

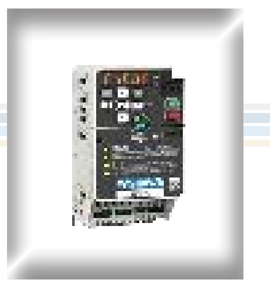
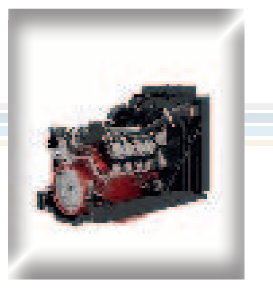
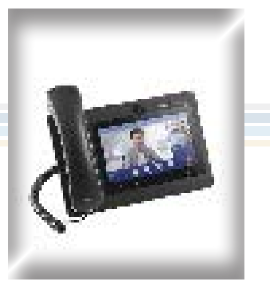

Hudaco

UNAUDITED INTERIM RESULTS
FOR THE SIX MONTHS ENDED 31 MAY
2020

CONSUMER-RELATED PRODUCTS

Distributor of automotive clutch kits, ignition leads and rotary oil and hydraulic seals

Distributor of alloy and steel wheels

Distributor of maintenance free batteries and provider of custom designed energy solutions

Distributor of electronic security equipment, including intruder detection, access control, CCTV, fire detection and electric fencing, as well as related consumables

Supplier of batteries, high frequency chargers and related battery equipment to the traction battery market. Designs, builds and manages battery bays for warehouses and distribution centres

Distributor of a comprehensive range of quality fasteners, including blind rivets, self-drilling screws, hexagonal bolts, nuts and washers

Distributor of professional mobile radio communication equipment and integrator of radio systems

Distributor of suspension and accessories to the 4X4 industry

Distributor of IP convergence technologies, including wired and wireless networking, Wi-Fi, IP Surveillance, Voice-Over-IP and Internet of Things

Distributor of automotive spares and accessories

Distributor of integrated security and life safety solutions, including CCTV, access control, fire detection, public address and perimeter detection products

Distributor of Makita power tools, Mercury marine engines, survey instrumentation, rivets and fasteners

Distributor of batteries, solar systems and battery backup solutions

Distributor of electronic security equipment, including the Texecom range of intruder detection solutions, as well as related consumables

ENGINEERING CONSUMABLES

Distributor of bearings, chains, seals, electric motors, transmission and allied products

Distributor of DEUTZ diesel engines, DEUTZ spare parts, HJS exhaust gas aftertreatment systems and provider of service support

Distributor of solid, round, square, hexagonal and hollow bar engineering steels

Distributor of specialised thermoplastic pipes, fittings and Keymak PVC hose

Distributor and repairer of geared motors, industrial gearboxes and solutions, frequency inverters and electric motors

Distributor of conveyor belting, industrial hose, fluid sealing and process control products

Distributor of pneumatic, vacuum and process automation components

Manufacturer of conveyor pulleys, idlers, steel fabrication, plate rollings and distributor of sheet rubber

Distributor of plastic and stainless steel slat chains, modular belting and conveyor components and manufacturer of plastic engineering parts

Supplier and repairer of hydraulic pumps and motors

Manufacturer of hydraulic and pneumatic equipment and supplier of water valves

Supplier of filtration solutions, customised exhaust systems, kits and accessories

Manufacturer and assembler of cast iron hydraulic gear pumps

Manufacturer and repairer of hydraulic cylinders and repairer of drivetrain components

Manufacturer of ferrous and non-ferrous castings

Distributor of flexible electrical cables, industrial plugs and sockets, material handling electrification systems

Manufacturer of flame-proof connectors and lighting systems

Distributor of specialised steels and provider of heat treatment

Manufacturer of dished and flanged ends, pressing & flanging of small conical sections, push thru's and weld caps

Distributor of electrical cable accessories and electrical instruments

Distributor and repairer of commercial and industrial automation and electronic motor control equipment

COMMENTARY

Hudaco Industries is a South African group specialising in the importation and distribution of high-quality branded automotive after-market, industrial and electronic consumable products mainly in the southern African region. Hudaco businesses serve markets that fall into two primary categories:

- The consumer-related products segment, comprising automotive aftermarket, power tool and fasteners, battery, security and communication equipment and data networking equipment businesses, supplies products into markets with a bias towards consumer spending.
- The engineering consumables segment, which comprises bearings and belting, electrical power transmission, diesel engine, hydraulics and pneumatics, specialised steel, thermoplastic fittings and filtration businesses, supplies engineering consumables mainly to mining and manufacturing customers.

