration implementation report			
Special Resolution Number 2: Authorising the provision of financial assistance to subsidiaries			
Special Resolution Number 3: General authority to repurchase up to 1 544 799 of the ordinary shares (5% of the shares in issue)			
Ordinary Resolution Number 5: General authority to directors to allot and issue up to 1 544 799 authorised but unissued ordinary shares (5% of shares in issue)			
Ordinary Resolution Number 6: Signature of documents			

Signed at _____ on _____ 2023

Signature(s)

Assisted by me (where applicable)

Form of proxy continued

Notes

1. Shareholders who have dematerialised their shares through a Central Securities Depository Participant (CSDP) or broker must either inform their CSDP or broker of their intention to attend the annual general meeting to provide them with the necessary authority to attend or provide the CSDP or broker with their voting instruction in terms of the custody agreement entered into between the beneficial owner and the CSDP or broker.
2. A shareholder may insert the name of a proxy or the names of two alternative proxies of the shareholder's choice in the space provided. The person whose name appears first on the form of proxy and who is present at the annual general meeting will be entitled to act as proxy to the exclusion of those whose names follow.
3. A shareholder's instructions to the proxy must be indicated by "X" in the appropriate box provided on the proxy form. Failure to comply with the above will be deemed to authorise a proxy to vote or abstain from voting at the annual general meeting as he/she deems fit in respect of all the members' votes exercisable at the annual general meeting.
4. The completion and lodging of this form of proxy will not preclude the shareholder from attending the annual general meeting and speaking and voting thereat to the exclusion of any proxy appointed in terms hereof should the shareholder wish to do so (see note 1 above).
5. The chairman of the annual general meeting may reject or accept any proxy form that is completed and/or received, other than in accordance with these notes. Proxy forms received by way of facsimile will be acceptable.
6. Each shareholder is entitled to appoint one or more proxies (none of whom needs to be a shareholder of Hudaco) to attend, speak and vote in place of the shareholder at the annual general meeting.
7. Any alteration to this form of proxy, other than a deletion of alternatives, must be initialled by the signatories.
8. Documentary evidence establishing the authority of the person signing this form of proxy in a representative capacity must be attached to this form of proxy unless previously recorded by Hudaco.
9. Where there are joint shareholders:
 - (a) Any one shareholder may sign the form of proxy;
 - (b) The vote of the senior (for that purpose seniority will be determined by the order in which the names of shareholders appear in Hudaco's register of shareholders) who tenders a vote (whether in person or by proxy) will be accepted to the exclusion of the vote/s of the other joint shareholder/s.
10. For administrative purposes only, forms of proxy should be lodged with the transfer secretaries, Computershare Investor Services (Pty) Ltd, Rosebank Towers, 15 Biermann Avenue, Rosebank, 2196 or be posted to them at Private Bag X9000, Saxonwold, 2132, or emailed to them at proxy@computershare.co.za, by Tuesday, 28 March 2023, at 11:00 or thereafter to the company by hand at Hudaco's offices situated at Building 9, Greenstone Hill Office Park, Emerald Boulevard, Greenstone Hill, Edenvale, Gauteng. Any forms of proxy not submitted by this time may nevertheless be submitted to the transfer secretaries before the annual general meeting or handed to the chairman of the annual general meeting prior to the shareholder exercising any rights of a shareholder at the annual general meeting.
11. In terms of section 61(10) of the Companies Act, every shareholders' meeting of a public company must be reasonably accessible within South Africa for electronic participation by shareholders. Therefore, shareholders or their proxies may participate in a meeting by way of video conference if they wish to do so. In this event:
 - Hudaco's company secretary must be contacted by email (at the address hudaco@acorim.co.za) by no later than 11:00 on Tuesday, 28 March 2023 in order to obtain dial-in details for participation;
 - valid identification will be required:
 - if the shareholder is an individual, a certified copy of their identity document and/or passport;
 - if the shareholder is not an individual, a certified copy of a resolution by the relevant entity and a certified copy of the identity documents and/or passports of the persons who passed the relevant resolution, specifying the name of the individual that is authorised to represent the relevant entity at the AGM by way of video conference call as well as a valid email address and/or facsimile number; and
 - no electronic voting facilities will be available so shareholders who wish to participate in the meeting by video conference and wish to vote are still required to submit their proxy forms in advance.

