ANNUAL RESULTS 2019

HOMECHOICE INTERNATIONAL PLC

SUSTAINING STRATEGIC DIRECTION DESPITE DIFFICULT TRADING PERFORMANCE

HomeChoice International plc

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 912 000 active customers. The group operates through two trading operations, Retail and Financial Services.

Revenue
+7.3%
to **R3.5 billion**

271 000
new customers
acquired

Retail sales
+4.9%

Stand-alone
insurance premiums
+48%

Investments in technology and customer experience continue

Loan disbursements
+27.0%

Headline earnings per share
436.0 cents
down 14.1%

Milestone
R2 billion credit extended on digital channels – 40.2% of all credit

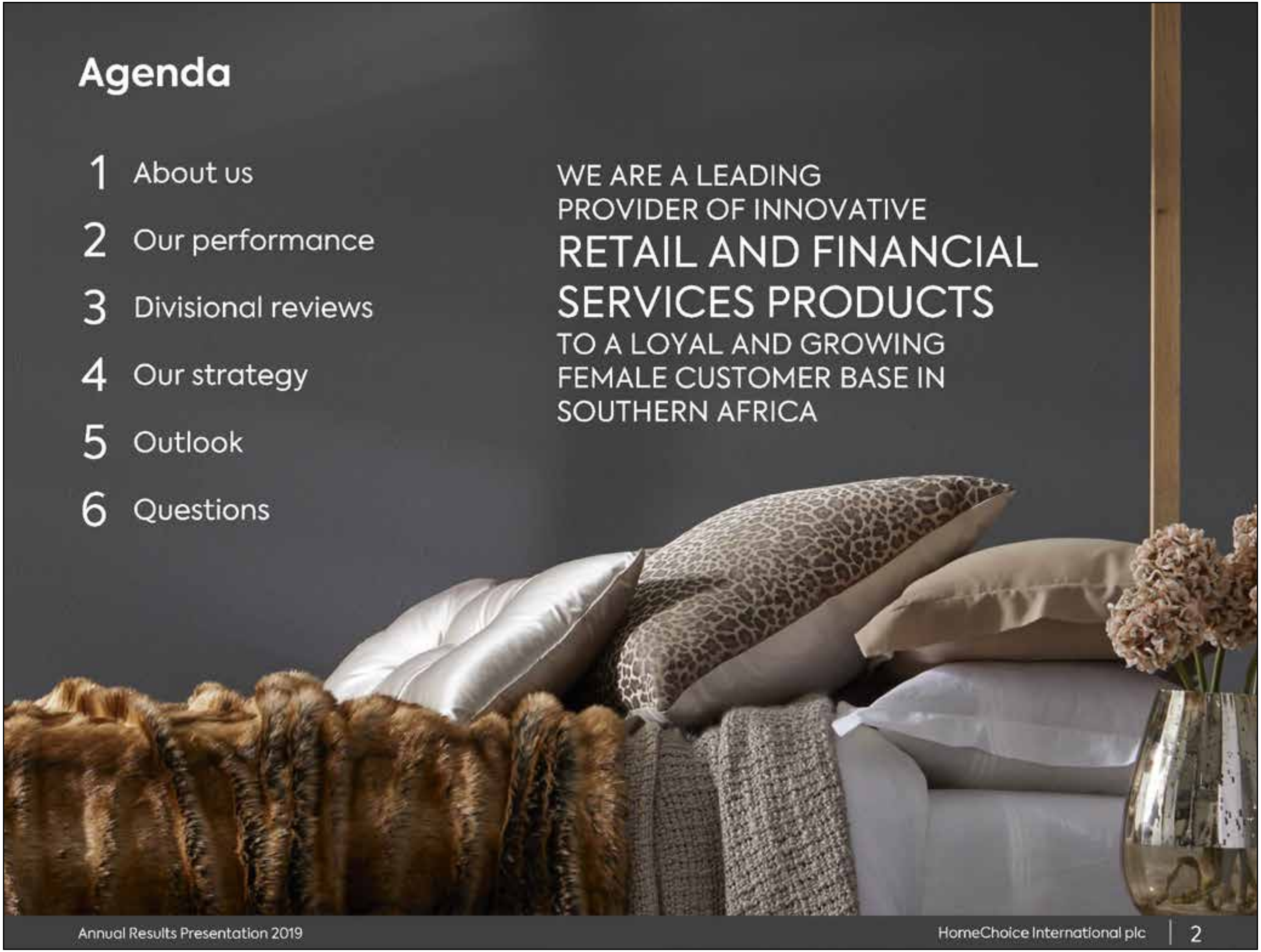
EBITDA
-8.5%
on decision to reduce higher stock holdings