Adding value by offering instant availability, advice and training etc. is an integral part of Hudaco's business model.

RESULTS

The Covid-19 pandemic has had an overwhelming effect on the trading conditions and results of the group for the six months ended 31 May 2020, so much so that it is easy to lose sight of the significant impact of the load shedding experienced in December 2019, which at one point reached stage 6.

Hudaco's financial year typically gets off to a slow start with the holiday months of December and January. December's load shedding caused a lot of our customers to close for the Christmas break a week earlier than normal and many opened a week later than usual in January. February trading was back on track and we had an excellent month, while March trading was very encouraging right up until the President's announcement on Monday, 23 March that there would be a full lockdown in the face of the pandemic.

During the initial five weeks of the lockdown, which were at alert level 5 restrictions, a few of our consumer-related businesses (particularly those supplying batteries, data networking and security equipment) were classified as essential services in terms of government regulations. Many of our engineering consumables businesses, suppliers to essential service businesses such as power stations and coal mines, were also able to operate to a limited extent. However, the majority of Hudaco's customers were not classified as essential services so our businesses operated at a significantly lower level than usual during the alert level 5 period. April was a very difficult month indeed and the group posted a loss. Actions taken over that period were communicated in detail in a SENS announcement on 21 May 2020. These included, for the three months April to June 2020: reducing the remuneration of non-executive directors, executive directors and other senior executives in the group by 33%; reducing the remuneration of other employees by between 20% and 7%, on a remuneration level based scale; instituting a retirement fund contribution holiday for both employee and employer; and undertaking to employees that there would be no job cuts. They also included, *inter alia*: granting special paid leave; minimising all discretionary or non-critical operating expenditure; postponing or cancelling any non-critical capital expenditure not already contracted; and extending the committed portion of banking facilities. Furthermore, there will be no general annual salary increases in July this year.

Once the lockdown status had been eased somewhat to alert level 4, almost all Hudaco businesses could open for business, albeit with the requisite reduced staff complements and other health and safety requirements in terms of the regulations, but a large proportion of our customers had to remain closed. Nevertheless, trading in May proved to be far better than expected, although well behind the equivalent month in 2019. The reduction in trading was felt fairly equally between our two segments, however the expense base in engineering consumables is much higher because of its extensive branch network and the number of separate businesses in that segment, so the negative effect on its profitability was greater.

Group sales at R2.6 billion for the half year are down 17% on 2019, which must be considered in the context of the lost five weeks representing 19% of the available time in the six-month period. Coupled with unavoidable fixed costs, this resulted in operating profit decreasing 73.5% to R79 million, with an operating margin of 3%.

The effect of the pandemic on the economy, and the resultant pressure this has placed on so many of our customers, has increased the expected credit loss on our receivables from R53 million at 30 November 2019 to R68 million at 31 May 2020. While there is no great concentration of credit risk in the group, the effect of the pandemic has been such that business failures must be expected, and collections are likely to be tougher across the board. Similarly, the net realisable value of certain inventory lines is expected to drop in the face of customer failure, lower or no volumes due to reduced activity in certain sectors and smaller competitors being desperate to liquidate inventory at any price. Accordingly, in terms of our models, a write down of inventory to net realisable value has increased by 2.7% of gross inventory.

Assessing goodwill for potential impairment always requires a high degree of judgement in projecting the future cash flows of the business. We usually do this annually at financial year end unless factors have arisen that warrant assessment during the year. The board was of the view that the Covid-19 pandemic was such a factor, so goodwill impairment tests have been conducted for these interim results. There is currently significant uncertainty around future cash flows in the throes of the pandemic, so a thorough exercise was done based on a range of potential outcomes and building additional risk premium into the weighted average cost of capital. The best estimate of impairment indicated that it was appropriate to impair goodwill by R345 million, more than half of which is in the Global Communications and project security cluster. Constraints in Government spending mean business is unlikely to be "as usual" for many years to come. The rest of the impairment is spread across a range of engineering consumables businesses, particularly those that rely on projects for a significant portion of their turnover. Although levels of project business have already been low for some time, we anticipate no recovery in private sector investment in our projection period. The expected general contraction in the economy has also had a significant impact on the projections of the future cash flows of these businesses when testing for impairment of goodwill.

At 195 cents, headline earnings per share were down 63%, comparable earnings per share were down 87% at 69 cents and, because of the goodwill and intangibles impairment, basic earnings per share represented a loss of 738 cents.

