Annual **results** 2018

HOMECHOICE INTERNATIONAL PLC

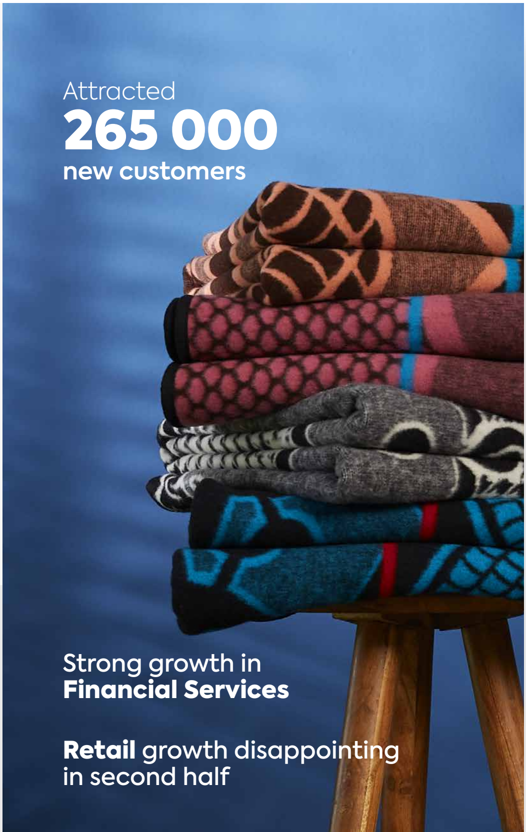

strawb

STEADY GROWTH IN A DIFFICULT RETAIL ENVIRONMENT

Revenue
+8.5%
to **R3.2 billion**

Credit extended on digital channels
+43.9%
to **38.5% of all credit**

Cash generated from operations
+32.0%
to **R474 million**



Attracted
265 000
new customers

Strong growth in
Financial Services

Retail growth disappointing in second half

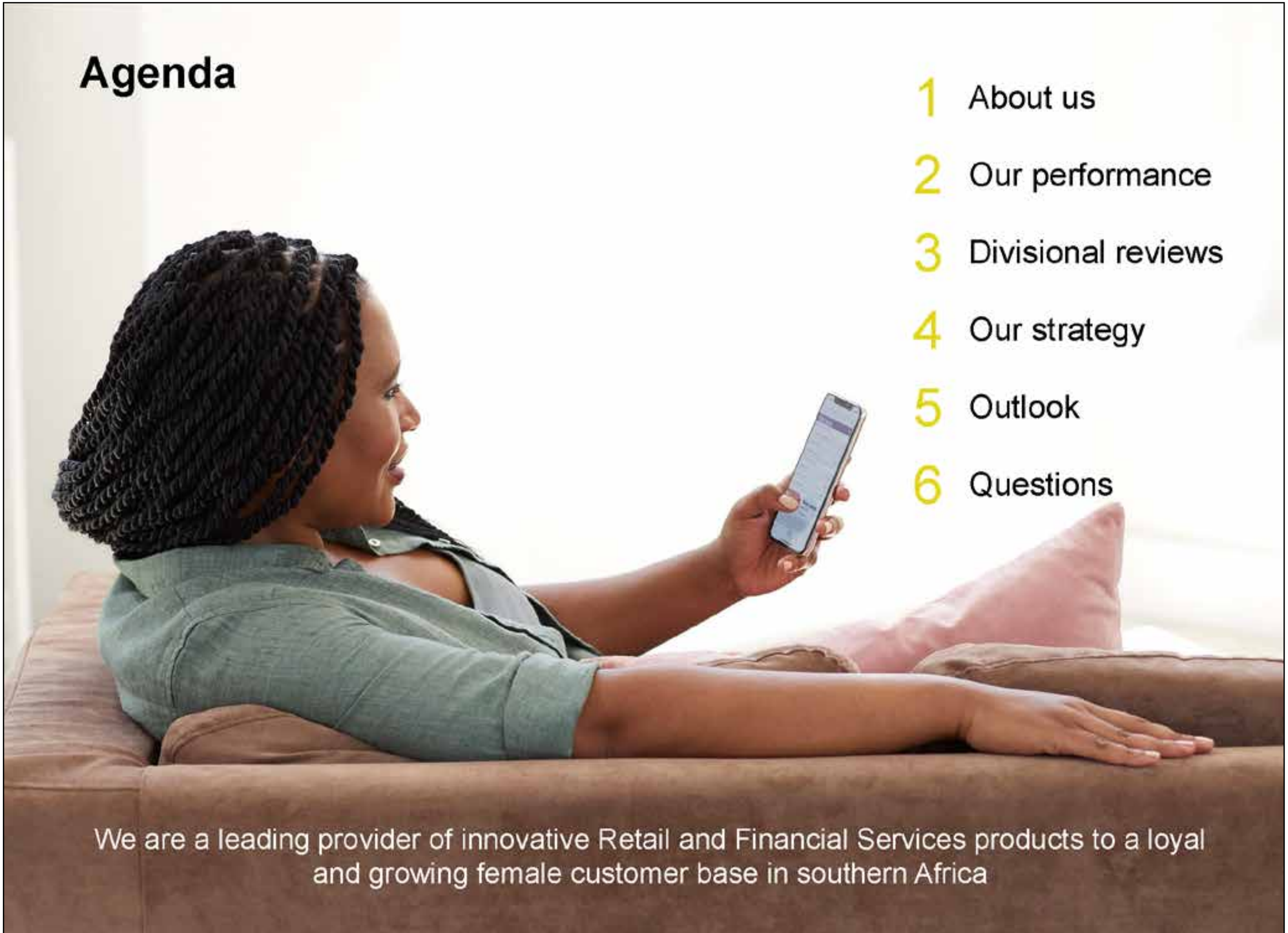
Operating profit
+2.6%
to **R763 million**

Earnings per share
+2.1%
to **506.8 cents**

Final dividend 99.0 cents/ total dividend
+1.6%
to **194.0 cents per share**


annual
results
2018
HiL PLC

Agenda



We are a leading provider of innovative Retail and Financial Services products to a loyal and growing female customer base in southern Africa

1

About us

Two divisions – aspirational Retail and Financial Services

RETAIL

- Omni-channel retail providing shopping convenience with home delivery
- Curated range of quality own-brand textiles and homeware merchandise
- Selected range of well-known external brands supplements private label
- Affordable and accessible credit enables sales
- Empowering customers to create a home they love

Revenue	Operating Profit
R2 501m	R399m
77%	57%

FINANCIAL SERVICES

- A FinTech business offering a range of personal lending, insurance and value-added financial products primarily on digital platforms
- Customers sourced from Retail customer base with increasing external acquisition
- Putting customers in control of their financial well-being

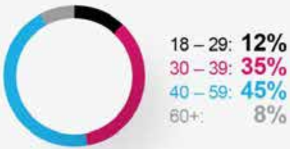
Revenue	Operating Profit
R746m	R292m
23%	42%

* 1% operating profit attributable to Property segment

Our customer is female

TARGET FOCUSED ON MASS MIDDLE MARKET
with an average monthly income of
R10 000

APPEALING TO WOMEN OF ALL AGES

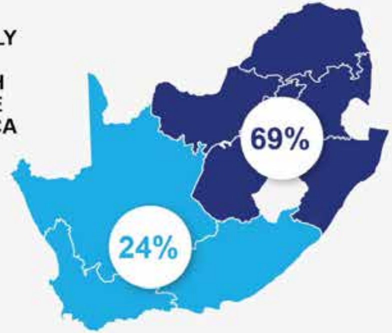


CUSTOMERS REGISTERED FOR DIGITAL ACCESS

RETAIL 24%

FINANCIAL SERVICES 86%

BASED MAINLY IN URBAN AREAS WITH 7% OUTSIDE SOUTH AFRICA



MULTI-CHANNEL APPROACH TO NEW CUSTOMER ACQUISITION

30 300

807 000

3 million

Aspirational retail and financial products to suit her lifestyle

INNOVATIVE PRODUCT AND CREDIT OFFERS

FASHION AND FOOTWEAR

FURNITURE

BEDROOM TEXTILES

FINCHOICE

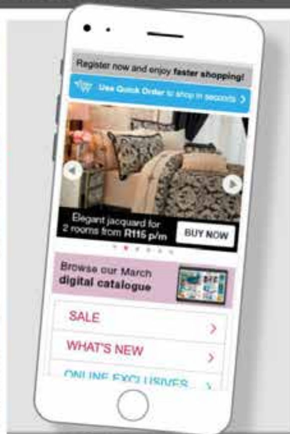
APPLIANCES AND ELECTRONICS

OTHER HOME TEXTILES

COOKWARE

Omni-channel with increasing digital component

OMNI-CHANNEL CUSTOMER OFFERING



CONTACT CENTRE	SALES AGENTS	MOBILE / WEBSITE / SOCIAL MEDIA	SHOWROOM AND CHOICECOLLECT
57% (2017: 64%) ↓	3% (2017: 3%)	39% (2017: 32%) ↑	1% (2017: 1%)