Final dividend of
79.0 cents
down 20.2%

Cash conversion rate of
58.2%

ANNUAL RESULTS 2019

HOMECHOICE INTERNATIONAL PLC


Agenda
1 About us
2 Our performance
3 Divisional reviews
4 Our strategy
5 Outlook
6 Questions
WE ARE A LEADING PROVIDER OF INNOVATIVE
RETAIL AND FINANCIAL SERVICES PRODUCTS
TO A LOYAL AND GROWING FEMALE CUSTOMER BASE IN SOUTHERN AFRICA
Annual Results Presentation 2019
HomeChoice International plc | 2

1 ABOUT US

Two divisions – Omni-channel Retail and FinTech

RETAIL	FINANCIAL SERVICES
homechoice	finchoice

RETAIL — homechoice

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

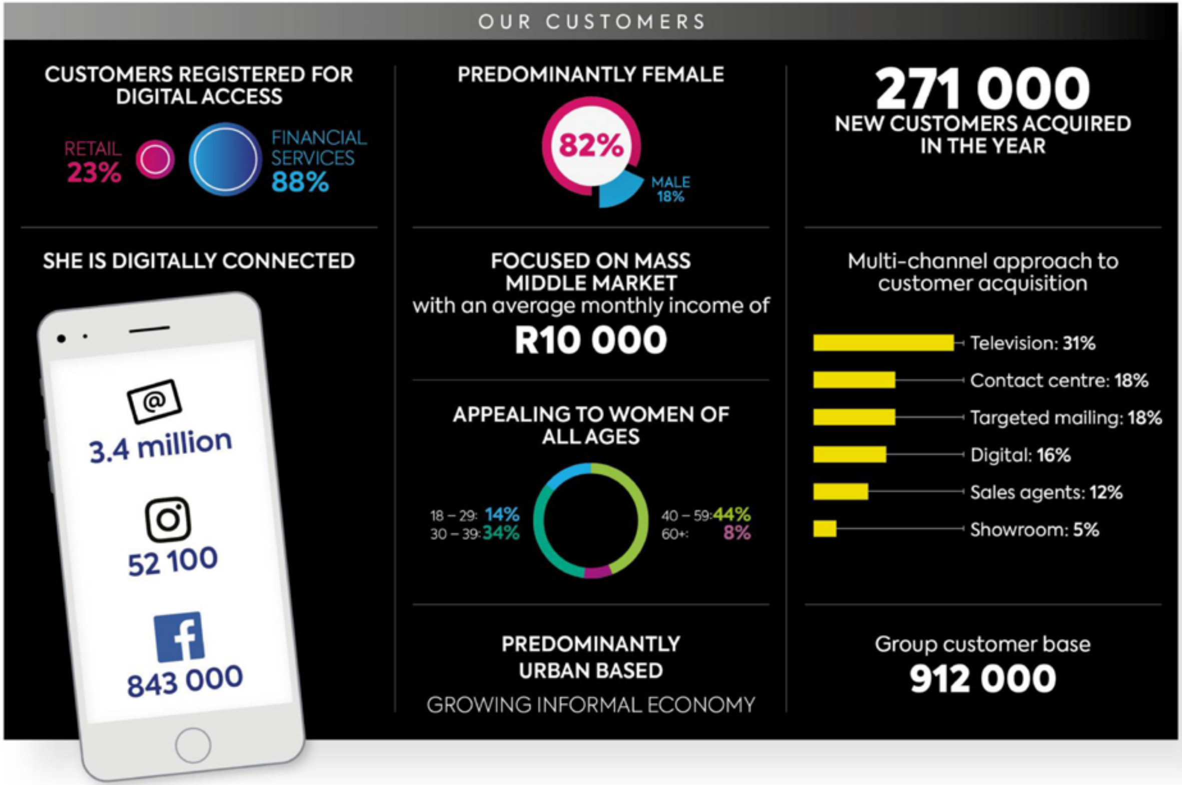
FINANCIAL SERVICES — finchoice

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

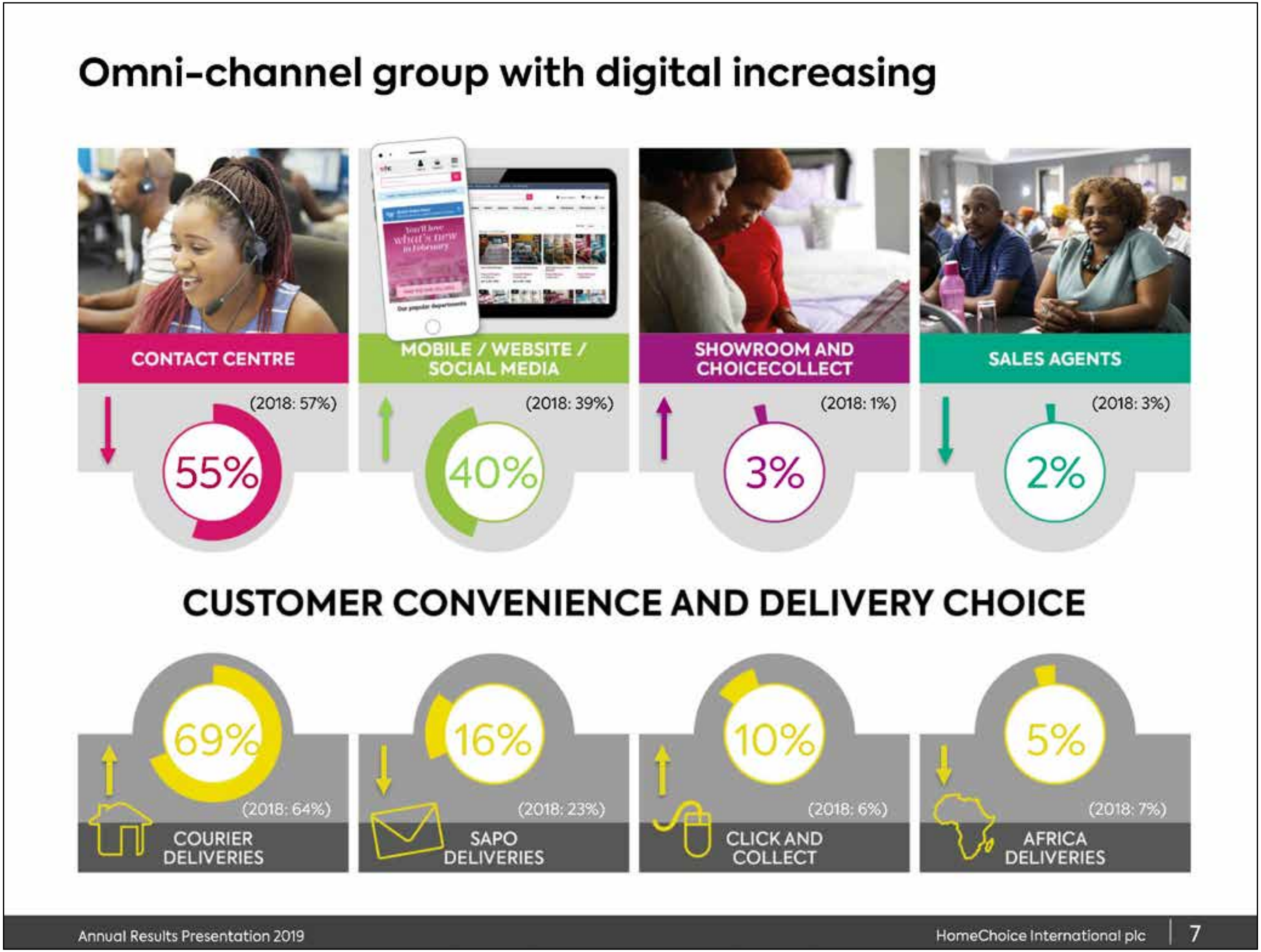
Retail			FinTech	
75%	R2 613m	Revenue	R871m	25%
53%	R325m	Segmental operating profit*	R286m	47%

* Segmental operating profit includes interest

Our customer is a digitally savvy, urban African woman



Providing retail and financial products to suit her lifestyle


Omni-channel group with digital increasing
CONTACT CENTRE
(2018: 57%)
55%
MOBILE / WEBSITE / SOCIAL MEDIA
(2018: 39%)
40%
SHOWROOM AND CHOICECOLLECT
(2018: 1%)
3%
SALES AGENTS
(2018: 3%)
2%
CUSTOMER CONVENIENCE AND DELIVERY CHOICE
