Unaudited interim results

for the six months ended
31 December 2020

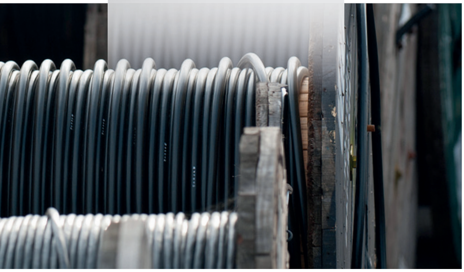
ARB Holdings Limited

MAKING THE RIGHT CONNECTION

www.arbhold.co.za

ARB Holdings Ltd ("ARB" or "the company" or "the group")
Registration number: 1986/002975/06 | Share code: ARH | ISIN: ZAE000109435

SALIENT POINTS



Revenue **up 5.3%** to R1.49bn (2019: R1.42bn)

Operating profit **up 59.2%** to R169m (2019: R106m)

Net profits after tax **up 28.9%** to R109m (2019: R85m)

Headline earnings per share ("HEPS") **up 25.9%** to 41.12 cents (2019: 32.65 cents)

In line with past practice, **no interim dividend** has been declared

Cash generated by trading activities **up 60%** to R182m (2019: R114m)

Net tangible asset value per share **up 9.6%** to 473.7 cents (2019: 432.4 cents)

R305m cash on hand (2019: R85m)

COMMENTARY

The board of directors of ARB ("the board") is pleased to present the group's interim results for the six months ended 31 December 2020 ("the period").

NATURE OF BUSINESS

ARB is an investment and property holding company that owns investments in related trading and distribution businesses. Major investment holdings include 74% of ARB Electrical Wholesalers, a level 2 BEE company that operates 20 electrical wholesale branches (June 2020: 22) throughout South Africa, and 60% of Eurolux, which imports and distributes light fittings, lamps and related accessories.

OVERVIEW OF THE PERIOD UNDER REVIEW

Key achievements during the period include significant improvements in operating profit and operating margin. The group's financial position is robust and its cash flow has been resilient in challenging circumstances. These results demonstrate ARB's ability to bounce back from adverse trading conditions, such as the Covid-19 lockdowns, and the ability of a highly experienced and skilled management team to reduce the costs of a largely fixed-cost business to maximise the operational leverage from an improvement in revenue and gross margin, resulting in enhanced returns to shareholders.

FINANCIAL REVIEW

The group delivered a strong performance for the period, increasing revenue by 5.3% to R1.49bn (2019: R1.42bn). This was largely due to ARB's trading environment despite the effects of the pandemic.

Operating profit also showed substantial improvement, increasing by 59.2% to R169.2m (2019: R106.3m) at an operating margin of 11.3% of revenue (2019: 7.5%). The gross margin increased from 25.1% to 26.5%, mainly attributable to increased margins in both major trading divisions.

Whilst ARB experienced some challenges in its supply chain, both locally and internationally, as a result of the second wave of the pandemic, having stock available proved to be a significant factor in the group's success during this period. While the group, particularly the lighting division, was overstocked at the June financial year end, this proved to be beneficial, not only in terms of having stock on hand, but also because the stock had been acquired at favourable rand/US dollar prices.

The group is committed to constantly reviewing its operating models and procedures to gain efficiencies and cost savings as market conditions change. Both divisions went through S189A retrenchment processes during the period and have frozen a number of vacant positions.

The new warehouse management system ("WMS") at the Lords View distribution centre went live on 14 December 2020 but, as is to be expected, it will take time to settle down and then be optimised. It is estimated that this process will take another six months. The group has been consistent in advising the market that the real benefits of this system will only be effective after June 2021.

Shareholders have been regularly advised that the valuation of the liability of the put options of minority shareholders in Eurolux is volatile, and may increase or decrease significantly in the short term, mainly due to changes in the share price. The put option revaluations are reflected as a significant charge of R20.8m on earnings during the period (in the prior comparative period, this was income of R6m); a combined negative change of R26.8m.

These put options are reflected as a current liability of R60m, an increase of 11% over the prior comparative period. This increase in the put option liability, and the associated charge to the income statement, is as a result of the improved earnings of the lighting division, and an increase in the valuation multiple to just over five. As explained previously, when operating profit increases, the put option valuation is likely to have a negative effect on earnings and vice versa. The CraigCor minority put option is exercisable from March 2023, and is reflected as a non-current liability.