Given the prevailing uncertainty and the extent of the impact the Covid-19 virus is having and will continue to have on our businesses, the board considers it prudent and in the best interests of the company and all its stakeholders to preserve liquidity. Accordingly, no interim dividend has been declared.

Despite all the turmoil, the financial position remains sound. The group was slightly cash positive over the critical two-month period of April and May, while bank borrowings are R1 166 million, up just R158 million since November 2019. Trading generated cash of R189 million of which R21 million was reinvested in working capital. This resulted in cash generated from operations of R168 million, down from R301 million in the first half of 2019. During the six months we also paid finance costs of R43 million, taxation of R59 million and dividends of R139 million out of 2019 profits. Borrowings are still comfortably within our covenants and our available banking facilities and we have successfully moved more of our facilities to committed rather than uncommitted. Our second half cash generation is usually strong so borrowings should reduce by year end.

Our inventory levels were higher than we had projected because of the reduced sales in March, April and May. Ordering has been reduced to better align with the projected sales levels, but some products have long lead times so the full benefit will only come through in the second half of 2020 and into 2021. Working capital is a key focus of management and we expect improvement by the end of the financial year. Only compelling acquisitions will be considered for the remainder of 2020.

PROSPECTS

It is very difficult for us to accurately predict what second half trading will be like under Covid-19. With the easing of the lockdown levels, we are encouraged by the increase in trading over the months of May and June. Our battery, automotive and data networking businesses should perform well.

With the devastating effect the extended lockdown has had, and continues to have, on the economy and our operations, we recognise that it may take many months for sales levels to return to their pre-lockdown levels. In anticipation of this, we have identified a number of opportunities to achieve long-term savings and synergies through rationalisation of elements of certain businesses whose cost structures may be out of line with projected future sales levels, particularly those with extensive branch networks or complementary product ranges. To this end, we have already made progress in the integration of our four security businesses as well as Global Communications and SS Telecoms all into one combined back office and fewer branches, while still retaining separate identities as a route to market.

We see several similar opportunities within the engineering consumables businesses. This is not a new initiative, but the pandemic has made it an imperative and given it impetus. Consequently, we are accelerating the synergies to be gained from the ongoing restructure of the engineering consumables portfolio as well as the changes described above in the consumer-related products segment, and austerity measures have been implemented in all businesses.

Hudaco's business model, which is principally the sale of replacement parts with a high value-added component; and its financial characteristics – high margin and strong cash flows with a limited requirement for investment in fixed assets, makes Hudaco resilient. Therefore, so long as there is no further regression arising from the pandemic, we look forward to a second half of 2020 that is much better than the first half.

ACCOUNTING FOR LEASES: IFRS 16

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

LAWSUIT AGAINST BRAVURA AND CERTAIN ASSOCIATES

Our action against Bravura, Cadiz and certain of their associates is now scheduled to be heard in the Commercial Court in June 2021. The case between Bravura and its insurers, who have repudiated Bravura's professional indemnity claim, has been consolidated with our matter into one composite case.

INTERIM DIVIDEND

No interim dividend was declared.

DIRECTORATE

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

RESULTS PRESENTATION

Due to the Covid-19 pandemic restrictions on assemblies, Hudaco will be presenting its interim results for the period ended 31 May 2020 via webinar at 11:00 on Friday, 26 June 2020. Should you wish to participate kindly contact Megan Cameron-Gunn at 011 657 5000 to register. The slides, which form part of the webinar presentation will be available on the company's website from Friday, 26 June 2020.

For and on behalf of the board

SJ Connelly
Non-executive chairman

GR Dunford
Chief executive

25 June 2020

Nedbank Corporate and Investment Banking
Sponsor

These results are available on the internet: www.hudaco.co.za

COMPANY INFORMATION

Hudaco Industries Limited
Incorporated in the Republic of South Africa
Registration number: 1985/004617/06
JSE share code: HDC
ISIN code: ZAE000003273

Transfer secretaries
Computershare Investor Services Proprietary Limited
PO Box 61051
Marshalltown, 2107

Registered office
1st Floor, Building 9
Greenstone Hill Office Park
Emerald Boulevard, Greenstone Hill, Edenvale
Tel +27 11 657 5000
Email: info@hudaco.co.za

Directors
SJ Connelly *(Chairman)**
GR Dunford *(Chief executive)*
CV Amoils *(Financial director)*
N Mandindi*
LFJ Meiring
D Naidoo*
MR Thompson*
* *Non-executive*

