

HOMECHOICE INTERNATIONAL PLC



UNAUDITED
INTERIM RESULTS

for the six months ended 30 June 2020

HomeChoice International plc is an investment holding company listed on the JSE Limited. The group is a leading participant in the retail homeware and financial services sectors to the urban middle-income mass market in southern Africa. It has serviced this market for more than 30 years and has built up a loyal, primarily female, customer base of more than 920 000 active customers. The group operates through two trading operations, Retail and Financial Services.

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FINANCIAL PERFORMANCE

Retail revenue

-6.7%

Revenue

R1.6bn

-4.9%

Loan disbursements
curtailed by

R400m

-29.8%

Digital sales

+39%

Funeral insurance
premiums

+33%

Operating profit

-46.7%

on lower sales and
prudent debtor provisions

Credit extended on
digital channels

R778m

42.0% of all credit

Headline earnings
per share

104.4 cps

-54.6%

Cash conversion of

197.8%

Cash balance

R379m

STRONG CASH POSITION AND SHARP ACCELERATION IN DIGITAL ENGAGEMENT

The Retail business is an omni-channel retailer with considerable expertise in both merchandise and credit management to the mass market.

Financial Services is a diversified FinTech business offering a range of personal lending, value-added services and insurance products on digital platforms.

		6 months ended 30 Jun 2020	6 months ended 30 Jun 2019	% change (Jun to Jun)	12 months ended 31 Dec 2019 (audited)
Group					
Revenue	(Rm)	1 574	1 655	(4.9)	3 484
Operating profit	(Rm)	184	345	(46.7)	679
Operating profit margin	(%)	11.7	20.8		19.5
Earnings per share (EPS)	(cents)	104.4	229.9	(54.6)	436.0
Headline EPS (HEPS)	(cents)	104.4	229.9	(54.6)	436.0
Cash generated from operations	(Rm)	449	250	79.6	437
Cash conversion	(%)	197.8	66.0		58.2
Interim dividend declared/paid	(cents)	–	87.0	>(100.0)	–*
Retail					
Revenue	(Rm)	1 148	1 231	(6.7)	2 613
Retail sales	(Rm)	824	916	(10.0)	1 951
Gross profit margin	(%)	51.0	47.1		47.4
Operating profit	(Rm)	75	157	(52.2)	325
Operating profit margin	(%)	6.5	12.8		12.4
Financial Services					
Loan disbursements	(Rm)	804	1 145	(29.8)	2 266
Revenue	(Rm)	426	424	0.5	871
Operating profit	(Rm)	74	158	(53.2)	286
Operating profit margin	(%)	17.4	37.3		32.8

* Final dividend was cancelled post-year-end.

Decisive in response to lockdown

The six-month period to June has been a tale of two quarters. The strong performance in the first quarter resulted in sales being up 11.9% and loan disbursements down 3%. In mid-March the South African President announced a state of disaster to manage the impact of Covid and a hard lockdown was imposed with only essential services allowed to operate.

The group took immediate decisive action – conserving cash, curtailing credit and accelerating activity on digital platforms. Loan disbursements were significantly reduced, credit limits were lowered for existing customers and loans to new customers were stopped, resulting in a reduction of R400 million in disbursements. Credit-granting criteria for retail customers were tightly managed and lower credit limits allocated. A strong focus on collections encouraging and incentivising customers to make payments, resulted in an increase of group digital payments to 74.5% (2019: 69.3%).

The Retail division responded by pivoting their marketing spend from print to digital. After 35 years of producing a monthly catalogue, a decision was taken to stop the printing and distribution of the catalogue. All the marketing effort was focused on making the digital space more alive, exciting and convenient for customers to shop from, the digital catalogue becoming a key marketing vehicle.

Costs of R13 million were incurred to ready the business to operate in lockdown. Staff were provided with PPE, health and safety protocols were implemented in the head office, and computer equipment distribution to enable work from home.

Group debtor costs increased by 38.3% to R451 million of which R96 million is attributable to Covid impacts. Prior to the lockdown, debtor costs were tracking better than forecast. However, Q2 was negatively impacted

by poor payment performance resulting in higher bad debt write-offs and lower recoveries. Conservative credit impairment provisions, an additional amount of R64 million, were raised taking a cautious approach for H2.

Trading expenses were well controlled, up 7.5%, (including non-comparable Covid-related costs) with all discretionary expenditure stopped to manage the profitability. The shift to digital marketing and social media limited marketing expenses to a 2.8% increase.

The impact of lost revenue and increased debtor costs resulted in operating profit decreasing by 46.7% to R184 million.

Headline earnings per share decreased by 54.6% to 104.4 cents. The interim dividend has been withheld as the board believes it is prudent to keep a healthy cash balance on hand to mitigate any uncertainties that may arise as various levels of the lockdown remain.

Strong cash generation protects balance sheet

The result of the decisive actions taken can be seen in our cash conversion percentage of 197.8% (2019: 66%) and a very healthy cash balance of R379 million, 213.2% up on June 2019.