The group's earnings per share ("EPS") for the six months to December 2020 increased by 24.8% to 41.02 cents per share (2019: 32.87 cents). Headline earnings per share ("HEPS") were up by 25.9% to 41.12 cents (2019: 32.65 cents).

The group has cash on hand of R304.7m (2019: R84.9m), a substantial increase over the prior comparable period of 259%. Cash generation has been very positive during the last six months, partly as a result of the improvement in working capital management, particularly with regards to stock levels in the lighting division; exceptional debtors' collections in the electrical division; cost savings and efficiencies, and of the conscious decision not to pay a dividend at year end to retain cash reserves during the uncertainty of the Covid-19 pandemic.

Management in both divisions have been active in debtors' collections, which mitigated initial concerns about the recoverability of debtors. However, this remains a concern, more particularly in the electrical division, given potential new adverse trading conditions and the reluctance of credit insurers to grant sufficient cover to meet the anticipated increased exposure that will arise on normal supplies to customers.

Credit insurers have actively reduced or withdrawn cover on many of the group's customers, and they have reduced the percentage of the cover from 90% to 75%, as well as increasing risk premiums substantially. This has predominantly affected the electrical division whose customers are more allied to the construction industry. The hardening of the credit insurance market has necessitated additional calculated credit risk in the electrical division, to support customers' increasing needs. This has not resulted in any material losses, nor has it affected the IFRS 9 expected credit loss charge for the period.

Net interest received decreased by 0.2% to R2.7m (2019: R2.7m) as a result of the significant decrease in interest rates during the period, offset by increased cash from operations.

ARB continues to take all appropriate actions to protect staff; preserve cash; defend its balance sheet and minimise its operating costs given the current circumstances. All health and safety requirements for the management of people to prevent or restrict Covid-19 transmissions are adhered to in all ARB operations. The stringent adherence to rules for the protection of employees is now a way of doing business at ARB.

The group continued to honour all of its supplier payments on time and in full during this period.

DIVISIONAL REVIEWS

The group is currently organised into three operating divisions, and this is the basis on which the group reports its primary segmental information. Principal activities are as follows:

- **Electrical:** distributors of electrical products across three main categories: power and instrumentation cable; overhead line equipment, and low voltage products;
- **Lighting:** distributors of halogen, fluorescent and energy saving LED lamps; light fittings and electrical accessories; and
- **Corporate:** property investment; specialist IT services; strategic and technical consulting, and group head office companies.

Electrical division: revenue increased by 5.0% and operating profit up 60.9%

The division comprises ARB Electrical Wholesalers, GMC Powerlines, ARB Global, CraigCor and CED. This division yielded a significant improvement in operating profit, mainly due to an improvement in the gross margin from trading, together with rationalisation and other cost-saving efforts, despite the lack of economic growth or infrastructure development in South Africa, and the lingering effects of Covid-19 and the associated lockdowns.

There was a robust improvement in sales of power cable during the period under review, although this is still below the level that the group is structured to supply due to the lack of infrastructure development in South Africa and increased competition from manufacturers. The division also experienced supply constraints from local manufacturers during the period as a result of the pandemic and the lockdowns.

Overhead line product sales remain unsatisfactory due to the inconsistent spend by Eskom on electrification projects and the equally sporadic spend on general electrification projects, which have been further hampered as a result of Covid-19, particularly in restricting contractors' staff availability to execute on contracts. Eskom-related work is now a significantly smaller portion of this business, although ARB remains committed to, and is fully capable of, servicing this market when it regains momentum.

Low voltage sales, which have benefited from the Connect model expansion in prior years, continue to improve and margins are being maintained on these products.

During the period, management undertook a number of right-sizing initiatives: closing two branches, retrenching surplus employees and freezing a number of vacant positions. Other initiatives included:

- assessing each branch's footprint with a view to reducing excess space;
- simplifying systems to reduce staff requirements;
- emphasising staff costs and time management; and
- conducting a thorough review of all expenditure and eliminating non-productive costs.