2 Our performance

Financial performance

Revenue
+8.5%
to R3.2 billion

EBITDA
+3.6%
to R821 million

Retail sales
+6.3%
to R1.9 billion

EPS
+2.1%
506.8 cents

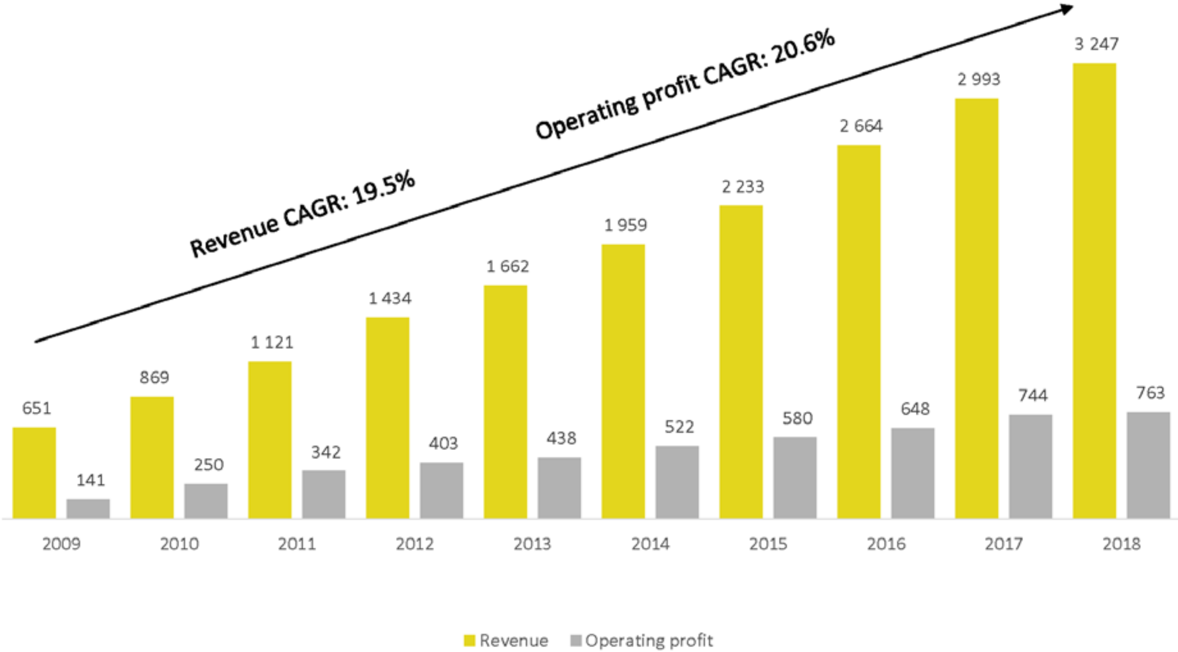
Cash generated from operations
+32.0%
to R474 million

Loans disbursed
+21.5%
to R1.8 billion

DPS
+1.6%
to 194.0 cents

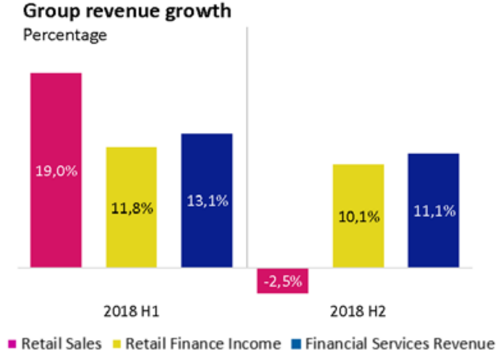
Digital credit extended
+43.9%
to R1.6 billion

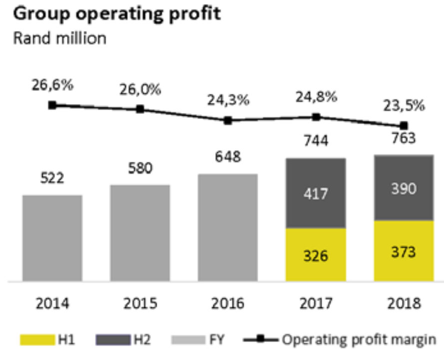
A history of profitable growth



2018 – a year of two halves

- Disappointment in Retail:
  - H1 +19% sales growth; H2 -2.5% decrease
  - Non-delivery of catalogues and parcels during six-month South African Post Office disruption
  - Digital sales unable to compensate, new commerce engine delayed to Q1 2019
  - Ineffective TV marketing campaigns drove weak response
- Financial Services more consistent growth:
  - H1 +30% loan disbursements growth; H2 +15% growth – curtailed to defensively position the group during the strike
- Lower operating profit conversion – unable to cut costs fast enough to compensate for lower sales and impact of promotional activity on margin



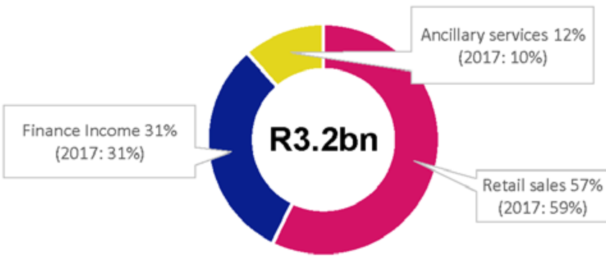


Moderate growth while continuing to invest

- Revenue growth of 8.5% up to R3.2 billion
  - Retail sales up 6.3% to R1.9 billion
  - Finance income up 8.9% with strong Financial Services disbursements up 21.5%
  - Ancillary services driven by growth in standalone insurance business
- Reduction in gross margin – increased promotions, higher fulfilment costs and volatile Rand
- Debtor costs – higher legal write-offs partially off-set with provision reduction
- Trading expenses up 9.6%
  - Marketing and showroom to drive sales
  - Investment in technology, channel and skills
- Softened trading performance reflected in operating profit up 2.6% to R763 million

	2018 Rm	% change	2017* Rm
Revenue	3 247	8.5	2 993
Retail sales	1 860	6.3	1 749
Finance income	1 016	8.9	934
Ancillary services	371	19.3	311
Gross profit margin	49.6%		51.2%
Debtor costs	(557)	10.9	(502)
Other trading expenses	(993)	9.6	(906)
EBITDA	821	3.6	793
Operating profit	763	2.6	744

Revenue contribution



* Restated based on the application of IFRS 15, Revenue from contracts with customers

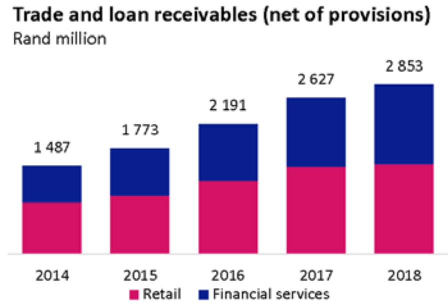
IFRS standards and credit regulations

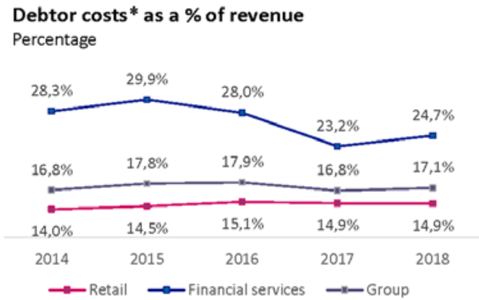
	Impact
IFRS 9 Classification and Measurement of Financial Instruments	• Debtor provisions change from incurred loss to expected loss basis • No impact to earnings, adjustment to opening retained income • Comparable impairment provisions: – Retail 21.0% (was 17.9% under IAS 39) – Financial Services 16.3% (was 14.0%) • Derecognition of revenue on credit impaired accounts – no impact on profit – Financial Services only as previously applied in Retail
AUTHENTICATED EARLY DEBIT ORDER COLLECTION (Debicheck)	• New debit order system to prevent fraudulent abuse • Electronic system requiring prior approval from customers – puts control in customers' hands • Required by 31 October 2019, compulsory from 31 October 2020 • Potential to have negative effect on disbursements
DEBT INTERVENTION (Debt relief)	• Proposed amendment to NCA to provide relief to over-indebted lower income customers falling outside Debt Counselling Act • Consensus is that lower income earners will find access to credit more difficult and cost of credit will increase

Stable credit performance in both businesses

- Retail debtor costs* up 6.9% relative to revenue growth of 7.4%
  - Write-offs increased due to account take-over fraud in digital and higher risk business on a large campaign
- Financial Services debtor costs up 20.1% relative to disbursements growth of 21.5%
  - Write-offs marginally increased due to higher risk business disbursed in late 2017
- Post write-off recoveries improved due to better yields and improved book sale pricing

	Average term		Average balance	
	2018	2017	2018	2017
Retail	18.3	18.7	R3 577	R3 540
Fin Serv	19.7	20.4	R9 474	R10 444





* Debtor cost includes bad debts written off net of recoveries, and movements in provisions

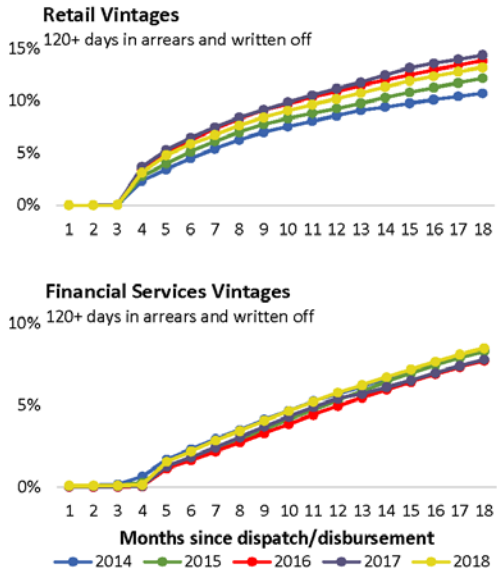
Quality of new and repeat business stable

Retail

- Improvements from fraud tool
- Integrated a new credit bureau
- Stricter score cut-off changes
- Vintages showing improved trends
- Maintained existing:new customer mix of 73:27

Financial Services

- Marginal deterioration of higher risk new business booked end 2017
- Scorecard adjustments and revised credit limits implemented in mitigation
- External customer acquisition on shorter terms and lower balances
- New:reloan mix of 16:84 (2017 21:79)



	Applications accepted		Not taken up	
	2018	2017	2018	2017
Retail	68.3%	69.6%	2.8%	3.5%
Financial Services	81.3%	76.6%	3.5%	2.4%