Additional forms of proxy are available from the transfer secretaries on request.

Corporate information

Hudaco Industries Limited

(Incorporated in the Republic of South Africa)
(Registration number 1985/004617/06)
JSE share code: HDC
ISIN code: ZAE000003273

Registered and business address

1st Floor, Building 9
Greenstone Hill Office Park
Emerald Boulevard
Greenstone Hill, Edenvale
(Private Bag 13, Elandsfontein, 1406)
Tel: +27 11 657 5000
Email: info@hudaco.co.za
Website: www.hudaco.co.za

Secretary

Acorim Secretarial and Governance Services
13th Floor, Illovo Point
68 Melville Road
Illovo
Tel: +27 11 325 6363
Email: hudaco@acorim.co.za
Website: www.acorim.co.za

Transfer secretaries

Computershare Investor Services (Pty) Ltd
Rosebank Towers, 15 Biermann Avenue
Rosebank
(PO Box 61051, Marshalltown, 2107)
Tel: + 27 11 370 5000

Auditors

Deloitte & Touche
5 Magwa Crescent
Waterval City, Midrand

Bankers

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

Sponsor

Nedbank Corporate and Investment Banking, a division of
Nedbank Limited
135 Rivonia Road, Sandton
(PO Box 1144, Johannesburg, 2000)

Shareholders' diary

Financial year-end	30 November
Annual general meeting	30 March 2023

Reports and financial statements

Preliminary report and final dividend announcement	3 February 2023
Abridged financial statements and notice of annual general meeting (mailed to shareholders)	23 February 2023
Interim report and interim dividend announcement	Early July 2023

Dividend payment details

Payment of final dividend	6 March 2023
Payment of interim dividend	14 August 2023

Group directory

DIVISION	BUSINESS NAME	PRINCIPAL ACTIVITIES	ADDRESS
CONSUMER-RELATED PRODUCTS			
Power tools and fasteners	Rutherford	Distributor of Makita power tools, Mercury marine engines and survey instrumentation.	Unit 3A & B City Deep Industrial Park 36 Fortune Street City Deep
	Boltworld	Distributor of a comprehensive range of quality fasteners, including blind rivets, self-drilling screws, hexagonal bolts, nuts and washers.	Unit 3A & B City Deep Industrial Park 36 Fortune Street City Deep
Security and communication equipment	Elvey Security Technologies	Distributor of electronic security equipment, including intruder detection, access control, CCTV, fire detection, electric fencing and specialised products, as well as related consumables.	27 Greenstone Place Greenstone Hill Edenvale
	Pentagon	Distributor of integrated security and life safety solutions, including surveillance, access control, fire detection, public address and perimeter detection products.	27 Greenstone Place Greenstone Hill Edenvale
	Commercial ICT	Distributor of Permaconn mobile radio communication equipment and systems as well as hosting and support of core IT infrastructure and communication networks.	27 Greenstone Place Greenstone Hill Edenvale
	Global Communications	Distributor of professional mobile radio communication equipment and radio systems integrator.	27 Greenstone Place Greenstone Hill Edenvale
Data networking equipment	MiRO	Distributor of wireless IP convergence solutions, including network infrastructure, switches and routers, Wi-Fi and hotspot, enterprise wireless, fixed wireless broadband, carrier class wireless, antennas and masts, voice over IP and IP surveillance products.	9 Landmarks Avenue Kosmosdal Ext 11 Samrand
	SS Telecoms	Distributor of voice and data solutions.	9 Landmarks Avenue Kosmosdal Ext 11 Samrand
Automotive aftermarket	Abes Technoseal	Distributor of light and heavy duty clutch kits, ignition leads and rotary shaftseals to the automotive aftermarket and hydraulic and pneumatic seals to the industrial and construction equipment market.	3 Wankel Street Jet Park
	Partquip	Distributor of automotive spares and accessories.	61 Trump Street West Selby Johannesburg
	A-Line Wheels	Distributor of alloy and steel wheels.	61 Trump Street West Selby Johannesburg
	Ironman 4X4	Distributor of suspension and accessories to the 4X4 industry.	1 Voortrekker Road Alberante Alberton
Batteries and sustainable energy	Deltec Energy Solutions	Distributor of maintenance-free batteries for automotive, trucking, mining, stand-by, solar utility and electric vehicle applications and a provider of custom-designed energy solutions.	6 Liebenberg Street Alrode Alberton
	Eternity Technologies	Distributor of batteries, high frequency chargers and related battery equipment to the traction battery market. It also designs, builds and manages battery bays for warehouses and distribution centres.	192 Peenz Street Corner Pretoria Road Putfontein Benoni
	Hudaco Energy	Distributor of sustainable power and storage products and solutions, including solar inverters, PV panels, residential, commercial and industrial storage and balance of plant equipment.	6 Liebenberg Street Alrode Alberton
	Specialised Battery Systems	Distributor of stand-by and solar batteries.	23 Golden Drive Morehill Benoni
Gas and outdoor products	CADAC	Distributor of CADAC cooking, heating and outdoor products.	16 Constantia Boulevard Constantia Kloof Roodepoort
ENGINEERING CONSUMABLES			
Bearings, belting and power transmission	Bearings International	Distributor of bearings, chains, seals, electric motors, transmission and allied products.	Lancaster Commercial Park Cnr Merlin Rose & Lancaster Ivy Drives (off Atlas Road) Parkhaven Ext 5, Boksburg
	Belting Supply Services	Distributor of conveyor belting, industrial hose, fluid sealing and process control products.	12 Fortune Street City Deep
	Brewtech Engineering	Distributor of plastic and stainless steel slat chains and modular belting and conveyor components. Manufacturer of plastic engineering parts for machines used in food, bottling and mining industries.	12 Fortune Street City Deep
	Hudaco Power Transmissions	Distributor and repairer of geared and electric motors, industrial bevel helical transmissions and drive solutions.	72 Acacia Road Cnr Barbara Road Primrose, Germiston
Diesel engines and spares	Deutz Dieselpower	Distributor of DEUTZ diesel engines, DEUTZ spare parts, HJS exhaust gas aftertreatment systems and provider of service support.	5 Tunney Road Elandsfontein