Cash generated from operations for the period was R449 million, an increase of 79.6% on June 2019. Pleasingly, our net debt (excluding group-owned properties) has reduced to R321 million (2019: R512 million) and the net debt:equity ratio stands at 10.5% (2019: 18.1%).

Banking facilities were refinanced and upsized during the lockdown period to R1.05 billion. Unutilised facilities and cash of R884 million is available to support future growth and protect against any future economic shocks.

Investment in key strategic initiatives continued, but capital expenditure was tightly controlled. R56 million (2019: R53 million) was spent on additional showrooms, ChoiceCollect containers, equipment for remote working and technology developments.

RETAIL



digital transformation accelerated

Retail revenue decreased by 6.7% to R1.1 billion. An 8.5% increase in Q1 sales was followed by a 24.0% decrease in Q2, resulting in Retail sales declining by 10.0%. Lower markdowns and supply chain efficiencies delivered a strong gross profit margin of 51.0%, an increase of 390 bps. Trading expenses were limited to a 4.5% increase. Operating profit decreased by 52.2% to R75 million, largely due to lost sales and higher debtor costs.

Pleasingly, we had good response to our heritage home textiles category, regaining and exceeding lost ground from 2019. Strong growth in electronics and appliances continued with external brands trading well.

The strength of the HomeChoice brand continues to appeal to the mass market. 123 000 new customers were acquired during the period, with 23% (2019: 11.2%) acquired through digital channels. Customers are increasingly engaging and shopping on our digital channels.

Digital sales for the period grew by 39%, with Q2 showing exceptional performance, up 65%. Digital sales contribution is 23.7% for H1 and we are targeting to achieve a 28% growth for the full year. Three key factors have driven the digital sales growth – over 80% growth in the number of digital sessions and users; improvement in the customer user experience resulting in a 41% conversion rate; and the monetisation of the

social media strategy, with a healthy increase in Instagram and Facebook followers.

Good progress has been achieved to increase the level of cash sales and thereby reducing our risk. Pleasingly, cash sales in Q2 rose to 10% contribution, 6.9% (2019: 6.7%) for H1. Targeted cash-only offers, the addition of more entry-priced product together with more competitive pricing has seen good results and a great response from customers. We anticipate the cash sales contribution to exceed 13% for 2020.

SAPO was unable to operate during Q2 as a result of the lockdown. Consequently, SAPO was eliminated as a collection point and customers either received their merchandise direct to home or from other third-party collection points. Going forward we anticipate 1 000 collection points available to customers, with a combination of group-managed points and third-party points.

An additional Retail showroom and three ChoiceCollect containers were opened during the period. ChoiceCollect containers are in township suburbs and, together with the showrooms, are key initiatives in our omni-channel offering, providing customers convenience and choice. Click and collect from these channels is stable at 9% of deliveries with the lockdown restricting the opening of all collection sites.



protect the credit book and generate cash for the group

Financial Services revenue increased by 0.5% to R426 million, a 2.7% decrease in finance income and a good growth of 8.1% in ancillary and insurance fees. Trading expenses increased by 13.6% which also included higher IBNR insurance provisions for potential retrenchment and redundancy claims. Debtor costs increased by 48.0%, driven by higher bad debts written off and a higher credit impairment provision. Operating profit decreased by 53.2% to R74 million.

A deliberate decision was taken to reduce the level of loan disbursements by R400 million in order to generate cash for the group; Q1 decreased by 3% and by 57% in Q2. Loans to new customers were stopped from mid-March to May and the credit limits for existing customers were reduced to manage the level of debt they incurred. Direct feedback from more than 80% of customers allowed the group to leverage industry and employer-based data to responsibly grant credit.

90% of the active customer base are registered on our self-service digital platforms and 69% (2019: 50%) possess a digital-only FinChoice MobiMoney™ facility product. Digital engagement by customers continues to increase, as evidenced by 91% of existing customers and 48% of new customers engage with the division digitally. Increasing digital engagement is also facilitated by sale of value-added services (airtime, data, electricity) using the MobiMoney platform. The MobiMoney

platform will evolve into a credit-backed wallet, enabling customers with multiple transaction features.

18 000 new customers were acquired during the period, mainly in Q1 and from mid-June onwards. 47% of these loan customers were acquired from external sources. Financial Services has historically only leveraged the Retail customer base to acquire new customers. Increasingly, we have integrated with other external acquisition channels to acquire customers, primarily sourced from digital sites. We manage the initial risk exposure of the external customers with lower credit limits and shorter-term loans until their credit behaviour has been proven.

A key component of our income diversification strategy is the stand-alone personal insurance business. Premiums increased by 32.9%, supported by digital channels and a dedicated contact centre. 11 000 new insurance customers were brought on board, bringing the number of customers holding at least one policy to 63 000, a 15.7% increase. A new cloud-based insurance platform will be implemented, covering the end-to-end insurance process and providing an efficient and effective customer service.