The implementation of the WMS at the Lords View distribution centre in Midrand is also expected to bear fruit by streamlining processes and reducing costs in the future once it is fully and effectively operational.

This division's focus on working capital is commendable and the business remains cash generative.

Lighting division: revenue increased by 5.8% and operating profit by 94.9%

The division comprises Eurolux, Radiant and Cathay Lighting. Profitability improved substantially over prior years largely due to the effects of the rationalisation from the integration of the Eurolux/Radiant facilities in Johannesburg, which is now starting to reflect significant savings.

The restructuring of the division is now finalised, with the right-sizing of the business for the next normal resulting in a substantial reduction in the cost base. This included the rationalisation of the Johannesburg warehouses, retrenchments, and a reduction in contract workers. In addition, transport costs have been put out to tender, which should result in further savings.

While the lighting division was previously overstocked, this position has positively affected the results in the period, and also resulted in a slight increase in market share. The stock has been reduced by almost R90m and is more balanced than at the end of June 2020. However, given the long procurement lead times of this business, stock management will continue to be a major focus.

Corporate division: revenue decreased by 4.9% and operating profit increased by 2.9%

This division comprises the property portfolio and Xact ERP Solutions business. The results are lower than last year as a result of reduction in rentals received during the lease renewals on 1 July 2020 but are in line with expectations as a result of Covid-19.

Xact ERP Solutions has generated additional revenue from the warehouse integration project, but this is reversed on the consolidation of the group results. It continues to develop a stand-alone identity relevant to its target market, and to show customer gains, but remains a small revenue and profit generator for the division.

CORPORATE ACTIVITY AND EXPANSION

Acquisitions remain part of the group's growth and expansion strategy and the board is cognisant of opportunities which present themselves. Potential to expand the product base in the electrical division are currently being evaluated, however the immediate focus is to ensure that the warehouse management system project implementation at the Lords View distribution centre is fully functional to generate the envisaged benefits and efficiencies, and to ensure that the integrated Eurolux and Radiant operation continues to runs optimally.

PROSPECTS

Even with the availability of vaccines globally, and the arrival of the first vaccines in South Africa in the first quarter of the 2021 calendar year, the duration and impact of the Covid-19 pandemic on our economy generally, and our customer base in particular, remains hard to determine. It is likely that the biggest challenge will be planning around any possible future waves of the pandemic. It appears that normality in markets and many aspects of daily life will only return in 2022, or thereafter. While the board indicated at the 2020 year end that it would take two to three years for life to normalise, ARB is cognisant of the fact that leading economists believe that it could take 48 months of growth just for the South African economy to revert to 2019 levels.

Fortunately, the return to level 3 restrictions in December 2020 were not as restrictive from a business perspective, but certainly any Government, Eskom or large project work in South Africa has slowed down substantially, so the visibility for planning purposes remains low.

As mentioned, credit control is facing pressure from credit insurers, who are cutting cover limits, increasing co-insurance levels and charging increased premiums. The latter will aggravate the risk of credit loss to the group and could hamper revenue generation as ARB limits its credit risk exposure. However, the group remains committed to ensuring that it maintains sustainable operations capable of taking advantage of any short- or medium-term improvements in the South African economy.

Furthermore, the group has restructured its cost base to be profitable at these trading levels and this bodes exceptionally well for ARB in the short to medium term. ARB is strongly positioned to service the electrical needs of southern Africa, which will provide above average long-term growth and returns, as the continent increases its electricity generation and usage.

ARB has significant financial resources; geographical footprint; distribution capability and a well-established management team that can lead the business into the future.

These interim statements, including these prospects have neither been audited nor reviewed by the company's auditors.