CONTACT

EXECUTIVES

Tel	011 878 2600	Chris Pillay	Chief executive	Johan Kok	Divisional director	
Fax	011 873 1689	Arusha Matadin	Financial director	Jeanie Manson	Logistics director	
Email	info@rutherford.co.za	Carol Caunter Sean Hughes	Divisional director Divisional director	Melissa Swart	Financial manager	
Tel	011 878 2600	Chris Pillay	Chief executive	Kumarin Vandayar	Divisional director	
Fax	011 873 1689	Arusha Matadin	Financial director	Melissa Swart	Financial manager	
Email	info@rutherford.co.za					
Tel	011 401 6700	Jaco Moolman	Chief executive	Tasha Smith	Sales and marketing	
Fax	011 401 6753	Carlos Esteves	Financial director		director	
Email	sales@elvey.co.za					
Tel	011 401 6700	Jaco Moolman	Chief executive	Tasha Smith	Sales and marketing	
Fax	011 401 6753	Carlos Esteves	Financial director		director	
Email	info@pentagon.co.za					
Tel	010 590 6177	Jaco Moolman	Managing director	Carlos Esteves	Financial director	
Fax						
Email	sales@commercialict.co.za					
Tel	087 310 0400	Jaco Moolman	Managing director	Carlos Esteves	Financial director	
Fax	011 661 0387					
Email	info@globalcomms.co.za					
Tel	012 657 0960	Marco de Ru	Managing director	Jonathan Newton	Commercial director	
Fax		Shireen Pillay	Financial director			
Email	sales@miro.co.za					
Tel	012 664 4644	Marco de Ru	Managing director	Shireen Pillay	Financial director	
Fax						
Email	sales@sstelecoms.com					
Tel	011 397 4070	Danie Venter	Managing director	April Heath	Financial manager	
Fax	011 397 4326					
Email	info@abes.co.za					
Tel	011 634 7600	Lavern Jacobs	Managing director	Rajen Reddy	Logistics director	
Fax	011 493 3131	Chris de Kock	Financial director			
Email	info@partquip.co.za					
Tel	011 634 7600	Lavern Jacobs	Managing director	Rajen Reddy	Logistics director	
Fax	011 493 3131	Chris de Kock	Financial director	Malene Rizzo	Divisional director	
Email	info@alinewheels.co.za					
Tel	011 058 3026	Mic van Zyl	Divisional director	Chris de Kock	Financial director	
Fax	086 477 4201					
Email	info@ironman4x4.co.za					
Tel	011 864 7930	Carl Luther	Managing director	Nevish Rampersad	Sales director	
Fax	011 908 6154	Ataliah Matthew	Financial director			
Email	sales@deltec.co.za					
Tel	011 965 0575	Wayne Oosthuizen	Managing director	Michael Whitehead	Sales director	
Fax	011 252 6494	Juan Radley	Financial director	Schalk Taljaard	Divisional director	
Email	info@eternitytechnologies.co.za					
Tel	010 447 9864	James Shirley	Managing director	Ataliah Matthew	Financial director	
Fax						
Email	quicksupport@hudacoenergy.co.za					
Tel	011 425 3447	David Allman	Managing director	Masoabi Majingo	Financial manager	
Fax	011 425 4433					
Email	info@special-battery.co.za					
Tel	011 470 6600	Sedick Arendse	Managing director	Sonja du Buisson	Financial director	
Fax	086 614 7008					
Email	info@cadaca.co.za					
Tel	011 899 0000	Bart Schoevaerts	Managing director	Laura van Rooyen	Logistics director	
Fax	087 057 6122	Adam Walden	Financial director	Christian Chipamunga	General manager: end users	
Email	info@bearings.co.za					
Tel	011 610 5600	Mark Vorster	Managing director	Tom Harrison	HR director	
Fax	011 610 5700	Stephan Boshoff	Technical director	Mark Knight	Financial director	
Email	sales@belting.co.za					
Tel	011 708 0408	Mark Vorster	Managing director	Kenny Cook	Divisional director	
Fax	011 708 0415					
Email	sales@brewtech.co.za					
Tel	011 828 9715	Derek Gilmore	Managing director	Milton Nyamayaro	Financial manager	
Fax	011 822 4135	Andrew Mowat	Operations director			
Email	info@hpts.co.za					
Tel	011 923 0600	Maurice Pringle	Managing director	Nathan Kitchen	Branch network director	
Fax	086 687 9837	Avinash Ramnarain	Financial director	Steven Moss	Sales director	
Email	info@deutz.co.za					