Stable debtors' portfolio

		2018 IFRS 9	% change	2017 IFRS 9*	2017 IAS 39**
Retail					
Gross receivables	Rm	1 865	2.0%	1 829	1 784
Active accounts		600 789	3.4%		580 895
Debtors costs as % of revenue	%	14.9%			14.9%
Provision as % of receivables	%	19.3%		21.0%	17.9%
Non-performing loans (120+ days)	%	9.6%		9.4%	9.9%
Active account holders able to purchase	%	70.3%			70.0%
NPL cover	times	2.0		2.2	1.8
Financial Services					
Gross receivables	Rm	1 599	14.8%	1 393	1 352
Active accounts		143 303	19.3%		120 140
Debtors costs as % of revenue	%	24.7%			23.2%
Provision as % of receivables	%	15.8%		16.3%	14.0%
Non-performing loans (120+ days)	%	4.1%		4.2%	4.2%
Active account holders able to reloan	%	88.5%			88.4%
NPL cover (times)	times	3.8		3.9	3.3

*IFRS9 effective 1 January 2018

**IAS39 applied for 2017 Restated financial year based on the application of IFRS15

- Strong book with good growth in active accounts
- Healthy levels of accounts able to utilise credit
- NPL stable with conservative NPL coverage in both books

Expense growth to drive revenue

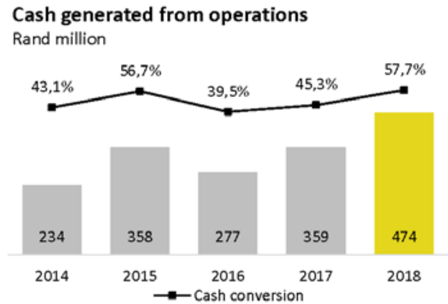
	2018 Rm	% change	2017 Rm	2018 % of rev	2017 % of rev
Marketing expenses (including Showroom)	425	18.5%	359	13.1%	12.0%
Customer Operations and Support	162	11.0%	146	5.0%	4.9%
Technology	83	15.2%	72	2.6%	2.4%
Staff and Other	264	(4.1%)	275	8.1%	9.2%
Amortisation and depreciation	58	8.7%	54	1.8%	1.8%
Total Trading Expenses	993	9.6%	906	30.6%	30.3%

- Higher marketing expenses to stimulate sales growth, investment in customer experience and four additional showrooms
- Customer operations impacted by increase in back-end processing and collections teams, and increase in payments by debit orders
- Increased technology costs in data analytics, digital transformation, self-service platforms and legacy transformation
- Curtailed staff recruitment on review of structures

Strong cash generation and improved gearing

- Cash from operations up 32% to R474 million from effective working capital management
  - Lower Retail trade receivables due to poor H2 sales
  - Increase in shorter-term loans
  - Higher stock levels given trade, off-set with reduced in-transit
- Once-off tax charge on changes to SARS debtors' ruling
- Increased capex supports investment cycle
- Cash conversion* improves to 57.7% from 45.3%
- Conservative gearing – net debt to equity reducing from 28.2% to 27.6% (22.2% excluding property finance)

	2018 Rm	% change	2017 Rm
Cash flows before working capital changes	809	0.4%	806
Movements in working capital	(335)	(25.1%)	(447)
Cash generated from operations	474	32.0%	359
Interest and taxation	(238)	22.7%	(194)
Capex	(126)	>100%	(56)
Free cash before dividends and financing	110	1.3%	109



* Cash conversion = cash from operations divided by EBITDA

Operational focus on delivery of strategy

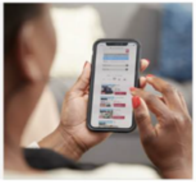
INNOVATIVE PRODUCT OFFERING

- Good response to revitalised cookware and appliance ranges
- 120+ external retail brands now offered
- 70% growth in funeral insurance premiums
- Airtime, data and electricity services launched on mobi platform

DIGITAL TRANSFORMATION

- 39% digital extended credit
- 16% digital Retail sales contribution
- 81% of loan transactions are digital (up from 71%)
- FinChoice MobiMoney™ adoption accelerating online engagement
- Continued roll-out of digital customer self-services

INSIGHT-LED CUSTOMER GROWTH



- 265 000 new group customers acquired
- 10% growth in group customer base to 874 000
- Marketing customer segmentation model implemented
- Analytics enabling customer personalisation

ENHANCE CUSTOMER EXPERIENCE

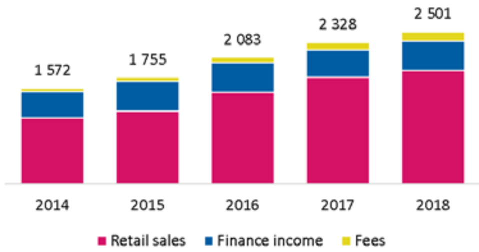
- Opened second distribution centre in Gauteng
- Launched four showrooms and trialled ChoiceCollect containers
- Significant improvement in FinChoice Mobi journeys
- Existing customer home delivery days improved from 7.5 to 6.1

Divisional reviews

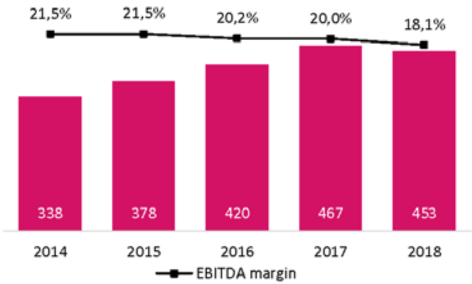
Modest retail growth, disappointing second half

- Retail sales R1.8 billion, up 6.3% after strong H1(+19%). H2 (-2.5%) impacted by:
  - SAPO operational issues impacting delivery of catalogues, parcels and customer returns
  - Poor execution of TV campaigns – over bought stocks
  - Delayed implementation of new ecommerce site engine with limited opportunity to enhance digital engagement
- GP margin down from 51.2% to 49.6%
  - High levels of promotional activity required to drive sales and clear excess stocks
  - Higher fulfilment costs as delivery switched from SAPO to courier
- Cost curtailment across business whilst maintaining investment in strategic areas
- EBITDA down 2.9% to R453 million – cost reduction not sufficient to compensate weak topline

Retail Revenue up 7.4% to R2 501m
Rand million



Retail EBITDA down 3% to R453m
Rand million



Reducing risk with South African Post Office (SAPO)

What we did:

- Worked with SAPO; catalogues pre-sorted to bypass mail centres direct to hubs avoiding backlog
- Reduced volume of parcels delivered by SAPO from 23% to 15% currently
- Direct customer engagement – customer calling, mobile smartphone technology

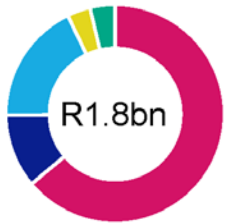
Going forward:

- Reducing volume of parcels delivered by SAPO <10%
- Renegotiated courier costs, increased use of ISP
- Focus on obtaining and validating street addresses
- Trialling other "on-the-street" deliveries for catalogues
- Encourage click-and-collect of parcels and catalogues in showrooms and ChoiceCollect
- Drive digital migration harder

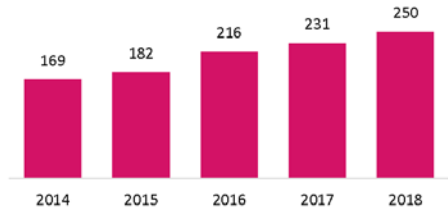
Continued progress to digital department store

- Merchandise mix
  - Good response to innovation in cookware
  - Rebalance contemporary bedding design to HomeChoice brand formula
- Continued roll-out of external brands
  - 120+ brands on offer (16.0% contribution)
  - Strong in appliances, electronics and footwear
  - Innovation and newness for customers
- Digital growth relatively slower with delays in new platform
  - 24% transactions on digital channel
  - 16% contribution to sales
- Acquiring 20 000+ new customers per month
  - Television provides broader reach
  - More opportunity to use targeted acquisition

Retail sales



New Retail customers acquired
Thousands



Extending showroom reach and ChoiceCollect containers

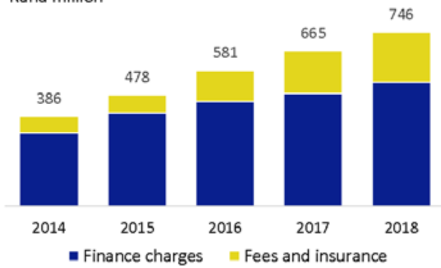
- Opened 4 additional showrooms with great customer engagement
- Showcase breadth of product range
- Key features
  - Attracting 30% new customers
  - High cash sales proportion >30%
  - Over 80% customers click and collect
  - Drives 35% new loans activity
- Potential for 20+ across the country

- 2 containers in nearby townships
- Bringing the brand close to her home
- Dual function: sales and parcel collection
- Catalogue distribution
- Partner with local community
- Plan to open 10 by end 2019
- Potential for 100+ across the country

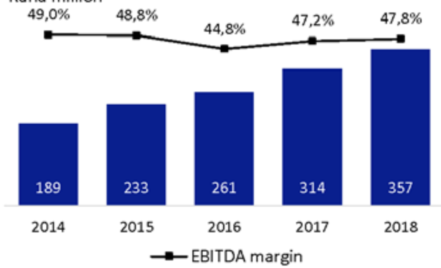
Good growth for Financial Services

- Revenue up 12.2% to R746 million, off 21.5% growth in loan disbursements to R1.8 billion
- Strong growth in 3-month MobiMoney facility, driving desired reduction in term and balance
  - Average term from 20.4 to 19.7 months
  - Average balance from R10 444 to R9 474
- Income diversification continues with 70% increase in funeral insurance premiums
- Continued digitalisation enabling trading costs contained to 1.9% growth
- Debtor cost growth at 20.1% from a low base in 2017 and growth in debtors' book of 18.3%
- Operating profit up 13.6% to R292 million