CONDENSED GROUP STATEMENT OF COMPREHENSIVE INCOME

	% change	**Six months to 31 December 2020 (R000's)**	Six months to 31 December 2019 (R000's)	Audited year to 30 June 2020 (R000's)
Revenue	5.3	**1 493 804**	1 418 026	2 352 995
Cost of sales	3.4	**(1 097 681)**	(1 061 569)	(1 765 391)
Gross profit	11.1	**396 123**	356 457	587 604
Other income	(10.2)	**2 180**	2 427	10 912
Selling, administration and distribution expenses	(9.3)	**(229 069)**	(252 597)	(452 620)
Operating profit	59.2	**169 234**	106 287	145 896
Write-off of trademarks, goodwill and asset impairments		**–**	–	(76 006)
Change in put option valuation		**(20 859)**	6 000	33 003
Profit before interest and taxation	32.1	**148 375**	112 287	102 893
Net interest received	(0.2)	**2 740**	2 744	3 774
Profit before taxation	31.4	**151 115**	115 031	106 667
Taxation	38.1	**(42 072)**	(30 457)	(13 352)
Profit for the period	28.9	**109 043**	84 574	93 315
Items that will not be recycled into profit or loss				
– Revaluation of property, plant and equipment (net of taxation)		**–**	–	(4 449)
Total comprehensive income for the period	28.9	**109 043**	84 574	88 866
Profit for the period attributable to:		**109 043**	84 574	93 315
– Non-controlling interests ("NCI")	72.4	**12 639**	7 332	9 472
– Ordinary shareholders	24.8	**96 404**	77 242	83 843
Total comprehensive income attributable to:		**109 043**	84 574	88 866
– Non-controlling interests ("NCI")	72.4	**12 639**	7 332	9 472
– Ordinary shareholders	24.8	**96 404**	77 242	79 394

RECONCILIATION BETWEEN EARNINGS AND HEADLINE EARNINGS

	% change	**Six months to 31 December 2020 (R000's)**	Six months to 31 December 2019 (R000's)	Audited year to 30 June 2020 (R000's)
Profit for the period attributable to ordinary shareholders		**96 404**	77 242	83 843
Impairment of trademarks and goodwill		**–**	–	66 447
Impairment of buildings and Right-of-use assets		**–**	–	9 310
Profit on disposal of property, plant and equipment		**421**	(762)	326
Total tax effects of adjustments		**(118)**	(34)	(16 651)
Total NCI effects of adjustments		**(75)**	278	(2 359)
Headline earnings		**96 632**	76 724	140 916
Number of ordinary shares in issue (000's)		**235 000**	235 000	235 000
Weighted average number of ordinary shares in issue (000's)		**235 000**	235 000	235 000
Basic earnings per share (cents)*	24.8	**41.02**	32.87	35.68
Headline earnings per share (cents)*	25.9	**41.12**	32.65	59.96

** There are no dilutive instruments in issue.*

CONDENSED GROUP STATEMENT OF FINANCIAL POSITION

	% change	Six months to 31 December 2020 (R000's)	Six months to 31 December 2019 (R000's)	Audited year to 30 June 2020 (R000's)
ASSETS				
Property, plant and equipment	22	**530 700**	435 093	429 587
Right-of-use assets		**63 793**	69 675	69 817
Intangible assets	(87)	**10 000**	76 447	10 000
Deferred taxation		**18 771**	6 809	19 480
Total non-current assets		**623 264**	588 024	528 884
Current assets		**1 180 953**	1 078 782	1 105 047
Inventory	(16)	**525 436**	627 989	599 412
Trade and other receivables	(4)	**350 857**	365 936	353 679
Cash resources	259	**304 660**	84 857	151 956
Total assets		**1 804 217**	1 666 806	1 633 931
EQUITY AND LIABILITIES				
Share capital and premium		**116 174**	116 174	116 174
Revaluation reserve		**70 729**	75 178	70 729
Accumulated profits		**952 523**	849 891	856 119
Attributable to ordinary shareholders		**1 139 426**	1 041 243	1 043 022
Non-controlling interests		**150 033**	135 306	137 394
Total shareholder's funds		**1 289 459**	1 176 549	1 180 416
Non-current liabilities		**183 212**	135 713	96 517
Put option liability		**5 000**	20 000	4 000
Right-of-use lease obligations		**59 372**	71 278	64 513
Long-term loans		**91 912**	–	–
Deferred taxation	(39)	**26 928**	44 435	28 004
Current liabilities	(6)	**331 546**	354 544	356 998
Trade and other payables	(7)	**219 191**	236 472	260 009
Short-term lease obligations		**14 526**	19 952	15 898
Put option liability	11	**60 000**	54 000	40 000
Short-term loans		**19 208**	38 851	38 753
Taxation payable	253	**18 621**	5 269	2 338
Total equity and liabilities		**1 804 217**	1 666 806	1 633 931