Group directory *continued*

DIVISION	BUSINESS NAME	PRINCIPAL ACTIVITIES	ADDRESS
ENGINEERING CONSUMABLES continued			
Specialised steel	Ambro Steel	Distributor of engineering steels, solid, round, square, hexagonal and hollow bar steel.	Corner Lamp and Snapper Roads Wadeville
	Sanderson Special Steels	Distributor of special steels and of heat treatment to the tool making and general engineering industries.	18 Junction Street Parow Industria Cape Town
	Bosworth	Manufacturer of conveyor drive pulleys, forging and rollings.	Corner Vereeniging and Juyn Roads Alrode
	The Dished End Company	Manufacturer of end caps on pressure vessels and single pressed weld caps and the pressing and flanging of small conical sections.	30 North Reef Road Elandsfontein Germiston
	Joseph Grieveson	Manufacturer of ferrous and non-ferrous castings.	332 Aberdare Drive Phoenix Industrial Park Phoenix, Durban
Thermoplastic pipes and fittings	Astore Keymak	Distributor of specialised thermoplastic pipes, fittings and Keymak PVC hose.	Building B 1 Makro Place Sunnyrock, Germiston
Filtration	Filter and Hose Solutions	Distributor of filtration solutions, customised exhaust systems, kits and accessories.	160 Francis Road Anderbolt Boksburg North
Hydraulics and pneumatics	Dosco Precision Hydraulics	Distributor of hydraulic pumps and motors to the mining, industrial, mobile, marine and forestry industries.	6 Impangela Road Sebenza Ext 6 Edenvale
	Ernest Lowe	Manufacturer of hydraulic and pneumatic equipment.	6 Skew Road Boksburg North
	Gear Pump Manufacturing	Manufacturer and assembler of hydraulic gear pumps.	15 Moody Avenue Goodwood Cape Town
	Hydraulic Engineering Repair Services	Manufacturer and repairer of hydraulic cylinders and repairer of drivetrain components.	1 Setchell Road Roodekop Germiston
Electrical power transmission	Powermite	Distributor of electric cabling, plugs, sockets, electric feeder systems and crane materials.	Linbro Business Park 47 Galaxy Avenue Frankenwald, Sandton
	Proof Engineering	Distributor of mining connectors and lighting systems.	Linbro Business Park 47 Galaxy Avenue Frankenwald, Sandton
	Three-D Agencies	Distributor of electrical cable accessories.	Linbro Business Park 47 Galaxy Avenue Frankenwald, Sandton
	Varispeed	Distributor of controllers, monitors and regulators of the speed of standard AC motors.	Linbro Business Park 47 Galaxy Avenue Frankenwald, Sandton
GROUP			
Group head office	Hudaco Industries Hudaco Trading		Building 9 Greenstone Hill Office Park Emerald Boulevard Greenstone Hill Edenvale