We will look to leverage our customer base, platforms and credit knowledge to enter the small business and informal business lending market. A revolving and term facility will be offered to enable small businesses to grow.

Curtailed credit and a strong focus on collections

Gross trade and loan receivables increased by 0.3% to R3.5 billion, primarily due to the curtailment of loan disbursements and lower sales. Group debtor costs increased by 38.3%, the impact of Covid adding an estimated additional R96 million.

Credit performance for the period is summarised below:

		6 months ended 30 Jun 2020	6 months ended 30 Jun 2019	% change (Jun to Jun)	12 months ended 31 Dec 2019 (audited)
Group					
Gross trade and loans receivable	(Rm)	3 539	3 529	0.3	3 784
Debtor costs as a % of revenue*	(%)	28.7	19.7		20.6
Retail					
Number of active accounts		586 739	614 834		581 818
Active accounts able to purchase	(%)	66.1	70.8		66.4
Gross trade and loans receivable	(Rm)	1 918	1 816	5.6	1 947
Debtor costs as a % of revenue	(%)	22.9	16.2		16.5
Provision for impairment	(Rm)	398	334		366
Provision for impairment as a % of gross receivables	(%)	20.8	18.4		18.8
NPLs**	(%)	11.4	9.5		10.2
NPL cover	(times)	1.8	1.9		1.8
Financial Services					
Number of active accounts		210 692	195 738		223 742
Active accounts able to reloan	(%)	76.3	76.9		76.4
Gross trade and loans receivable	(Rm)	1 621	1 713	(5.4)	1 837
Debtor costs as a % of revenue	(%)	44.1	30.0		32.7
Provision for impairment	(Rm)	251	206		254
Provision for impairment as a % of gross receivables	(%)	15.5	12.0		13.8
NPLs **	(%)	5.1	3.8		4.3
NPL cover	(times)	3.0	3.2		3.2

* Debtor costs includes bad debts written off net of recoveries, as well as movements in provisions.

** Non-performing loans (>120 days).

Tightened credit criteria to manage Retail credit risk

Debtor costs in Retail increased by 32.2% to R263 million, R216 million adjusted for the Covid impact.

A controlled approach to customer acquisition was managed by tightening of the credit-granting criteria, reducing the credit limits and a reduction in the average sales term from 18.1 months to 15.8 months.

There was a strong focus on collections, particularly digital payments via debit orders. Debit order collections have increased to 31% (2019: 14%), by incentivisation of both customers and agents. All new customers are required to pay by debit orders. The number of collections agents increased by 48% to 148 staff with increased productivity.

Prior to the lockdown debtor costs were tracking better than forecast. A conservative approach to impairments necessitated an increase provision to 20.8%, 18.8% after adjusting for the Covid impact.

Financial Services reduced disbursements and used industry and employer data to manage risk

Debtor costs increased by 48.0% to R188 million, R139 million adjusted for the Covid impact.

All loans to new customers were stopped from the end of March. With a focus on stable

employment sectors and proven employees, new customers were opened for lending in June. The average disbursement term was reduced from 15.0 months to 13.9 months and a reduction of credit limits reduced the average balances to R7 859.

Taking a prudent approach, the provision for impairment has increased to 15.5%, 13.8% after adjusting for the Covid impact.

Redomiciliation and changes to board composition

As previously announced to shareholders, the redomiciliation of the group from Malta to Mauritius was successfully completed on 7 May 2020.

Shareholders were advised on 21 May 2020 of the following changes to the board:

- following the redomiciliation Stanley Portelli (board chairman) and Charles Rapa (chairman of the audit and risk committee) resigned with effect from 31 May 2020;
- Shirley Maltz was appointed executive chairman from 1 June 2020; and
- Pierre Joubert was appointed as the lead independent non-executive director and the chairman of the audit and risk committee with effect from 1 June 2020.

The board thanks both Stanley and Charles for their significant contribution to the group and Stanley for his sound leadership of the board over the past five years.

Outlook

The socio-economic outlook for South Africa remains challenging with high levels of unemployment and an uncertain growth path as the country recovers from the negative impact of the lockdown to lives and livelihoods. We expect the informal market to continue to be active as more individuals supplement their primary income with a secondary income derived from the informal sector.

Our customer has shown her resilience during this period and we will continue to pursue our strategy to provide customers with exciting products, new merchandise categories and providing loans to stably employed customers.

We will continue to accelerate our digital transformation and aggressively use digital marketing and social media to capture market share.

Our cash position is strong and, together with tightened credit-granting criteria and increasing digital collections, our balance sheet is robust.

We believe that the group is well positioned for growth and to take advantage of changes to the economy.

The above information has not been reviewed or reported on by the group's external auditor.