	Six months to 31 December 2020 (R000's)	Six months to 31 December 2019 (R000's)	Audited year to 30 June 2020 (R000's)
Net asset value per share (cents)	**484.86**	443.08	443.84
Net tangible asset value per share (cents)	**473.73**	417.39	432.40
Property, plant and equipment			
Capital expenditure for the period	**104 093**	34 058	51 918
Right-of-use assets acquired in the period	**4 329**	5 007	5 041
Capital commitment – Radiant Properties	**–**	88 000	88 000
Capital commitments – contracted for	**3 600**	7 520	89
Capital commitments – not contracted for	**3 600**	6 725	6 359
Depreciation and amortisation	**(12 722)**	(15 349)	(42 474)

CONDENSED GROUP STATEMENT OF CASH FLOWS

	% change	**Six months to 31 December 2020 (R000's)**	Six months to 31 December 2019 (R000's)	Audited year to 30 June 2020 (R000's)
Cash generated by trading activities	60	**182 377**	114 341	192 272
Change in net working capital	(137)	**35 981**	(98 088)	(56 881)
Cash generated by operating activities	1 243	**218 358**	16 253	135 391
Net interest received	(11)	**6 810**	7 636	12 848
Dividends paid		**–**	(62 000)	(62 000)
Taxation paid	(6)	**(26 154)**	(27 770)	(40 363)
Cash flows from operating activities	(402)	**199 014**	(65 881)	45 876
Cash flows from investing activities	253	**(18 363)**	(30 152)	(46 239)
Cash flows from financing activities		**(27 947)**	–	(28 571)
Increase in cash resources	259	**152 704**	(96 033)	(28 934)
Cash resources at the beginning of the period	(16)	**151 956**	180 890	180 890
Cash resources at the end of the period	259	**304 660**	84 857	151 956

CONDENSED GROUP STATEMENT OF CHANGES IN EQUITY

	Share capital and premium	Revaluation reserve (R000's)	Accumu-lated profit (R000's)	Non-controlling interests (R000's)	Total (R000's)
Balance at 30 June 2019 (audited)	116 174	75 178	831 120	133 691	1 156 163
Impact of adopting IFRS 16	–	–	279	(2 467)	(2 188)
Balance at 30 June 2019 (restated)	116 174	75 178	831 399	131 224	1 153 975
Total comprehensive income	–	–	77 242	7 332	84 574
Dividends paid	–	–	(58 750)	(3 250)	(62 000)
Balance at 31 December 2019 (unaudited)	116 174	75 178	849 891	135 306	1 176 549
Total comprehensive income	–	(4 449)	6 228	2 088	3 867
Balance at 30 June 2020 (audited)	**116 174**	**70 729**	**856 119**	**137 394**	**1 180 416**
Total comprehensive income	**–**	**–**	**96 404**	**12 639**	**109 043**
Dividends paid	**–**	**–**	**–**	**–**	**–**
Balance at period end (unaudited)	**116 174**	**70 729**	**952 523**	**150 033**	**1 289 459**

SUMMARISED GROUP SEGMENT REPORT

	Electrical (R000's)	Lighting (R000's)	Corporate (R000's)	Inter-Co (R000's)	Total (R000's)
Six months to 31 December 2020					
Segment revenue	1 090 259	419 006	39 245	(54 706)	1 493 804
Depreciation and amortisation	25 343	5 338	803	(18 762)	12 722
Operating profit/(loss)	94 676	54 213	27 271	(6 926)	169 234
Change in put option liability	–	–	(859)	(20 000)	(20 859)
Profit before interest and tax	94 676	54 213	26 412	(26 926)	148 375
Net interest (paid)/received	(4 369)	(12 608)	8 617	11 100	2 740
Profit before tax	90 307	41 605	35 029	(15 826)	151 115
Segment assets	1 085 353	634 326	639 098	(554 560)	1 804 217
Segment liabilities	(473 040)	(385 384)	(100 942)	444 608	(514 758)
Net segment assets	612 313	248 942	538 156	(109 952)	1 289 459
Enterprise-wide disclosure (geographical)					
Exports (mainly sub-Saharan Africa)	75 104	27 643	–	–	102 747