Financial Services revenue up 12% to R746m
Rand million

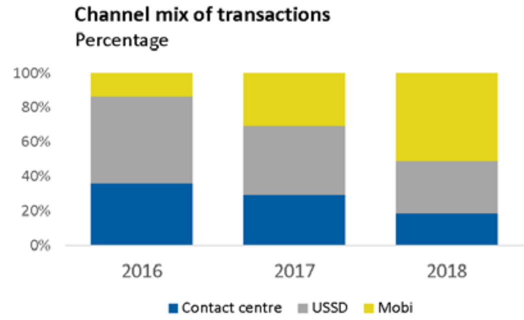


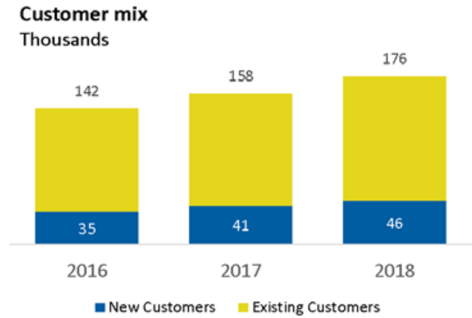
Financial Services EBITDA up 14% to R357m
Rand million



Digital adoption accelerates to over 80%

- Digital transaction mix increased to 81.4% (from 70.7%)
  - Scaling digital-only MobiMoney product drives customers' adoption
  - Focus on mobi funnel improves conversion rate from 33% to 47%, driving new loan digital mix to 38.7% (from 16.8%)
  - Airtime, data and electricity value-add products further drive digital engagement
  - 86.0% of active customer base now registered for digital platforms
- 46 000 new customers acquired
  - 14 000 acquired digitally from external affiliate websites
    - Represents 30% of new customers and 13% of new loan disbursements
    - Lower-value, shorter-term lending with acceptable credit performance
  - Remainder from Retail database





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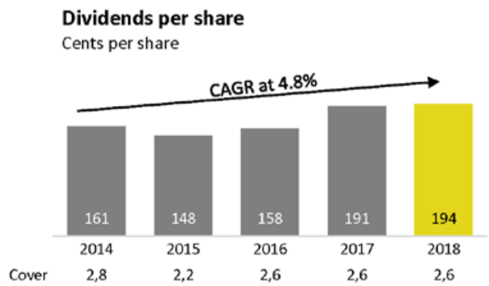
Our strategy

Strategy delivering consistent returns



Transformation journey to a digital player progressing

HomeChoice (Retail)

THEN

Mail order retailer

NOW

Omni-channel retailer

FUTURE

DIGITAL DEPARTMENT STORE

DIGITALISATION

FinChoice (Financial Services)

THEN

Personal loans

NOW

Financial services and insurance

FUTURE

FINTECH PLATFORM

DIVERSIFICATION

Retail's strategic focus areas

INNOVATIVE PRODUCT OFFERING

- Innovative, **differentiated product** for our growing customer base
- Additional **external brands**
- Merchandise margin optimised with **deeper data analytics**
- Introduce **more flexible credit products and terms**

Innovation

External brands

DIGITAL TRANSFORMATION

- **Oracle commerce engine** and cloud investment
- Expand web-only product
- **Social media sales** conversion
- Replatforming legacy systems

Increase in digital sales contribution

INSIGHT-LED CUSTOMER GROWTH

- Drive **existing customer** retention
- Leverage power of our **customer database** through data science
- Drive **personalisation of our offer** through customer insights
- Leverage **marketing model segmentation**, right time to call

Customer acquisition and retention

ENHANCE CUSTOMER EXPERIENCE

- **Brand refresh**
- Omni-channel user experience (UX) focus
- Channel expansion – **5 showrooms and 10 ChoiceCollect**
- Improve **origination and delivery processes**
- Convenient, **easy-to-pay mobi** process

Channel expansion

Reducing delivery days

Financial Services' strategic focus areas

INNOVATIVE PRODUCT OFFERING

- Grow **insurance product** suite to drive premiums
- Broaden MobiMoney **e-wallet** to increase engagement
- Pilot MobiMoney **credit card** to empower point-of-sale transactions
- Ramp up new **Botswana** loan operations

Insurance growth

Innovation

DIGITAL TRANSFORMATION

- Revamp mobi **front-end design** to improve user experience
- Introduce **mobile app** for customer download
- Explore digital **loyalty programme** to recognise positive customer engagement

Digital usage

INSIGHT-LED CUSTOMER GROWTH

- Investment in **machine learning** algorithms to enhance decisions and offers
- Drive **personalisation** of product offers through data
- Deepen **digital acquisition** of new customers
- Manage shift to **external customer acquisition** through digital channels

Customer diversification

ENHANCE CUSTOMER EXPERIENCE

- Launch **revamped brand** that speaks to our fintech credentials
- Shift **more services to online** platforms to deepen her online experience
- **Reduce contact centre talk times** through digital enablement
- Pilot **webchat** interactions

Digital customer experience

Changing delivery reach and shifting omni-channel offering

RETAIL DELIVERY REACH

	FROM	TO
HOME DELIVERIES	64%	70%
SAPO	23%	10%
CLICK AND COLLECT	6%	15%
REST OF AFRICA	7%	5%

OMNI-CHANNEL CUSTOMER OFFERING

	CONTACT CENTRE	SALES AGENTS	MOBILE / WEBSITE / SOCIAL MEDIA	SHOWROOM
FROM	57%	3%	39%	1%
TO	47%	3%	45%	5%

Modern business solutions enable innovative customer experience

Using modern technology stack

- Cloud enabled services
- Micro services/API

Transforming to best-of-breed business solutions

- Oracle e-commerce engine
- Debtors:
  - Adept origination decision engine
  - Financier credit account management
- Oracle merchandise system
- Insurance system

Enhancing customer experience

- Mobi-1st delivery
- Innovative front-end customer focus
- Digital self-service functionality

5

Outlook

Regaining lost ground in uncertain environment

- Uncertainty in the environment will continue
  - Consumers' discretionary income remain under pressure
  - Infrastructural challenges with election uncertainties
  - Rand's depreciation and further volatility could impact costs
- Investments driving growth
  - Innovative, differentiated quality products through product development and range extension
  - Retention of existing customer base, more targeted external acquisition
  - Omni-channel offering with additional showrooms and ChoiceCollect containers
  - Digital platforms, technology re-platform to best-of-breed
  - Customer experience focus – from order to delivery
- First eight weeks of 2019 – trading at more normalised levels
- Medium-term targets unchanged

6 Questions

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Summarised group financial **statements**

for the year ended 31 December 2018
and cash dividend declaration

HOMECHOICE INTERNATIONAL PLC

COMMENTARY

Introduction

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 expanding 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 870 000 active customers. The group operates through two trading operations, Retail and Financial Services.

		31 Dec 2018*	Restated 31 Dec 2017**	% change
Group				
Revenue	(Rm)	**3 247**	2 993	8.5
EBITDA	(Rm)	**821**	793	3.6
EBITDA margin	(%)	**25.2**	26.5	
Operating profit	(Rm)	**763**	744	2.6
Operating profit margin	(%)	**23.5**	24.8	
Headline EPS (HEPS)	(cents)	**507.7**	504.1	0.7
Cash generated from operations	(Rm)	**474**	359	32.0
Final dividend declared/paid	(cents)	**99**	109	(9.2)
Total dividend	(cents)	**194**	191	1.6
Retail				
Revenue	(Rm)	**2 501**	2 328	7.4
Retail sales	(Rm)	**1 860**	1 749	6.3
Gross profit margin	(%)	**49.6**	51.2	
EBITDA	(Rm)	**453**	467	(2.9)
EBITDA margin	(%)	**18.1**	20.1	
Financial Services				
Loan disbursements	(Rm)	**1 784**	1 468	21.5
Revenue	(Rm)	**746**	665	12.2
EBITDA	(Rm)	**357**	314	13.7
EBITDA margin	(%)	**47.8**	47.2	

* IFRS 9, Financial Instruments, *adopted effective 1 January 2018. IAS 39 applied for 2017 financial year.*
** *Restated based on the application of* IFRS 15, Revenue from Contracts with Customers.

The Retail business is an omni-channel retailer on a digital transformation journey, with considerable expertise in both merchandise and credit management to the mass market. We provide the customer with the convenience to shop with us through their preferred channel, utilising digital platforms, contact centres, sales agents' networks and showrooms. The Retail product offering comprises a curated range of quality homewares and textiles under the trusted HomeChoice brand, as well as an increasing contribution from electronics, home appliances and footwear, featuring some 120 well-known external brands. Affordable and accessible credit enables our customers to create a home they love.

Our Financial Services business is a FinTech business with a contact centre providing digital support. The 24/7 provision of personal lending, value-added services and insurance products to a growing mobi-savvy target market puts customers in control of their financial well-being.

Trading performance

Group revenue increased by 8.5% to R3.2 billion, with a solid contribution from the Financial Services business with loan disbursements up 21.5%. This was diluted by weaker Retail sales of 6.3% growth, largely attributable to significant upheavals at South African Post Office (SAPO), currently a key delivery business partner of HomeChoice.

Pleasingly, the group continues to attract new customers with more than 20 000 acquired monthly. The group's customer base increased by 10.0% over the period.

The group's strategy to diversify its income streams beyond finance income was boosted by fees from ancillary services, comprising insurance and service fees, increasing by 19.3% to R371 million.

Gross profit reduced to 49.6% with higher marketing and fulfilment costs and an increase in promotional activity in response to sales challenges.

Group earnings before interest, tax, depreciation and amortisation (EBITDA) increased by 3.6% to R821 million. A reduction in expenses could not sufficiently mitigate the weaker top-line growth. As a result the EBITDA margin declined by 130 bps to 25.2%.

Operating profit increased by 2.6% to R763 million. Headline earnings increased by 1.3% to R529 million and HEPS increased by 0.7% to 507.7 cents.

The group declared a final dividend of 99.0 cents, bringing the total dividend for the year to 194.0 cents per share, up 1.6% on the previous year. A dividend cover of 2.6 times was maintained.

Digital transformation is a key strategic focus across the group. Credit extended via digital channels increased by 43.9% to R1.6 billion and now accounts for 38.5% (2017: 32.4%) of total credit extended. The rapid adoption of FinChoice MobiMoney™, our three-month digital-only facility product, has increased transactions generated on digital platforms to 81.4% of all loan transactions (2017: 70.7%).