S Maltz
Executive Chairman

G Lartigue
Chief Executive Officer

Mauritius, 31 August 2020

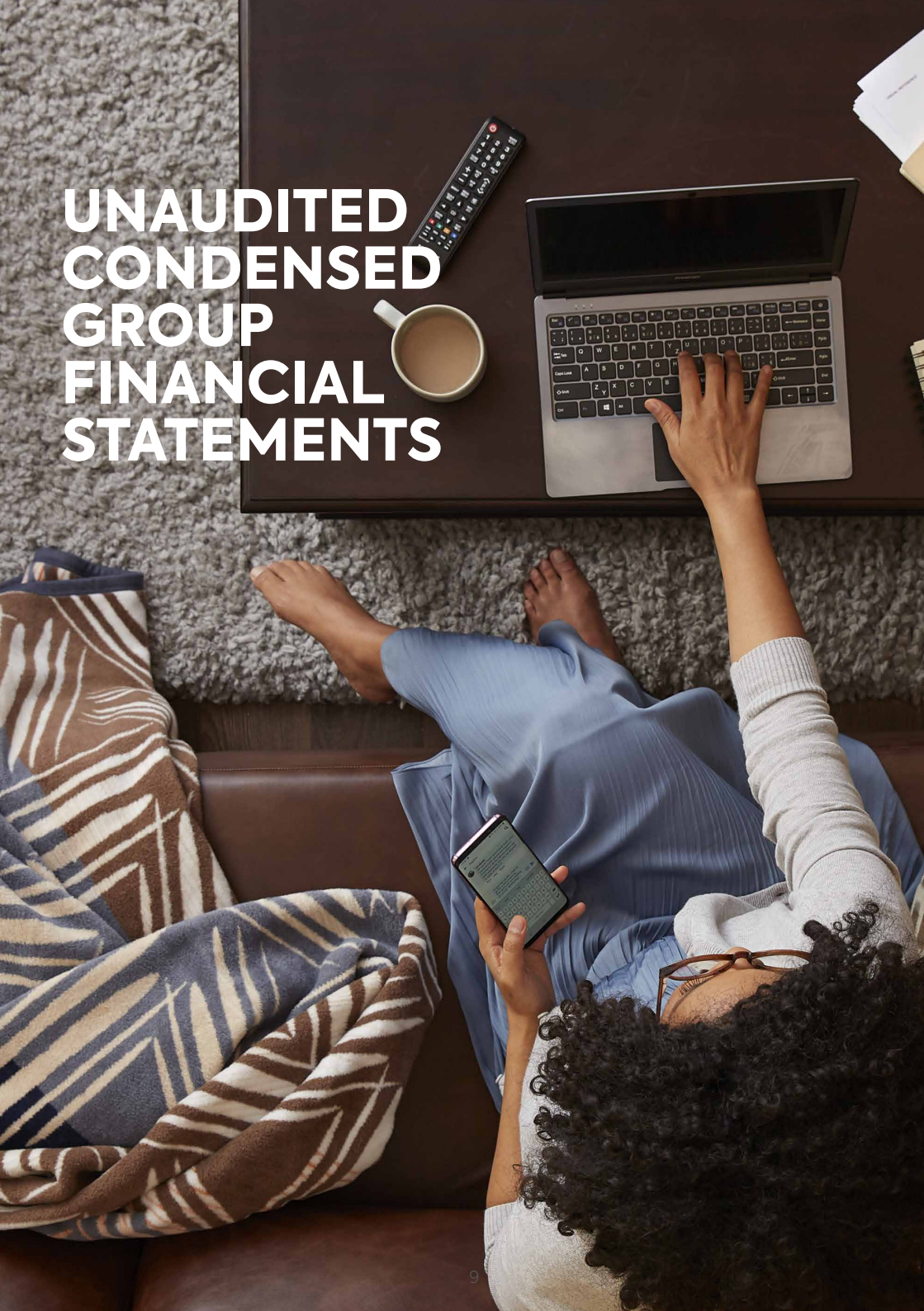
Dividend declaration

In light of the current economic environment and the levels of uncertainty posed by the impact of Covid-19, the board has decided that it would be prudent not to declare an interim dividend for this reporting period (2019: 79.0 cents per share).

Sanlam Trustees International Limited
Company Secretary

Mauritius, 31 August 2020

UNAUDITED CONDENSED GROUP FINANCIAL STATEMENTS



CONDENSED GROUP STATEMENT OF FINANCIAL POSITION

	Notes	Unaudited Jun 2020 Rm	Unaudited Jun 2019 Rm	Audited Dec 2019 Rm
Assets				
Non-current assets				
Property, plant and equipment		472	466	471
Intangible assets		191	140	169
Right-of-use assets		61	55	67
Financial assets at fair value through profit or loss		29	28	24
Deferred taxation		12	1	2
		765	690	733
Current assets				
Inventories	2	393	305	349
Taxation receivable		8	2	1
Trade and other receivables	3	2 930	3 023	3 188
Trade receivables – Retail		1 520	1 482	1 581
Loans receivable – Financial Services		1 370	1 507	1 583
Other receivables		40	34	24
Cash and cash equivalents		386	121	80
		3 717	3 451	3 618
Total assets		4 482	4 141	4 351
Equity and liabilities				
Equity attributable to equity holders of the parent				
Stated and share capital		1	1	1
Share premium		3 010	3 010	3 010
Reorganisation reserve		(2 961)	(2 961)	(2 961)
		50	50	50
Treasury shares		(18)	(3)	(18)
Other reserves		42	24	33
Retained earnings		2 990	2 758	2 881
Total equity		3 064	2 829	2 946
Non-current liabilities				
Interest-bearing liabilities		943	794	537
Lease liabilities		50	48	57
Deferred taxation		65	64	51
Trade and other payables		4	4	4
		1 062	910	649
Current liabilities				
Interest-bearing liabilities		35	91	391
Lease liabilities		21	14	18
Taxation payable		6	35	16
Trade and other payables		287	262	283
Bank overdraft		7	–	48
		356	402	756
Total liabilities		1 418	1 312	1 405
Total equity and liabilities		4 482	4 141	4 351