Group secretary
R van Zyl

Sponsor
Nedbank Corporate and Investment Banking

GROUP STATEMENT OF FINANCIAL POSITION

R million	31 May 2020	31 May 2019	30 Nov* 2019
ASSETS			
Non-current assets	**1 964**	1 902	1 887
Property, plant and equipment	**295**	297	302
Right-of-use assets	**395**		
Investment in joint venture	**12**	10	12
Goodwill	**1 167**	1 512	1 512
Intangible assets	**11**	36	23
Deferred taxation	**84**	47	38
Current assets	**2 870**	2 977	3 057
Inventories	**1 928**	1 768	1 720
Trade and other receivables	**885**	1 162	1 269
Taxation	**12**	4	10
Bank deposits and balances	**45**	43	58
TOTAL ASSETS	**4 834**	4 879	4 944
EQUITY AND LIABILITIES			
Equity	**2 424**	2 637	2 843
Equity holders of the parent	**2 395**	2 563	2 742
Non-controlling interest	**29**	74	101
Non-current liabilities	**1 368**	1 067	918
Amounts due to bankers	**1 030**	964	918
Lease liabilities	**338**		
Amounts due to vendors of businesses acquired		102	
Deferred taxation		1	
Current liabilities	**1 042**	1 175	1 183
Trade and other payables	**761**	766	968
Bank overdraft	**181**	256	148
Lease liabilities	**84**		
Amounts due to vendors of businesses acquired	**16**	119	65
Taxation		34	2
TOTAL EQUITY AND LIABILITIES	**4 834**	4 879	4 944

GROUP STATEMENT OF COMPREHENSIVE INCOME

R million	Six months ended 31 May 2020	% change	Six months ended 31 May 2019	Year* ended 30 Nov 2019
Turnover	**2 636**	(17.0)	3 175	6 704
Cost of sales	**1 782**	(12.3)	2 031	4 263
Gross profit	**854**	(25.3)	1 144	2 441
Operating expenses	**775**	(8.4)	847	1 740
Operating profit	**79**	(73.5)	297	701
Impairment of goodwill and intangible assets	**(348)**			
Fair value adjustments	**44**		(3)	30
– Adjustment to capital amounts due to and from vendors of businesses acquired	**47**		5	42
– Adjustment for time-value of money	**(3)**		(8)	(12)
(Loss) profit before interest	**(225)**	(176.7)	294	731
Interest on lease liabilities	**19**			
Finance costs	**43**		55	103
(Loss) profit before taxation	**(287)**	(220.0)	239	628
Taxation	**9**		63	160
(Loss) profit after taxation	**(296)**	(268.8)	176	468
Equity-accounted income from joint venture			1	3
(Loss) profit for the period	**(296)**	(267.7)	177	471
Other comprehensive (loss) income that will subsequently be reclassified to profit or loss	**(1)**		5	1
Movement on fair value of cash flow hedges	**(3)**		4	1
Exchange gain on translation of foreign operations	**2**		1	
Total comprehensive (loss) income for the period	**(297)**		182	472
(Loss) profit attributable to:				
– Equity holders of the parent	**(233)**	(238.4)	169	429
– Non-controlling shareholders	**(63)**		8	42
	(296)	(267.7)	177	471
Total comprehensive (loss) income attributable to:				
– Equity holders of the parent	**(234)**	(234.1)	173	430
– Non-controlling shareholders	**(63)**		9	42
	(297)	(262.1)	182	472
Earnings per share (cents)				
– Basic	**(738)**	(238.4)	533	1 355
– Headline	**195**	(63.4)	533	1 355
– Comparable	**69**	(86.8)	520	1 240
Diluted earnings per share (cents)				
– Basic	**(738)**	(240.3)	526	1 329
– Headline	**195**	(62.9)	526	1 329
– Comparable	**69**	(86.5)	513	1 217
Calculation of headline earnings				
(Loss) profit attributable to equity holders of the parent	**(233)**	(238.4)	169	429
Adjusted for:				
Impairment of goodwill and intangible assets	**348**			
Non-controlling interest and tax	**(53)**			
Headline earnings	**62**	(63.4)	169	429
Calculation of comparable earnings				
Headline earnings	**62**	(63.4)	169	429
Adjusted for:				
Fair value adjustment on capital amounts due to and from vendors of businesses acquired	**(47)**		(5)	(42)
Non-controlling interest	**7**		1	5
Comparable earnings	**22**	(86.8)	165	392
Dividends				
– Per share (cents)			190	600
– Amount (Rm)			60	190
Shares in issue (000)	**31 646**		31 646	31 646
– Total (000)	**34 154**		34 154	34 154
– Held by subsidiary (000)	**(2 508)**		(2 508)	(2 508)
Weighted average shares in issue				
– Total (000)	**31 646**		31 646	31 646
– Diluted (000)	**31 646**		32 074	32 262