	Electrical (R000's)	Lighting (R000's)	Corporate (R000's)	Inter-Co (R000's)	Total (R000's)
Six months to 31 December 2019					
Segment revenue	1 038 585	395 940	41 269	(57 768)	1 418 026
Depreciation and amortisation	30 006	2 924	825	(18 406)	15 349
Operating profit/loss	58 847	27 817	26 512	(6 889)	106 287
Change in put option liability	–	–	(897)	6 897	6 000
Profit before interest and tax	58 847	27 817	25 615	8	112 287
Investment income	–	–	39 250	(39 250)	–
Net interest (paid)/received	(3 725)	(13 858)	7 560	12 767	2 744
Profit before tax	55 122	13 959	72 425	(26 475)	115 031
Segment assets	1 055 576	573 077	534 010	(495 857)	1 666 806
Segment liabilities	(519 380)	(359 060)	(30 327)	418 510	(490 257)
Net segment assets	536 196	214 017	503 683	(914 367)	1 176 549
Enterprise-wide disclosure (geographical)					
Exports (mainly sub-Saharan Africa)	74 872	23 423	–	–	98 295

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the chief executive officer ("CEO").

NOTES TO THE FINANCIAL STATEMENTS

BASIS OF PREPARATION AND ACCOUNTING POLICIES

These unaudited condensed consolidated interim financial statements for the six months ended 31 December 2020 have been prepared in accordance with International Financial Reporting Standards ("IFRS"), IAS 34: *Interim Financial Reporting*, the SAICA financial reporting guides as issued by the Accounting Practices Committee, financial pronouncements issued by the Financial Reporting Standards Council, the requirements of the South African Companies Act, and the JSE Listings Requirements. These condensed interim financial statements do not include all the information required in annual financial statements and should be read in conjunction with the 30 June 2020 group annual financial statements. This report was compiled under the supervision of Grant Scrutton CA(SA) (group chief financial officer). The full board takes responsibility for the preparation of these financial results.

All accounting policies applied by the group in the preparation of these interim financial statements are consistent with those applied by the group in its audited consolidated financial statements as at and for the year ended 30 June 2020 and for the unaudited results for the six months ended 31 December 2019. The group measures its properties at fair value; this fair value is determined annually and accordingly no fair value adjustment was made for the interim period. For more information on the annual fair value adjustments, please refer to the annual financial statements for the year ended 30 June 2020.

The group has adopted standards IFRS 3: amendments to the definition of a business, and IAS 1 and IAS 8 definition of materiality (all effective 1 January 2020), neither of which had a material effect on the group.

The judgements and estimates are consistent with those disclosed in the annual financial statements for the year ended 30 June 2019.

REVENUE SEGMENTAL ANALYSIS

R000's	**December 2020**	December 2019	June 2020
Revenue by customer type			
Wholesale	**259 676**	266 507	278 561
Retail	**206 665**	188 867	325 147
Cash	**255 756**	255 934	433 852
Mining and industry	**602 193**	576 992	928 350
Exports	**102 747**	98 295	145 868
Other	**66 767**	31 431	241 217
	1 493 804	1 418 026	2 352 995

R000's	**December 2020**	December 2019	June 2020
Revenue by product type			
Power cable and wire	**517 756**	452 189	698 943
OHL cable and products	**155 247**	141 018	288 584
Lighting	**356 591**	374 929	616 983
Low voltage and general products	**464 210**	449 890	748 485
	1 493 804	1 418 026	2 352 995

Revenue by business segment is disclosed in the segmental report above.

RIGHT-OF- USE LEASE LIABILITIES

R000's	**December 2020**	December 2019	June 2020
Balance at 1 July	**80 411**	–	–
Arising on initial recognition	**–**	94 888	94 888
Additions	**4 329**	5 007	5 041
Finance costs	**3 929**	4 731	8 956
Lease payments	**(11 651)**	(13 396)	(28 474)
Derecognition and other adjustments	**(3 120)**	–	–
Total right-of-use liability	**73 898**	91 230	80 411
– Short-term liability	**(14 526)**	(19 952)	(15 898)
Long-term liability	**59 372**	71 278	64 513
Lease gross lease commitments			
Greater than five years	**22 071**	32 479	22 991
13 months to 59 months	**63 711**	65 007	56 419
12 months and less	**18 360**	29 027	38 754
Gross value of the lease	**104 142**	126 513	118 164
Net present value adjustment	**(30 244)**	(35 283)	(37 753)
Total right-of-use liability	**73 898**	91 230	80 411

These lease agreements are in respect of third party right-of-use leases used for warehousing, offices and branch trading activities. These leases are generally for three to five-year lease terms with options to renew at market-related rentals. Annual escalations of 6% to 8% are common to these leases and no leases have contingent rentals.

FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial liabilities measured at fair value in the statement of financial position are categorised, in IFRS, into the three levels of the "fair value hierarchy" based on the basis of the lowest level input that is significant to the fair value measurement in its entirety. ARB's level 3 liabilities are the put option liabilities:

R000's	Level	**December 2020**	December 2019	June 2020
CraigCor – non-current	3	**5 000**	20 000	4 000
Eurolux – current	3	**60 000**	54 000	40 000
		65 000	74 000	44 000
Put option liability reconciliation				
Balance at the beginning of the period		**44 000**	79 000	79 000
Put options exercised during the period		**–**	–	(2 277)
Realised gain on early settlement of put option		**–**	–	(4 848)
Unwinding of put option discounting		**141**	1 000	280
Unrealised revaluation of put option liability		**20 859**	(6 000)	(28 155)
Balance at the end of the period		**65 000**	74 000	44 000

There have been no transfers between levels. The fair value of the put option financial liabilities disclosed under level 3 has been determined in accordance with the predetermined contractual valuation method.

Financial assets and liabilities that are sensitive to re-measurement are limited to the put option liabilities, the fair value of which are calculated in terms of a contractual formula. Eurolux options are currently exercisable and use the average of Eurolux's past three years' results (unobservable data) multiplied by 60% of the company's price/earnings multiple as determined by the 120 days volume weighted average share price on the JSE (subject to a cap of 7.5x and a floor of 4.0x) (observable data). The CraigCor options are calculated on the same basis as Eurolux except that because the options can only be put after 1 March 2023, the calculation uses the average of CraigCor's projected last three years' results prior to the first date the option can be put These calculations are most sensitive to changes in the company's share price.

In this valuation, the significant inputs which are unobservable from market data are Eurolux's average past three years' results amounting to R23.1m (30 June 2020: R23.0m) and for CraigCor, it is the average projected last three years' results prior to the first date the option can be put amounting to R4.5m (30 June 2020: R4.5m), its projected average growth rate of 8% (2019: 8%) and the discount rate of 7.25% (2020: 7.25%).

CHANGES TO THE BOARD

There were no changes in the board of directors during the period under review.

FINANCIAL ASSISTANCE TO RELATED OR INTER-RELATED COMPANIES (s45)

The holding company has provided financial guarantees and cessions of loan accounts to the group's bankers on behalf of its subsidiary companies as security for facilities granted to them.

SUBSEQUENT EVENTS

The Covid-19 pandemic continues to have a significant influence on our economy, with the second wave being experienced at the moment, and while a third wave is mooted, hopefully this will be countered by the roll-out of vaccines worldwide. While it is expected that trading operations and results will continue to be negatively impacted in the future, it is not possible to reliably estimate the duration and severity of these consequences, as well as the impact on the financial position and results of the group for future periods.

The directors are not aware of any other material event or circumstance arising since the end of the reporting period and up until the date of this report, not otherwise disclosed in these consolidated financial statements which significantly affect the financial position, results or cash flows of the group.

DIVIDENDS

ARB's policy is to distribute a single annual dividend for the full year up to a maximum of 40% of net profit after taxation attributable to ordinary shareholders. In line with this policy, no interim dividend has been declared.

APPRECIATION

The directors and management once again would like to acknowledge and thank our customers, suppliers, business partners, advisors, shareholders and staff for their continued support.

For and on behalf of the board

Ralph Patmore
Chairman

William (Billy) Neasham
CEO

10 February 2021

NOTES

CORPORATE INFORMATION

Directors
RB Patmore#* (Chairman)
JS Dixon#*
ST Downes#*
WR Neasham (CEO)
GM Scrutton (CFO)
** Non-executive*
 # Independent

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