CONDENSED GROUP STATEMENT OF COMPREHENSIVE INCOME

	Notes	Unaudited six months ended Jun 2020 Rm	% change	Unaudited six months ended Jun 2019 Rm	Audited year ended Dec 2019 Rm
Revenue		1 574	(4.9)	1 655	3 484
Retail sales	4	824	(10.0)	916	1 951
Finance income		527	(0.9)	532	1 093
Fees from ancillary services	5	223	7.7	207	440
Cost of Retail sales		(404)	(16.7)	(485)	(1 027)
Other operating costs		(993)	19.6	(830)	(1 785)
Credit impairment losses	6	(451)	38.3	(326)	(717)
Other trading expenses	6	(542)	7.5	(504)	(1 068)
Other net gains and losses		4	300.0	1	(1)
Other income		3	(25.0)	4	8
Operating profit		184	(46.7)	345	679
Interest income		1	–	1	4
Interest expense		(52)	15.6	(45)	(101)
Profit before taxation		133	(55.8)	301	582
Taxation		(24)	(60.7)	(61)	(127)
Profit and total comprehensive income for the period		109	(54.6)	240	455
Earnings per share (cents)					
Basic	7	104.4	(54.6)	229.9	436.0
Diluted		103.3	(54.5)	226.9	428.7
Headline earnings per share (cents)					
Basic	7	104.4	(54.6)	229.9	436.0
Diluted		103.3	(54.5)	226.9	428.7

CONDENSED GROUP STATEMENT OF CHANGES IN EQUITY

	Stated and share capital Rm	Share premium Rm	Treasury shares Rm	Reorgan-isation reserve Rm	Other reserves Rm	Retained earnings Rm	Equity attributable to owners of the parent Rm
Balance at 1 January 2019 – audited	1	3 005	(3)	(2 961)	18	2 624	2 684
Change on initial application of IFRS 16	–	–	–	–	–	(3)	(3)
Restated equity at the beginning of the period	1	3 005	(3)	(2 961)	18	2 621	2 681
Changes in equity							
Profit and total comprehensive income for the period	–	–	–	–	–	240	240
Shares issued	–	5	–	–	–	–	5
Dividends paid	–	–	–	–	–	(103)	(103)
Share incentive schemes	–	–	–	–	6	–	6
Total changes	–	5	–	–	6	137	148
Balance at 30 June 2019 – unaudited	1	3 010	(3)	(2 961)	24	2 758	2 829
Changes in equity							
Profit and total comprehensive income for the period	–	–	–	–	–	215	215
Dividends paid	–	–	–	–	–	(92)	(92)
Share incentive schemes	–	–	–	–	9	–	9
Shares purchased	–	–	(15)	–	–	–	(15)
Total changes	–	–	(15)	–	9	123	117
Balance at 1 January 2020 – audited	1	3 010	(18)	(2 961)	33	2 881	2 946
Changes in equity							
Profit and total comprehensive income for the period	–	–	–	–	–	109	109
Shares issued	–	–	–	–	–	–	–
Dividends paid	–	–	–	–	–	–	–
Share incentive schemes	–	–	–	–	9	–	9
Total changes	–	–	–	–	9	109	118
Balance at 30 June 2020 – unaudited	1	3 010	(18)	(2 961)	42	2 990	3 064

CONDENSED GROUP STATEMENT OF CASH FLOWS

	Unaudited six months ended Jun 2020 Rm	%	Unaudited six months ended Jun 2019 Rm	Audited year ended Dec 2019 Rm
Note		change		
Cash flows from operating activities				
Operating cash flows before working capital changes	207	(45.7)	381	718
Movements in working capital	242	(284.7)	(131)	(281)
Cash generated from operations	449	79.6	250	437
Interest received	1	–	1	4
Interest paid	(52)	15.6	(45)	(93)
Taxation paid	(37)	(51.3)	(76)	(174)
Net cash inflow from operating activities	361	177.7	130	174
Cash flows from investing activities				
Additions of property, plant and equipment	(22)		(20)	(44)
Additions of intangible assets	(34)		(33)	(72)
Financial assets at fair value through profit or loss	–		–	11
Net cash outflow from investing activities	(56)	5.7	(53)	(105)
Cash flows from financing activities				
Proceeds from the issuance of shares	–		5	5
Purchase of shares to settle forfeiture share scheme obligations	–		–	(15)
Proceeds from interest-bearing liabilities	725		170	315
Repayments of interest-bearing liabilities	(675)		(136)	(243)
Principal elements of lease payments	(8)		–	(12)
Dividends paid	–		(103)	(195)
Net cash inflow/(outflow) from financing activities	42	(165.6)	(64)	(145)
Net increase/(decrease) in cash and cash equivalents and bank overdrafts	347		13	(76)
Cash, cash equivalents and bank overdrafts at the beginning of the period	32		108	108
Cash, cash equivalents and bank overdrafts at the end of the period	379	213.2	121	32