GROUP STATEMENT OF CASH FLOWS

R million	Six months ended 31 May 2020	Six months ended 31 May 2019	Year* ended 30 Nov 2019
Cash generated from trading	**189**	348	794
(Increase) decrease in working capital	**(21)**	(47)	59
Cash generated from operations	**168**	301	853
Taxation paid	**(59)**	(68)	(196)
Net cash from operating activities	**109**	233	657
Net investment in new operations	**(5)**	(8)	(114)
Net investment in property, plant and equipment	**(18)**	(44)	(74)
Net cash from investing activities	**(23)**	(52)	(188)
Increase (decrease) in non-current amounts due to bankers	**112**	(50)	(96)
Capital repayments of lease liabilities	**(44)**		
Interest paid on lease liabilities	**(19)**		
Share-based payments settled	**(1)**	(18)	(22)
Finance costs paid	**(43)**	(55)	(103)
Dividends paid	**(139)**	(123)	(189)
Net cash from financing activities	**(134)**	(246)	(410)
(Increase) decrease in net bank overdraft	**(48)**	(65)	59
Foreign exchange translation gain	**2**	1	
Net bank overdraft at beginning of the year	**(90)**	(149)	(149)
Net bank overdraft at end of the year	**(136)**	(213)	(90)

GROUP STATEMENT OF CHANGES IN EQUITY

R million	Share capital and premium	Non-distributable reserves	Retained income	Equity holders of the parent	Non-controlling interest	Equity
Balance at 1 December 2019	**55**	**100**	**2 606**	**2 761**	**101**	**2 862**
Comprehensive loss for the period		**(1)**	**(233)**	**(234)**	**(63)**	**(297)**
Movement in equity compensation reserve		**17**		**17**		**17**
Dividends			**(130)**	**(130)**	**(9)**	**(139)**
Balance at 31 May 2020	**55**	**116**	**2 243**	**2 414**	**29**	**2 443**
Less: Shares held by subsidiary company			**(19)**	**(19)**		**(19)**
Net balance at 31 May 2020	**55**	**116**	**2 224**	**2 395**	**29**	**2 424**
Balance at 1 December 2018	55	99	2 374	2 528	70	2 598
Effect of adoption of IFRS 9			(12)	(12)	(2)	(14)
Comprehensive income for the period		4	169	173	9	182
Movement in equity compensation reserve		13		13		13
Dividends			(120)	(120)	(3)	(123)
Balance at 31 May 2019	55	116	2 411	2 582	74	2 656
Less: Shares held by subsidiary company			(19)	(19)		(19)
Net balance at 31 May 2019	55	116	2 392	2 563	74	2 637
Balance at 1 December 2018	55	99	2 374	2 528	70	2 598
Effect of adoption of IFRS 9			(12)	(12)	(2)	(14)
Comprehensive income for the year		1	429	430	42	472
Movement in equity compensation reserve			(5)	(5)		(5)
Dividends			(180)	(180)	(9)	(189)
Balance at 30 November 2019	55	100	2 606	2 761	101	2 862
Less: Shares held by subsidiary company			(19)	(19)		(19)
Net balance at 30 November 2019*	55	100	2 587	2 742	101	2 843

SUPPLEMENTARY INFORMATION

The consolidated financial statements have been prepared in accordance with IAS 34: *Interim Financial Reporting, International Financial Reporting Standards (IFRS)* as issued by the International Accounting Standards Board (IASB), SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, the requirements of the South African Companies Act and the JSE Listings Requirements. Except for the adoption of IFRS 16: *Leases*, the same accounting policies, presentation and measurement principles have been followed in the preparation of the interim report for the period ended 31 May 2020 as were applied in the preparation of the group's annual financial statements for the year ended 30 November 2019.

Impact of adopting IFRS 16: *Leases* at 1 December 2019
The group now assesses whether a contract is or contains a lease based on the new definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. At inception or on reassessment of a contract that contains a lease component, the group allocates the consideration in the contract to each lease and non-lease component on the basis of their relative standalone prices.