RETAIL

disappointing second-half performance impacts full year

Retail revenue increased by 7.4% to R2.5 billion. After a strong sales growth of 18.9% in H1 the second half of the year was characterised by significant delays in SAPO delivery of catalogues and parcels. This lasted for four of the six months culminating in a 2.5% reduction in H2 sales.

Catalogues currently serve as the primary showcase of our products and drive engagement to shop. The non-delivery of monthly catalogues had a substantial impact on sales. The group spent significant effort to assist SAPO to deliver the catalogues by pre-sorting with direct delivery to hubs, bypassing the mail centres which were experiencing the backlogs. We also accelerated the roll-out of our showrooms and container hubs to provide additional channels for clients to collect their merchandise.

Further, new customer sales were lower than expected due to poor execution of TV campaigns. Advertised merchandise veered away from our more traditional HomeChoice formula and resulted in an over-investment in stock.

Gross profit margin declined to 49.6% from the 51.2%. In response to the challenges, higher promotional activity was required to clear stocks and drive sales, resulting in lower average order values in H2. Fulfilment expenses increased as deliveries were moved from SAPO to more expensive courier options to ensure customers were able to receive their orders. The distribution contribution of SAPO reduced from 23% to less than 15% at the height of the backlog and will be reduced to 10% in 2019.

Despite these headwinds Retail added 250 000 new customers during this period. The contribution from external brands has increased to 16.0% with more than 120 external retail brands on offer. Supporting the private label, the brands provide variety to existing customers and attract new customers looking for quality homeware, fashion, furniture and personal electronics.

Digital sales contributed 16.3% (2017: 15.4%) of Retail sales. Implementation of the new e-commerce site was delayed to early 2019 with limited upgrades to the existing engine. This resulted in slower digital usage. We expect to finally be able to capitalise on the new engine's extensive capabilities in 2019.

Retail continued to invest in omni-channel with the roll-out of showrooms in key locations. One showroom was opened in H1 and a further three showrooms were opened in H2, including a flagship on Rissik Street, Johannesburg. A trial of two ChoiceCollect containers were launched in townships near Cape Town. These containers will serve a dual purpose – providing a click and collect location close to customers' homes, as well as the ability to place orders. We are pleased with the customer response from the showrooms and ChoiceCollect, with further roll-outs planned for 2019.

The impact of the disappointing sales and lower gross profit, as well as the investment in strategic growth pillars, have translated in an EBITDA decrease of 2.9% to R453 million. The business is, however, well positioned to continue its strong historical performance in 2019.

acceleration in digital adoption

Revenue increased by 12.2% to R746 million, supported by an increase in finance income of 10.1% and a 17.6% growth in ancillary fees and insurance income. EBITDA grew by 13.7% to R357 million, highlighting the annuity aspect of the Financial Services business.

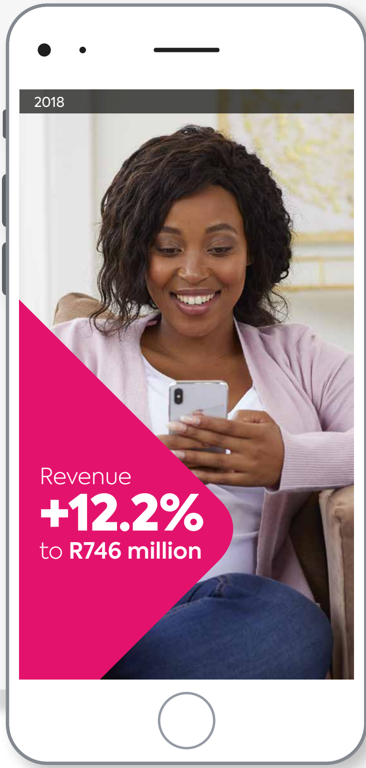
Loan disbursements increased by 21.5% to R1.8 billion. Pleasingly, loans to existing customers increased to 84.5% (2017: 79.1%) of total disbursements, with strong acceptance of the three-month digital-only facility product FinChoice MobiMoney™.

46 000 new customers were acquired during the year, increasing the base by 11.4% to 176 000. Financial Services has traditionally leveraged the Retail customer base using data analytics, payment performance, and risk and response scorecards to offer products to selected qualifying Retail customers. This has resulted in consistently strong credit performance from this preselected base. A complementary strategy to acquire external customers from digital affiliate sites was pursued, adding 14 000 additional "digital ready" customers to the base. Credit performance from this strategy was conservatively managed, using lower credit limits and shorter term loans to control exposure.

Financial Services continues to grow as a leading FinTech platform in the mass market. With both a USSD and mobi offering, 86% of customers are now registered on our digital platforms. The innovative MobiMoney product has been well received by customers and has further accelerated digital adoption and engagement. The short term nature of the product was instrumental in reducing the average loan term from 20.4 months to 19.7 months and loan size from R10 444 to R9 474.

The richer mobi platform creates a portal for a multitude of products and value-added services to be offered to customers via their smartphones. The introduction of airtime, data bundles and electricity sales has indicated the potential opportunity to increase customers' digital engagement with the group.

Insurance has demonstrated strong growth in the current funeral product offering. Gross written premiums increased by 70% over 2017. The opportunity remains to add more personal insurance products to the portfolio. This vertical represents an attractive growth opportunity to diversify income and increase customers' share of wallet.



Managing credit risk

The group continued to grow a quality credit book with gross trade and loan receivables increasing by 7.5% (on an IFRS 9 comparable basis) to R3.5 billion. Group debtor costs, at 17.2% of revenue, was marginally above the 16.8% in 2017 and remains within the group's acceptable risk tolerances.

Credit performance for the period is summarised below:

		31 Dec 2018*	31 Dec 2017 (comparable)**	31 Dec 2017 (restated)***	% change on comparable
Group					
Gross trade and loans receivable	(Rm)	**3 464**	3 222	3 136	7.5
Debtor costs as a % of revenue****	(%)	**17.1**		16.8	
Retail					
Number of active accounts		**600 789**		580 895	
Active accounts able to purchase	(%)	**70.3**		70.0	
Gross trade and loans receivable	(Rm)	**1 865**	1 829	1 784	2.0
Debtor costs as a % of revenue	(%)	**14.9**		14.9	
Provision for impairment as a % of gross receivables	(%)	**19.3**	21.0	17.9	
Non-performing loans (NPLs) (>120 days)	(%)	**9.6**	9.4	9.9	
NPL cover	(times)	**2.0**	2.2	1.8	
Financial Services					
Number of active accounts		**143 303**		120 140	
Active accounts able to reload	(%)	**88.5**		88.4	
Gross trade and loans receivable	(Rm)	**1 599**	1 393	1 352	14.8
Debtor costs as a % of revenue	(%)	**24.7**		23.2	
Provision for impairment as a % of gross receivables	(%)	**15.8**	16.3	14.0	
Non-performing loans (NPLs) (>120 days)	(%)	**4.1**	4.2	4.2	
NPL cover	(times)	**3.8**	3.9	3.3	

* IFRS 9, Financial Instruments, *adopted effective 1 January 2018.*
** *2017 assuming* IFRS 9, Financial Instruments, *adopted.*
*** *Restated based on the application of* IFRS 15, Revenue from Contracts with Customers. *IAS 39 applied for 2017 financial year.*
**** *Debtor costs include bad debts written off net of recoveries, as well as movements in provisions.*

Retail debtor costs as a percentage of revenue was stable at 14.9% (2017: 14.9%). The implementation of a new fraud prevention tool, introduction of an additional credit bureau and pre-scoring for TV campaigns have translated into improved Retail vintages. Provision for impairment of trade receivables has decreased to 19.3% (comparable 2017: 21.0%) with a marginal decline in the NPL cover of 2.0 times, which remains conservative.

Financial Services' debtor costs as a percentage of revenue increased to 24.7% (2017: 23.2%). The increase is primarily attributable to higher write-offs arising from disbursements booked early in 2018, off-set by improved recoveries from external debt collectors and a profitable book sale of written off accounts. The provision for impaired loans has decreased to 15.8% (comparable 2017: 16.3%) of the book, marginally decreasing the NPL cover from 3.9 to 3.8 times, which remains very conservative. The Financial Services' business continues to benefit from lending primarily to targeted Retail customers who have demonstrated good payment behaviour.

Strong cash generation

Cash generated from operations increased by 32.0% to R474 million, driven by a decrease in Retail credit growth in H2, good cash collections, a reduction in loan terms and actively managing cash requirements in working capital. Consequently, the cash conversion rate (cash generated from operations expressed as a percentage of EBITDA) increased to 57.7%. The strong cash generation capability of the business is evidenced by the fact the group has managed to grow a gross credit book of more than R3.5 billion while maintaining a net debt to equity ratio (excluding property) of 22.2%.

The total net debt to equity ratio has decreased from 28.2% at December 2017 to 27.6%, comfortably below the board's upper limit of 40.0%.

Capital expenditure, at R126 million, has increased notably in this period. The group has invested in an additional distribution centre to support future growth, new channels by rolling out showrooms and ChoiceCollect containers, and technology. Capital expenditure will continue around these levels for 2019.

Application of new accounting standards

As required by International Financial Reporting Standards (IFRS), the group has adopted *IFRS 15, Revenue from Contracts with Customers* and *IFRS 9, Financial Instruments* with effect from 1 January 2018.

IFRS 9 is the new standard for disclosure and measurement of financial instruments. IFRS 9 requires that the group classifies and measures receivables at fair value, with any changes in that fair value recognised in the income statement as and when they arise. Using an expected credit loss model, the group determines the allowance for credit losses on a discounted basis it would incur in various default scenarios. The increase in provision (R102 million), has had the effect of increasing provisions by 20%, as shown in the debtors table above. The impact of other recoveries has mitigated the adjustment to retained earnings to R11 million.

IFRS 15 aligns the recognition of revenue earned to the time period in which the transfer of the goods and services takes place to the customer. The impact of the retrospective adoption of IFRS 15 on revenue is not material for the 2018 and 2017 financial years.