GROUP SEGMENTAL INFORMATION

Unaudited six months ended June 2020

	Total Rm	Retail Rm	Financial Services Rm	Property Rm	Other Rm	Intra- group Rm
Segmental revenue	1 574	1 148	426	32	-	(32)
Retail sales	824	824	-	-	-	-
Finance income	527	234	293	-	-	-
Fees from ancillary services	223	90	133	32	-	(32)
EBITDA	227	137	117	20	(15)	(32)
Depreciation and amortisation	(43)	(62)	(6)	-	-	25
Interest income	-	-	-	-	39	(39)
Interest expense	(37)	-	(37)	-	(39)	39
Segmental operating profit*	147	75	74	20	(15)	(7)
Interest income	1	1	-	-	-	-
Interest expense	(15)	(21)	-	(9)	-	15
Profit before taxation	133	55	74	11	(15)	8
Taxation	(24)	(11)	(13)	(3)	3	-
Profit after taxation	109	44	61	8	(12)	8
Segmental assets	4 482	2 731	1 607	343	1 112	(1 311)
Segmental liabilities	1 418	1 383	711	249	386	(1 311)
Gross profit margin (%)	51.0	51.0				
Segmental results margin (%)	9.3	6.5	17.4	62.5		21.9
Operating cash flows before working capital changes	207	121	113	20	(15)	(32)
Movements in working capital	242	30	226	-	(14)	-
Cash generated/(utilised) by operations	449	151	339	20	(29)	(32)
Capital expenditure						
Property, plant and equipment	22	19	1	2	-	-
Intangible assets	34	23	1	10	-	-

* Refer to note 9 for further details on segments and segmental results.

Unaudited six months ended June 2019

Total Rm	Retail Rm	Financial Services Rm	Property Rm	Other Rm	Intra- group Rm
1 655	1 231	424	31	–	(31)
916	916	–	–	–	–
532	231	301	–	–	–
207	84	123	31	–	(31)
379	213	192	18	(15)	(29)
(34)	(56)	(5)	(1)	–	28
1	–	1	–	38	(38)
(24)	–	(30)	–	(32)	38
322	157	158	17	(9)	(1)
–	–	–	–	–	–
(21)	(11)	–	(10)	–	–
301	146	158	7	(9)	(1)
(61)	(34)	(26)	(2)	1	–
240	112	132	5	(8)	(1)
4 141	2 236	1 631	344	1 200	(1 270)
1 312	928	799	262	619	(1 296)
47.1	47.1				
19.1	12.8	37.3	54.8		3.2
381	189	151	18	23	–
(131)	23	(147)	1	(8)	–
250	212	4	19	15	–
34	33	1	–	–	–
37	30	7	–	–	–

NOTES TO THE CONDENSED GROUP FINANCIAL STATEMENTS

1. Basis of presentation and accounting policies

The condensed group financial statements for the six-month period ended 30 June 2020 have been prepared by the group's finance department, acting under the supervision of P Burnett, CA(SA), the finance director of the group.

These condensed group financial statements are prepared in accordance with and contain the information required by *IAS 34, Interim Financial Reporting*, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, the Financial Pronouncements as issued by the Financial Reporting Standards Council, the requirements of the Companies Act of Mauritius and the JSE Limited Listings Requirements for interim reports.

The accounting policies applied in the preparation of the condensed group financial statements are consistent with those applied in the preparation of the previous audited group annual financial statements.

2. Inventories

	Unaudited six months ended Jun 2020 Rm	Unaudited six months ended Jun 2019 Rm	Audited year ended Dec 2019 Rm
Merchandise for resale	309	256	310
Provision for inventory obsolescence	(18)	(16)	(18)
Goods in transit	102	65	57
	393	305	349

Inventory sold at less than cost during the six-month period ended 30 June 2020 amounted to R10 million (six months ended 30 June 2019: R15 million, year ended 31 December 2019: R25 million).