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

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

The group used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:
– Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.
– Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

Reconciliation between the operating lease commitments disclosed in the group's 30 November 2019 annual financial statements and the lease liabilities at 1 December 2019:	R million
Operating lease commitments in respect of fixed property at 30 November 2019 as disclosed in the group's consolidated financial statements	**303**
Effect of renewal options reasonably certain to be exercised	**309**
Discounted using the incremental borrowing rate at 1 December 2019	**(146)**
Lease liabilities recognised as at 1 December 2019	**466**

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

At the end of the reporting period the group recognised right-of-use assets of R395 million and lease liabilities of R422 million. During the six months ended 31 May 2020, the group recognised R59 million of depreciation charges, R44 million of capital repayments and R19 million of interest costs from these leases, instead of operating lease expenses.

These results have been compiled under the supervision of the financial director, CV Amoils, CA (SA). The directors of Hudaco take full responsibility for the preparation of the interim report and ensuring that the financial information has been correctly extracted from the underlying financial statements. This interim report has not been audited or reviewed by Hudaco's auditors.

	31 May 2020	31 May 2019	30 Nov* 2019
Average net operating assets (NOA) (Rm)	**4 283**	3 993	3 992
Operating profit margin (%)	**3.0**	9.3	10.4
Average NOA turn (times)	**1.2**	1.6	1.7
Return on average NOA (%)	**3.7**	14.9	17.5
Average net tangible operating assets (NTOA) (Rm)	**2 408**	2 433	2 437
PBITA margin (%)	**3.3**	9.8	10.9
Average NTOA turn (times)	**2.2**	2.6	2.8
Return on average NTOA (%)	**7.2**	25.6	29.9
Net asset value per share (cents)	**7 579**	8 099	8 666
Return on average equity (%)	**(22.5)**	13.6	17.4
Turnover comprises of:			
Revenue from contracts with customers			
Sales of products	**2 561**	3 091	6 522
Rendering of services	**75**	84	182
	2 636	3 175	6 704
Timing of revenue recognition			
Goods and services transferred at a point in time	**2 563**	3 105	6 510
Goods and services transferred over time[1]	**73**	70	194
	2 636	3 175	6 704

[1] *The remaining transaction price allocated to unsatisfied performance obligations will be satisfied within one year.*

	31 May 2020	31 May 2019	30 Nov* 2019
Geographical disaggregation			
Goods and services sold in South Africa	**2 268**	2 833	6 060
Goods and services sold outside South Africa	**368**	342	644
	2 636	3 175	6 704
Operating profit has been determined after taking into account the following charges (Rm)			
Depreciation			
– Property, plant and equipment	**26**	25	50
– Right-of-use assets	**59**		
Amortisation	**8**	14	27
Capital expenditure (Rm)			
– Incurred during the period	**18**	47	79
– Authorised but not yet contracted for	**22**	49	70

Fair value disclosure
All financial instruments are carried at amounts that approximate their fair value. The fair value of foreign exchange contracts is directly derived from prices in active markets for similar liabilities, which means it is classified as a level 2 fair value measurement. The fair values for amounts due to vendors of businesses acquired are estimated by using a present value technique based on unobservable inputs regarding the future profitability of businesses acquired, which means it is classified as a level 3 fair value measurement.

Impairment of goodwill
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 CGU's ranges from 17.1% to 20.7% and includes a risk premium for the impact of the Covid-19 pandemic.

SEGMENT INFORMATION

	Turnover				Operating profit				Average net operating assets			
R million	Six months ended 31 May 2020	% change	Six months ended 31 May 2019	Year* ended 30 Nov 2019	Six months ended 31 May 2020	% change	Six months ended 31 May 2019	Year* ended 30 Nov 2019	Six months ended 31 May 2020	% change	Six months ended 31 May 2019	Year* ended 30 Nov 2019
Consumer-related products	**1 441**	(16.1)	1 717	3 589	**114**	(44.4)	205	421	**2 239**	4.9	2 135	2 126
Engineering consumables	**1 196**	(18.5)	1 467	3 120	**(19)**	(117.1)	109	284	**1 958**	7.8	1 816	1 869
Total operating segments	**2 637**	(17.2)	3 184	6 709	**95**	(69.5)	314	705	**4 197**	6.2	3 951	3 995
Head office, shared services and eliminations	**(1)**		(9)	(5)	**(16)**		(17)	(4)	**86**		42	(3)
Total group	**2 636**	(17.0)	3 175	6 704	**79**	(73.5)	297	701	**4 283**	7.3	3 993	3 992

* Audited