Outlook

Fundamental support for the economy remains muted and expectations are generally for a slow recovery.

Our vision is to provide for our customers' lifestyle through digitally focused and innovative retail and financial services products and to continue to position ourselves as a leading digital player in the mass market. We are pleased with the traction that we have gained across a broad spectrum of strategic initiatives in 2018, despite operational challenges in Retail.

Technology is a key enabler in our journey to become a leading digital retailer. We will continue to invest in product innovation, digitalisation and enhancing the customer experience to deliver an engaging and consistent retail and financial services offering.

We are committed to continue to drive this vision and are well positioned to drive growth.

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

S Portelli
Chairman

G Lartigue
Chief Executive Officer

S Maltz
Chief Executive Officer (South Africa)

Qormi, Malta, 14 March 2019

Dividend declaration

Notice is hereby given that the board of directors has declared a final gross cash dividend of 99.0000 cents (79.2000 cents net of dividend withholding tax) per ordinary share for the year ended 31 December 2018. The dividend has been declared from income reserves. HIL is registered in the Republic of Malta and the dividend is a foreign dividend. Withholding tax of 20% will be applicable to all South African shareholders who are not exempt.

The issued share capital at the declaration date is 104 909 401 ordinary shares.

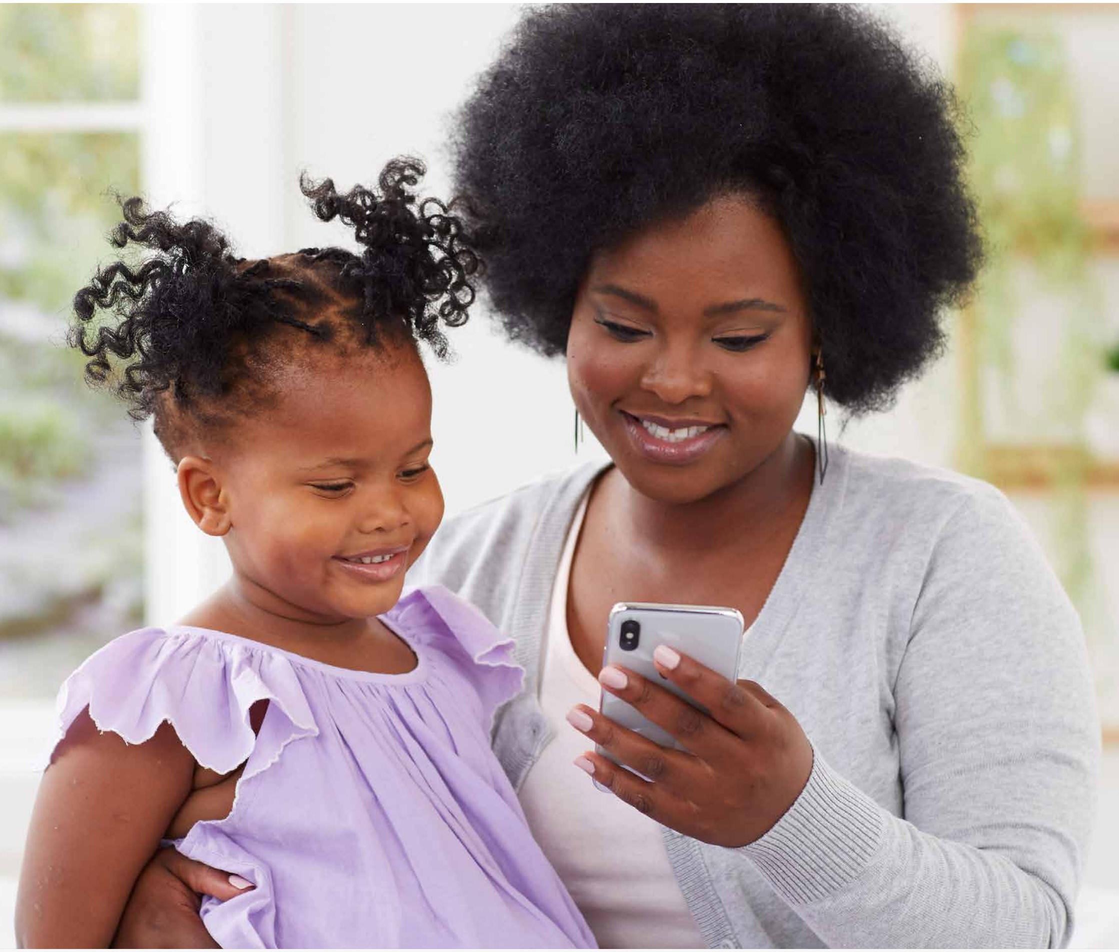
The salient dates for the dividend will be as follows:

Last day of trade to receive a dividend	Tuesday, 9 April 2019
Shares commence trading "ex" dividend	Wednesday, 10 April 2019
Record date	Friday, 12 April 2019
Payment date	Monday, 15 April 2019

Share certificates may not be dematerialised or rematerialised between Wednesday, 10 April 2019 and Friday, 12 April 2019, both days inclusive.

G Said
Company Secretary

Qormi, Malta, 14 March 2019



SUMMARISED GROUP FINANCIAL STATEMENTS

SUMMARISED GROUP
STATEMENT OF FINANCIAL POSITION

	Notes	2018 Rm	% change	Restated* 2017 Rm
Assets				
Non-current assets				
Property, plant and equipment		**464**	8.2	429
Intangible assets		**116**	34.9	86
Investment in associates		**–**	<100	14
Financial assets at fair value through profit and loss		**24**	(20.0)	30
Deferred taxation		**1**	>100	–
		605	8.2	559
Current assets				
Inventories	2	**304**	18.3	257
Taxation receivable		**–**	<100	4
Trade and other receivables	3	**2 903**	9.9	2 642
Cash and cash equivalents		**108**	(16.9)	130
		3 315	9.3	3 033
Total assets		**3 920**	9.1	3 592
Equity and liabilities				
Equity attributable to equity holders of the parent				
Stated and share capital		**1**	–	1
Share premium		**3 005**	–	3 003
Reorganisation reserve		**(2 961)**	–	(2 961)
		45	4.7	43
Treasury shares		**(3)**	–	(3)
Other reserves		**18**	28.6	14
Retained earnings		**2 624**	13.2	2 319
Total equity		**2 684**	13.1	2 373
Non-current liabilities				
Interest-bearing liabilities		**756**	22.7	616
Deferred taxation		**66**	(45.0)	120
Other payables		**6**	–	6
		828	11.6	742
Current liabilities				
Interest-bearing liabilities		**92**	(44.6)	166
Taxation payable		**46**	>100	8
Trade and other payables		**267**	10.8	241
Provisions		**3**	(92.1)	38
Derivative financial instruments		**–**	<100	5
Bank overdraft		**–**	<100	19
		408	(14.5)	477
Total liabilities		**1 236**	1.4	1 219
Total equity and liabilities		**3 920**	9.1	3 592

* *See note 1 for details regarding the restatement as a result of the adoption of IFRS 15.*

SUMMARISED GROUP
STATEMENT OF COMPREHENSIVE INCOME

	Notes	2018 Rm	% change	Restated* 2017 Rm
Revenue		**3 247**	8.5	2 993
Retail sales		**1 860**	6.3	1 749
Finance income		**1 016**	8.9	933
Fees from ancillary services		**371**	19.3	311
Cost of retail sales		**(938)**	10.0	(853)
Other operating costs		**(1 550)**	10.1	(1 408)
Credit impairment losses	5	**(557)**	11.0	(502)
Other trading expenses	5	**(993)**	9.6	(906)
Other net gains and losses		**(5)**		1
Other income		**9**		11
Operating profit		**763**	2.6	744
Interest received		**3**		7
Interest paid		**(89)**		(83)
Share of loss of associates		**(1)**		(9)
Profit before taxation		**676**	2.6	659
Taxation		**(148)**	(2.1)	(145)
Profit and total comprehensive income for the year		**528**	2.7	514
Earnings per share (cents)				
Basic	6	**506.8**	2.1	496.4
Diluted		**499.8**	1.6	491.7

* *See note 1 for details regarding the restatement as a result of the adoption of IFRS 15.*

SUMMARISED 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 2017 as originally presented	1	2 999	(3)	(2 961)	6	1 988	2 030
Change in accounting policy	–	–	–	–	–	(7)	(7)
Restated balance as at 1 January 2017	1	2 999	(3)	(2 961)	6	1 981	2 023
Changes in equity							
Profit and total comprehensive income for the year	–	–	–	–	–	514	514
Shares issued	–	4	–	–	–	–	4
Dividends paid	–	–	–	–	–	(175)	(175)
Share incentive schemes	–	–	–	–	7	–	7
Total changes	–	4	–	–	7	339	350
Balance at 1 January 2018	**1**	**3 003**	**(3)**	**(2 961)**	**13**	**2 320**	**2 373**
Change on initial application of IFRS 9	**–**	**–**	**–**	**–**	**–**	**(11)**	**(11)**
Restated equity at the beginning of the period	**1**	**3 003**	**(3)**	**(2 961)**	**13**	**2 309**	**2 362**
Changes in equity							
Profit and total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**528**	**528**
Shares issued	**–**	**2**	**–**	**–**	**–**	**–**	**2**
Dividends paid	**–**	**–**	**–**	**–**	**–**	**(213)**	**(213)**
Share incentive schemes	**–**	**–**	**–**	**–**	**5**	**–**	**5**
Total changes	**–**	**2**	**–**	**–**	**5**	**315**	**322**
Balance at 31 December 2018	**1**	**3 005**	**(3)**	**(2 961)**	**18**	**2 624**	**2 684**