3. Trade and other receivables

	Unaudited six months ended Jun 2020 Rm	Unaudited six months ended Jun 2019 Rm	Audited year ended Dec 2019 Rm
Group			
Trade and loan receivables	3 539	3 529	3 784
Provision for impairment	(649)	(540)	(620)
Other receivables	40	34	24
	2 930	3 023	3 188
Provision for impairment as a % of gross receivables (%)	18.3	15.3	16.4
Credit impairment costs as a % of revenue (%)	28.7	19.7	20.6
Credit impairment costs as a % of gross receivables (%)	25.5	18.5	18.9
Retail			
Gross carrying amount	1 918	1 816	1 947
Performing (stage 1)	1 087	1 144	1 178
Underperforming (stage 2)	414	357	419
Non-performing (stage 3)	417	315	350
Provision for impairment	(398)	(334)	(366)
Performing	(109)	(103)	(101)
Underperforming	(123)	(100)	(117)
Non-performing	(166)	(131)	(148)
Net carrying amount	1 520	1 482	1 581
Performing	978	1 041	1 077
Underperforming	291	257	302
Non-performing	251	184	202
Provision for impairment as a % of gross receivables (%)	20.8	18.4	18.8
Performing (%)	10.0	9.0	8.6
Underperforming (%)	29.7	28.0	27.9
Non-performing (%)	39.9	41.7	42.3
Credit impairment costs as a % of revenue (%)	22.9	16.2	16.5
Credit impairment costs as a % of gross receivables (%)	27.4	21.9	22.2

NOTES TO THE CONDENSED GROUP FINANCIAL STATEMENTS
CONTINUED

3. Trade and other receivables (continued)

	Unaudited six months ended Jun 2020 Rm	Unaudited six months ended Jun 2019 Rm	Audited year ended Dec 2019 Rm
Financial Services			
Gross carrying amount	1 621	1 713	1 837
Performing (stage 1)	1 279	1 409	1 416
Underperforming (stage 2)	165	161	232
Non-performing (stage 3)	177	143	189
Provision for impairment	(251)	(206)	(254)
Performing	(71)	(55)	(73)
Underperforming	(72)	(59)	(87)
Non-performing	(108)	(92)	(94)
Net carrying amount	1 370	1 507	1 583
Performing	1 208	1 354	1 343
Underperforming	93	102	145
Non-performing	69	51	94
Provision for impairment as a % of gross receivables (%)	15.5	12.0	13.8
Performing (%)	5.6	3.9	5.1
Underperforming (%)	43.6	36.9	37.5
Non-performing (%)	61.0	64.3	49.9
Credit impairment costs as a % of revenue (%)	44.1	30.0	32.7
Credit impairment costs as a % of gross receivables (%)	23.2	14.8	15.5

3. Trade and other receivables (continued)

	Unaudited six months ended Jun 2020 Rm	Unaudited six months ended Jun 2019 Rm	Audited year ended Dec 2019 Rm
Movements in the provision for impairment were as follows:			
Retail			
Opening balance	(366)	(359)	(359)
Movement in provision (excluding disposals)	(32)	25	(7)
Credit impairment costs charged to profit or loss	(263)	(199)	(432)
Debts written off during the year, net of recoveries	231	224	425
Closing balance	(398)	(334)	(366)
Financial Services			
Opening balance	(254)	(252)	(252)
Movement in provision (excluding disposals)	3	46	(2)
Credit impairment costs charged to profit or loss	(188)	(127)	(285)
Debts written off during the year, net of recoveries	191	173	283
Closing balance	(251)	(206)	(254)
Non-performing trade and loan receivables (being accounts 120 days or more in arrears, as a percentage of the trade and loan receivable books) were as follows at the reporting dates:			
Retail	(%) 11.4	9.5	10.2
Financial Services	(%) 5.1	3.8	4.3

Credit-impaired trade receivables and loan receivables at the end of the current reporting period was R541 million and R177 million respectively.

Trade and loan receivables have repayment terms of between 1 and 36 months and attract interest based on rates as determined by the National Credit Act.

Included in trade and loan receivables as at 30 June 2020 are amounts approximating R1 071 million (30 June 2019: R870 million, 31 December 2019: R972 million) that contractually fall due in excess of one year. These amounts are reflected as current as they form part of the normal operating cycle.

Included in trade and loan receivables as at 30 June 2020 is a refund liability for expected returns of R6 million (30 June 2019: R12 million, 31 December 2019: R10 million).

NOTES TO THE CONDENSED GROUP FINANCIAL STATEMENTS
CONTINUED

	Unaudited six months ended Jun 2020 Rm	Unaudited six months ended Jun 2019 Rm	Audited year ended Dec 2019 Rm
4. Retail sales			
Retail sales are disaggregated as follows:			
Home textiles	596	615	1 249
Appliances and electronics	204	268	635
Fashion and footwear	24	33	67
	824	916	1 951
Retail sales are settled at a point in time.			
5. Fees from ancillary services			
Service fees	135	123	262
Insurance fees	83	70	154
Other	5	14	24
	223	207	440
6. Total trading expenses			
<i>Expenses by nature</i>			
Credit impairment losses			
Trade receivables – Retail	263	199	432
Loans receivable – Financial Services	188	127	285
Total credit impairment losses	451	326	717
Amortisation of intangible assets	12	9	19
Depreciation of property, plant and equipment	31	25	54
Marketing costs	127	110	243
Staff costs	207	212	434
Total staff costs	241	247	509
Less: disclosed under cost of Retail sales	(15)	(17)	(35)
Less: staff costs capitalised to intangibles	(19)	(18)	(40)
Other costs	165	148	318
Total other trading expenses	542	504	1 068
	993	830	1 785