CONTACT

EXECUTIVES

Tel	011 824 4242	Rolf Lung	Managing director	Elma Lottering	Financial director	
Fax	011 824 4864	Sifiso Tshabalala	Financial manager			
Email	info@ambro.co.za					
Tel	021 951 5311	Rolf Lung	Managing director	Elma Lottering	Financial director	
Fax	021 951 5316	Sifiso Tshabalala	Financial manager			
Email	info@sanderson.co.za					
Tel	011 864 1643	Gavin Hall	Managing director	Shalandra Sitharam	Financial manager	
Fax	011 908 5728					
Email	pulleys@bosworth.co.za					
Tel	011 822 4550	Kerry Liebenberg	General manager	Bathabile Mashigo	Financial director	
Email	kerry@tdec.co.za	Jennifer Graham	Financial manager			
Tel	031 507 3640	Darryl Meyer	Managing director	Nkululeko Nxumalo	Financial manager	
Fax	031 500 2687	Juan Radley	Financial director			
Email	sales@josgrieveson.co.za					
Tel	011 892 1714	Pranesh Maniraj	Managing director	Shinead Royan	Financial manager	
Fax	011 892 2781					
Email	info@astorekeymak.co.za					
Tel	087 150 6000	Reena Magan	Managing director	Bathabile Mashigo	Financial director	
Fax	011 894 5832					
Email	info@fhs.co.za					
Tel	011 452 5843	Mpumelelo Zulu	Managing director	Logan du Toit	Financial manager	
Fax	011 609 7955	Kavitha Bhawanideen	Financial director			
Email	info@dosco.co.za					
Tel	011 898 6600	Deon Krieger	Managing director	Kavitha Bhawanideen	Financial director	
Fax	011 918 3974					
Email	corporate@elco.co.za					
Tel	021 531 9330	Widor Grobbelaar	Managing director	Randy Pirtle	General manager – USA	
Fax	021 531 7096	Juan Radley	Financial director	Len Jacobs	Managing director – United Kingdom	
Email	sales@gearpumps.co.za	Jody Flores	Financial manager			
Tel	011 825 3690	Erik van der Linde	Managing director	Kavitha Bhawanideen	Financial director	
Fax	011 825 6152					
Email	sales@hers.co.za					
Tel	011 271 0000	Jacques van Rooyen	Managing director	Annelie du Toit	Financial manager	
Fax	011 271 0265	Vivek Maharaj	Financial director	Leon van der Vyver	Sales director	
Email	info@powermite.co.za					
Tel	011 824 1146	Donovan Marks	Operations director	Vivek Maharaj	Financial director	
Fax	011 824 1237					
Email	sales@proofholdings.co.za					
Tel	011 392 3804	Rohan Persadh	Managing director	Mark Jenkins	Sales director	
Fax	011 392 3812	Vanessa Naidoo	Financial manager			
Email	sales@three-d.co.za					
Tel	011 312 5252	Derek Gilmore	Managing director	Erika van de Velde	Financial director	
Fax	011 312 5262					
Email	drives@varispeed.co.za					
Tel	011 657 5000	Graham Dunford	Group chief executive	Louis Meiring	Executive director	
Fax	086 682 6779	Clifford Amoils	Group financial director	Cassie Lamprecht	Group accountant	
Email	info@hudaco.co.za	Gary Walters	Acquisitions manager	Rika Wessels-Bouwer	Group treasurer	
Website	www.hudaco.co.za	Esther Nkosi	Transformation and human resources executive	Sonia Liebenberg	Head of risk and internal audit	
				Firdaws Ismail	Group QHSE manager	
				Patrick Nkomo	Strategic projects	

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