SUMMARISED GROUP
STATEMENT OF CASH FLOWS

	Notes	2018 Rm	% change	Restated* 2017 Rm
Cash flows from operating activities				
Operating cash flows before working capital changes		**809**	0.4	806
Movements in working capital		**(335)**	(25.1)	(447)
Cash generated from operations	7	**474**	32.0	359
Interest received		**3**		7
Interest paid		**(85)**		(78)
Taxation paid		**(156)**		(123)
Net cash inflow from operating activities		**236**	43.0	165
Cash flows from investing activities				
Purchase of property, plant and equipment		**(70)**		(28)
Proceeds on disposal of property, plant and equipment		**1**		–
Purchase of intangible assets		**(56)**		(28)
Investment in associates		**14**		(12)
Financial assets at fair value through profit and loss		**19**		(8)
Net cash outflow from investing activities		**(92)**	21.1	(76)
Cash flows from financing activities				
Proceeds from the issuance of shares		**2**		4
Proceeds from interest-bearing liabilities		**271**		715
Repayments of interest-bearing liabilities		**(207)**		(700)
Finance-raising costs paid		**–**		(9)
Dividends paid		**(213)**		(175)
Net cash outflow from financing activities		**(147)**	(10.9)	(165)
Net decrease in cash and cash equivalents and bank overdrafts		**(3)**		(76)
Cash, cash equivalents and bank overdrafts at the beginning of the year		**111**		187
Cash, cash equivalents and bank overdrafts at the end of the year		**108**	(2.7)	111

* *See note 1 for details regarding the restatement as a result of the adoption of IFRS 15.*

GROUP
SEGMENTAL ANALYSIS

		2018 Total Rm	Retail Rm	Financial Services Rm	Property Rm	Other Rm	Intra-group Rm
Segmental revenue		3 305	2 501	746	58	–	–
Retail sales		1 860	1 860	–	–	–	–
Finance charges and initiation fees earned		1 016	484	532	–	–	–
Fees from ancillary services		429	157	214	58	–	–
Intersegment revenue		(58)	–	–	(58)	–	–
Revenue from external customers		3 247	2 501	746	–	–	–
Total trading expenses (refer to note 5)		1 550	1 153	396	26	22	(47)
EBITDA		821	453	357	33	(22)	–
Depreciation and amortisation		(59)	(54)	(4)	(1)	–	–
Interest received		3	–	2	–	66	(65)
Interest paid		(62)	–	(63)	–	(64)	65
Segmental operating profit**		703	399	292	32	(20)	–
Interest received		–	–	–	–	–	–
Interest paid		(27)	(5)	–	(22)	–	–
Profit before taxation		676	394	292	10	(20)	–
Taxation		(148)	(89)	(60)	(3)	4	–
Profit after taxation		528	305	232	7	(16)	–
Segmental assets		3 920	2 443	1 465	343	704	(1 035)
Segmental liabilities		1 236	583	816	278	594	(1 035)
Operating cash flows before working capital changes		809	444	354	33	(22)	–
Movements in working capital		(335)	(134)	(198)	–	(3)	–
Cash generated/(utilised) by operations		474	310	156	33	(25)	–
Capital expenditure							
Property, plant and equipment		70	68	2	–	–	–
Intangible assets		56	45	3	–	8	–
Change in Retail sales	(%)	6.3	6.3				
Change in EBITDA	(%)	3.6	(2.9)	13.7	(0.1)	6.3	
Change in debtor costs	(%)	11.0	6.9	20.1			
Change in other trading expenses	(%)	9.6	9.5	2.4	10.4	211.6	
Gross profit margin	(%)	49.6	49.6				
Segmental results margin	(%)	21.3	16.0	39.1	55.2		

* *See note 1 for details regarding the restatement as a result of the adoption of IFRS 15.*
** *Refer to note 8 for further details on segments and segmental results.*

	2017 Restated*					
	Total Rm	Retail Rm	Financial Services Rm	Property Rm	Other Rm	Intra-group Rm
	3 049	2 328	665	56	–	–
	1 749	1 749	–	–	–	–
	933	450	483	–	–	–
	367	129	182	56	–	–
	(56)	–	–	(56)	–	–
	2 993	2 328	665	–	–	–
	1 408	1 061	361	24	7	(45)
	793	467	314	33	(21)	–
	(58)	(53)	(4)	(1)	–	–
	4	–	4	–	61	(61)
	(54)	–	(57)	–	(58)	61
	685	414	257	32	(18)	–
	3	3	–	–	–	–
	(29)	(4)	–	(25)	–	–
	659	413	257	7	(18)	–
	(145)	(99)	(46)	1	(1)	–
	514	314	211	8	(19)	–
	3 592	2 137	1 387	341	1 015	(1 288)
	1 219	501	1 066	283	658	(1 289)
	806	470	309	33	(7)	–
	(447)	(263)	(180)	(4)	(1)	–
	359	208	130	29	(8)	–
	28	26	–	2	–	–
	28	20	8	–	–	–
	16.8	16.8				
	13.0	11.1	20.3	5.0	94.0	
	5.0	10.5	(5.4)			
	14.7	11.7	27.3	7.7	(26.2)	
	51.2	51.2				
	22.5	17.8	38.6	57.1		

NOTES TO THE SUMMARISED GROUP FINANCIAL STATEMENTS

1. Basis of presentation and accounting policies

1.1 Basis of presentation

The group annual financial statements for the year ended 31 December 2018 and these summarised consolidated financial statements have been prepared by the group's finance department, acting under the supervision of P Burnett, CA(SA), finance director of the group.

The summary consolidated financial statements are prepared in accordance with the requirements of the JSE Limited (JSE) for summarised financial statements. The JSE requires summary financial statements to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS) and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council and to also, as a minimum, contain the information required by *IAS 34, Interim Financial Reporting*. The accounting policies applied in the preparation of the group annual financial statements from which the summary consolidated financial statements were derived are in terms of IFRS and are consistent with those accounting policies applied in the preparation of the previous group annual financial statements.

1.2 Changes in accounting policies

The following new standards, amendments and interpretations to existing standards, relevant to the group's operations, became effective for the year ended 31 December 2018: *IFRS 2, Classification and Measurement of Share-based Payment Transactions*; *IFRS 9, Financial Instruments* with *IFRS 4: Insurance Contracts* – Amendments to IFRS 4; and *IFRS 15, Revenue from Contracts with Customers*. The impact of the adoption of these standards are disclosed as follows:

1.2.1 IFRS 9, Financial Instruments: Classification and Measurement – Impact of adoption

IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

The adoption of *IFRS 9, Financial Instruments* from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements.

The total impact on the group's retained earnings is as follows:

	Notes	Rm
Closing retained earnings at 31 December 2017		2 332
Net decrease in trade receivables	(iii)	(19)
Net increase in loans receivable	(iii)	3
Increase in deferred tax assets relating to the above		5
Adjustment to retained earnings from adoption of IFRS 9		(11)
Opening retained earnings at 1 January 2018 (before restatement for IFRS 15)		2 321

1. Basis of presentation and accounting policies (continued)

1.2 Changes in accounting policies (continued)

1.2.1 IFRS 9, Financial Instruments: Classification and Measurement – Impact of adoption (continued)

(i) Classification and measurement

IFRS 9 requires all debt instruments to be classified and measured on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

The group's management has assessed which business models apply to the financial assets held by the group and has classified financial instruments into the appropriate IFRS 9 categories.

There has been no change to the classification of the group's financial liabilities and they continue to be classified and measured at amortised cost.

(a) All other financial assets

All of the group's other financial assets which were classified as loans and receivables satisfy the conditions for classification at amortised cost and hence there is no change to the classification and measurement of these assets.

(ii) Derivatives and hedging activities

The group does not currently apply hedge accounting and continues to account for forward exchange contracts at fair value through profit and loss.

(iii) Impairment of financial assets – expected credit loss model

IFRS 9 has introduced new expected credit loss (ECL) impairment requirements that result in the earlier recognition of credit provisions. The ECL requirements apply to debt financial assets measured at either amortised cost or at fair value through other comprehensive income (OCI) (FVOCI), loan commitments where there is a present commitment to extend credit (unless these are measured at fair value through profit or loss (FVTPL)) and financial guarantees.

ECL is, at a minimum, required to be measured through a loss allowance at an amount equal to the 12-month ECL of the financial asset. A loss allowance for full lifetime ECL is required for a financial asset if the credit risk of that financial instrument has increased significantly since initial recognition.

The group has the following types of financial assets measured at amortised cost that are subject to IFRS 9's new ECL model:

- Trade receivables – Retail
- Loans receivable – Financial Services
- Other receivables

The group was required to revise its impairment methodology under IFRS 9 for each of these classes of assets. The group applies the IFRS 9 general approach to measuring expected credit losses for all trade, loans and other receivables. The impact of the change in impairment methodology on the group's retained earnings and equity is disclosed in the table above.

1. Basis of presentation and accounting policies (continued)

1.2 Changes in accounting policies (continued)

1.2.2 IFRS 15, Revenue from Contracts with Customers – Impact of adoption

IFRS 15, which replaces IAS 18, is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

The adoption of *IFRS 15, Revenue from Contracts with Customers* from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements.

The new accounting policies are set out in note 1.2.2(i) below. In accordance with the transition provisions in IFRS 15 the group has adopted the new standard retrospectively and has restated comparatives for the 2017 financial year.

The total impact on the group's retained earnings is as follows:

	Notes	2017 Rm
Opening retained earnings at 1 January before IFRS 15 restatement (see note 1.2.3)		1 988
Restatement for finance income	(i)	(12)
Decrease in debtor costs	(i)	2
Decrease in deferred tax liabilities	(i)	3
Adjustment to retained earnings from adoption of IFRS 15		(7)
Opening retained earnings at 1 January after IFRS 15 restatement		1 981

(i) Accounting for finance income

In previous reporting periods a portion of initiation fees were allocated, based on IAS 18 multiple element recognition criteria, to be recognised upfront as part of revenue. This recognition criteria was applied to the separately identifiable components of the transaction in order to reflect the substance of the transaction.

IFRS 15 provides additional guidance on multiple element contracts and, based on this guidance and the trade receivables being at fair value based on the interest and initiation fees charged, it was determined that there are no longer separately identifiable components with regards to initiation fees charged to customers.