7. Basic and headline earnings per share

The calculation of basic and headline earnings per share is based upon profit for the period attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue as follows:

	Unaudited six months ended Jun 2020 Rm	Unaudited six months ended Jun 2019 Rm	Audited year ended Dec 2019 Rm
Profit for the period	109	240	455
Headline earnings for the period	109	240	455
Weighted average number of ordinary shares in issue ('000)	104 401	104 394	104 364
Weighted average number of diluted shares in issue ('000)	105 540	105 778	106 125
Earnings per share (cents)			
Basic	104.4	229.9	436.0
Headline	104.4	229.9	436.0
Basic – diluted	103.3	226.9	428.7
Headline – diluted	103.3	226.9	428.7

8. Reconciliation of cash generated from operations

	Unaudited six months ended Jun 2020 Rm	Unaudited six months ended Jun 2019 Rm	Audited year ended Dec 2019 Rm
Profit before taxation	133	301	582
Deduct finance income earned	(527)	(532)	(1 093)
Add back finance income received	503	513	1 055
Profit from insurance cells	(5)	(4)	(11)
Depreciation and amortisation	43	34	73
Share-based employee share expense	9	6	15
Interest expense	52	45	101
Interest income	(1)	(1)	(4)
Operating cash flows before working capital changes	207	362	718
Movements in working capital	242	(112)	(281)
Increase in inventories	(44)	(1)	(45)
Decrease in trade receivables – Retail	79	39	(47)
Decrease in loans receivable – Financial Services	219	(155)	(226)
Increase in other receivables	(16)	16	26
Increase in trade and other payables	4	(7)	14
Decrease in provisions	–	(3)	(3)
	449	250	437

9. Group segmental analysis

The group's operating segments are identified as being Retail, Financial Services, Property and Other. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker, being HomeChoice International plc's executive directors. The group's reportable segments are unchanged from the previous reporting date.

Retail consists mainly of the group's HomeChoice and FoneChoice operations, whereas Financial Services represents the group's FinChoice operations. The group's property companies, which own commercial properties utilised mainly within the group, are included in the Property segment. The Other segment relates mainly to the results of the holding companies, as well as those of the HomeChoice Development Trust.

The chief operating decision-maker monitors the results of the business segments separately for the purposes of making decisions about resources to be allocated and of assessing performance. They assess the performance of Retail and Property segments based upon a measure of operating profit and Financial Services and Other segments based on a measure of operating profit after interest income and interest expense.

10. Related party transactions and balances

Related party transactions, similar to those disclosed in the group's annual financial statements for the year ended 31 December 2019, took place during the period and related party balances exist at the reporting date. Related party transactions include key management personnel compensation and intragroup transactions which have been eliminated on consolidation.

11. Seasonality

Due to its seasonal nature the Retail business has a history of generating higher revenues during the second half of the year.

12. Capital commitments for property, plant and equipment and intangible assets

	Unaudited six months ended Jun 2020 Rm	Unaudited six months ended Jun 2019 Rm	Audited year ended Dec 2019 Rm
Approved by the directors	20	19	19

13. Fair value of financial instruments

The carrying amounts reported in the statement of financial position approximate fair values. Discounted cash flow models are used for trade and loan receivables. The discount yields in these models use calculated rates that reflect the return a market participant would expect to receive on instruments with similar remaining maturities, cash flow patterns, credit risk, collateral and interest rates.

14. Contingent liabilities

The group had no contingent liabilities at the reporting date.

15. Events after the reporting date

No event material to the understanding of these condensed group financial statements has occurred between the end of the six-month period ended 30 June 2020 and the date of approval.

ADMINISTRATION

Country of incorporation

Republic of Mauritius

Date of incorporation

9 April 2020

Company registration number

C171926

Registered office

c/o Sanlam Trustees International Limited
Labourdonnais Village
Mapou
Riviere du Rempart
31803
Mauritius

Company secretary

Sanlam Trustees International (Mauritius)

Auditors

PricewaterhouseCoopers
Republic of Mauritius

Corporate bank

Butterfield Bank (Jersey) Limited

JSE listing details

Share code: HIL
ISIN: MT0000850108

Sponsor

Rand Merchant Bank, a division of FirstRand
Bank Limited

Transfer secretaries

Computershare Investor Services Proprietary
Limited

DIRECTORATE

Executive directors

S Maltz (Chairperson)*, G Lartigue (Chief Executive Officer),
P Burnett

Non-executive directors

A Chorn, A Ogunsanya* (alternate), E Gutierrez-Garcia*,
R Hain, P Joubert (Lead Independent Director)

* Non-independent