The impact of IFRS 15 on the financial statements is disclosed under note 1.2.3 below.

1. Basis of presentation and accounting policies (continued)

1.2 Changes in accounting policies (continued)

1.2.3 Impact on the financial statements

The following tables sets out the impact of the changes in accounting policies and retrospective adjustments made for each individual line item affected in the financial statements. IFRS 9 was adopted without restating comparative information and the impact is not reflected in the restated comparatives but recognised in the opening statement of financial position on 1 January 2018.

Group statement of financial position

	Audited 31 Dec 2017 Rm	IFRS 15 Rm	Restated 31 Dec 2017 Rm	IFRS 9 Rm	Restated 1 Jan 2018 Rm
Current assets					
Trade receivables – Retail	1 482	(18)	1 464	(19)	1 445
Loans receivable – Financial Services	1 163	–	1 163	3	1 166
Equity					
Retained earnings	2 332	(13)	2 319	(11)	2 308
Non-current liabilities					
Deferred taxation	125	(5)	120	(5)	115

1. Basis of presentation and accounting policies (continued)

1.2 Changes in accounting policies (continued)

1.2.3 Impact on the financial statements (continued)

	Audited 31 Dec 2016 Rm	IFRS 15 Rm	Restated 31 Dec 2016 Rm
Current assets			
Trade receivables – Retail	1 222	(10)	1 212
Equity			
Retained earnings	1 988	(7)	1 981
Non-current liabilities			
Deferred taxation	135	(3)	132

	Audited year ended Dec 2017 Rm	IFRS 15 Rm	Restated year ended Dec 2017 R'000
Group statement of comprehensive income			
Revenue	3 003	(10)	2 993
Finance income	943	(10)	933
Other operating costs	(1 410)	2	(1 408)
Credit impairment losses	(504)	2	(502)
Other trading expenses	(906)		(906)
Operating profit	752	(8)	744
Profit before taxation	667	(8)	659
Taxation	(147)	2	(145)
Earnings per share (cents)			
Basic	501.9	(5.5)	496.4
Diluted	496.7	(5.0)	491.7
Group statement of cash flows			
Cash flows from operating activities			
Operating cash flows before working capital changes	814	(8)	806
Movement in working capital	(455)	8	(447)

2. Inventories

	2018 Rm	2017 Rm
Merchandise for resale	**286**	213
Provision for inventory obsolescence	**(15)**	(18)
Goods in transit	**33**	62
	304	257

Inventory sold at less than cost during the current year amounted to R29 million (2017: R39 million).

3. Trade and other receivables

	2018 Rm	% change	Restated* 2017 Rm
Trade receivables – Retail	**1 865**	4.5	1 784
Provision for impairment	**(359)**	12.2	(320)
	1 506	2.9	1 464
Loans receivable – Financial Services	**1 599**	18.3	1 352
Provision for impairment	**(252)**	33.3	(189)
	1 347	15.8	1 163
Other receivables	**50**	>100	15
Total trade and other receivables	**2 903**	9.9	2 642
Total trade and loan receivables	**3 464**	10.5	3 136
Provision for impairment	**(611)**	20.0	(509)
Other receivables	**50**	>100	15

* *See note 1 for details regarding the restatement as a result of the adoption of IFRS 15.*

3. Trade and other receivables (continued)

		2018 Rm	% change	Restated* 2017 Rm
Movements in the provision for impairment were as follows:				
Retail				
Opening balance		**(320)**	12.7	(284)
Change on initial application of IFRS 9		**(64)**		
Restated opening balance		**(384)**		(284)
Movement in provision		**25**	>100	(36)
Debtor costs charged to profit and loss		**(372)**	6.9	(348)
Debts written off during the year, net of recoveries		**397**	27.2	312
Closing balance		**(359)**	12.2	(320)
Financial Services				
Opening balance		**(189)**	6.2	(178)
Change on initial application of IFRS 9		**(38)**		
Restated opening balance		**(227)**		(178)
Movement in provision		**(25)**	>100	(11)
Debtor costs charged to profit and loss		**(185)**	20.1	(154)
Debts written off during the year, net of recoveries		**160**	11.9	143
Closing balance		**(252)**	33.3	(189)
Retail				
Debtor costs as a % of revenue	(%)	**14.9**		14.9
Debtor costs as a % of gross receivables	(%)	**19.9**		19.5
Provision for impairment as a % of gross receivables	(%)	**19.3**		17.9
Financial Services				
Debtor costs as a % of revenue	(%)	**24.7**		23.2
Debtor costs as a % of gross receivables	(%)	**11.6**		11.4
Provision for impairment as a % of gross receivables	(%)	**15.8**		14.0
Group				
Debtor costs as a % of revenue	(%)	**17.1**		16.8
Debtor costs as a % of gross trade receivables	(%)	**16.1**		16.0
Provision for impairment as a % of gross receivables	(%)	**17.6**		16.2

* *See note 1 for details regarding the restatement as a result of the adoption of IFRS 15.*

4. Events after the reporting date

No event material to the understanding of these summarised financial statements has occurred between the end of the financial year and the date of approval.

5. Total trading expenses

	2018 Rm	% change	Restated* 2017 Rm
Expenses by nature			
Credit impairment losses			
Trade receivables – Retail	**372**	6.9	348
Loans receivable – Financial Services	**185**	20.1	154
Total credit impairment losses	**557**	11.0	502
Amortisation of intangible assets	**25**	(21.9)	32
Depreciation of property, plant and equipment	**34**	36.0	26
Operating lease charges for immovable property	**3**	>100	1
Total operating lease charges	**8**	–	8
Less: disclosed under cost of Retail sales	**(5)**	(28.5)	(7)
Marketing costs	**252**	14.5	220
Staff costs	**411**	4.0	395
Total staff costs	**485**	10.0	441
Less: disclosed under cost of Retail sales	**(38)**	44.4	(27)
Less: staff costs capitalised to intangibles	**(36)**	89.4	(19)
Other costs	**268**	15.9	232
Total other trading expenses	**993**	9.6	906
	1 550	10.1	1 408

* *See note 1 for details regarding the restatement as a result of the adoption of IFRS 15.*

6. Basic and headline earnings per share

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

	2018 Rm	Restated* 2017 Rm
Profit for the year	**528**	514
Adjusted for the after-tax effect of:		
Impairment of investment in associate	**1**	4
Share of impairment of property, plant and equipment of associate	**–**	4
Headline earnings	**529**	522
Weighted average number of ordinary shares in issue (million)	**104.2**	103.6
Earnings per share (cents)		
Basic	**506.8**	496.4
Headline	**507.7**	504.1
Basic – diluted	**499.8**	491.7
Headline – diluted	**500.8**	499.4

* *See note 1 for details regarding the restatement as a result of the adoption of IFRS 15.*

7. Reconciliation of cash generated from operations

	2018 Rm	% change	2017 Rm
Profit before taxation	**676**	2.6	659
Share of loss of associate	**1**	(88.9)	9
Profit from insurance cells	**(13)**	–	(13)
Impairment of investment in associate	**–**	(100)	5
Depreciation and amortisation	**59**	1.7	58
Share-based employee share expense	**5**	(28.6)	7
Exchange (losses)/profits on foreign exchange contracts	**(5)**	<(100)	5
Interest paid	**85**	10.4	77
Interest received	**(3)**	(57.1)	(7)
Capitalised bond costs – amortised cost adjustment	**4**	(33.3)	6
Operating cash flows before working capital changes	**809**	0.4	806
Movements in working capital	**(335)**	(25.1)	(447)
Increase in inventories	**(47)**	9.3	(43)
Increase in trade receivables - Retail	**(63)**	(75.1)	(253)
Increase in loans receivable - Financial Services	**(181)**	(6.2)	(193)
(Increase)/decrease in other receivables	**(35)**	<(100)	9
Increase in trade and other payables	**26**	(3.7)	27
(Decrease)/increase in provisions	**(35)**	<(100)	6
	474	32.0	359

8. 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 holding company's stand-alone results, as well as those of its associates.

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 received and interest paid.

9. 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.

10. Commitments

Leases are contracted for periods not exceeding five years and contain escalation clauses of between 8% and 9% and renewal options. The lease expenditure charged to profit and loss during the year is disclosed in note 5.

At 31 December the future minimum operating lease commitments amounted to the following:

	2018 Rm	2017 Rm
Properties		
Payable within one year	**16**	8
Payable between two and five years	**51**	31
	67	39
Suspensive sale agreements		
Payable within one year	**22**	15
Payable between two and five years	**41**	14
	63	29
Future finance charges on suspensive sale agreements	**(19)**	(3)
	44	26
The present value of suspensive sale agreement payments is as follows:		
Payable within one year	**15**	14
Payable between two and five years	**29**	13
	44	27
Capital commitments for property, plant and equipment and intangible assets:		
Approved by the directors	**3**	14
	3	14

11. 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 2018 took place during the period and related party balances are existing at the reporting date. Related party transactions include key management personnel compensation and intragroup transactions which have been eliminated on consolidation.

12. Audit opinion

This summarised report is extracted from audited information, but is not itself audited. The group annual financial statements were audited by PricewaterhouseCoopers, who expressed an unmodified opinion thereon. The audited group annual financial statements and the auditor's report thereon are available for inspection at the company's registered office. The directors take full responsibility for the preparation of the summarised report and that the financial information has been correctly extracted from the underlying group annual financial statements.

14 March 2019

ADMINISTRATION

Country of incorporation
Republic of Malta

Date of incorporation
22 July 2014

Company registration number
C66099

Registered office
93 Mill Street
Qormi
QRM3012
Republic of Malta

Company secretary
George Said

Auditors
PricewaterhouseCoopers
Republic of Malta

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

Non-executive directors
S Portelli* (Chairman), A Chorn*, R Garratt, E Gutierrez-Garcia,
R Hain*, C Rapa*, A Ogunsanya (alternate)
* Independent

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

HiL PLC