69%
(2018: 64%)
COURIER DELIVERIES
16%
(2018: 23%)
SAPO DELIVERIES
10%
(2018: 6%)
CLICK AND COLLECT
5%
(2018: 7%)
AFRICA DELIVERIES
Annual Results Presentation 2019
HomeChoice International plc
7

Showrooms –new customers and brand awareness

9 showrooms

- 6 trading for full year
- Pretoria, Bloemfontein and Mamelodi opened in H2

Potential for 20+ across the country

Showcase breadth of product range, provide access to digital engagement and click and collect location

Locations

Wynberg, Johannesburg CBD, East London, Bloemfontein, Pretoria, Mopanya Mall, Nelspruit, Mamelodi, Port Elizabeth

Key features

- Sites located in high commuter traffic areas
- High levels of convenient click and collect option
- 9 900 m² showroom area
- Higher avg transaction value (c. R1 500)
- 8% contribution to Retail sales
- Cash sales proportion >20%

- >135 additional jobs created to date

ChoiceCollect containers improving delivery experience

Bringing the brand to her home

Multi-function:

- Click and collect at convenient locations
- Place orders
- Pick up catalogues
- Digital self-services (queries)
- Proactively manage returns
- Reducing reliance on SAPO deliveries

8 containers

- 6 new – H1: 2 and H2: 4
- Situated in Western and Eastern Cape and Gauteng townships

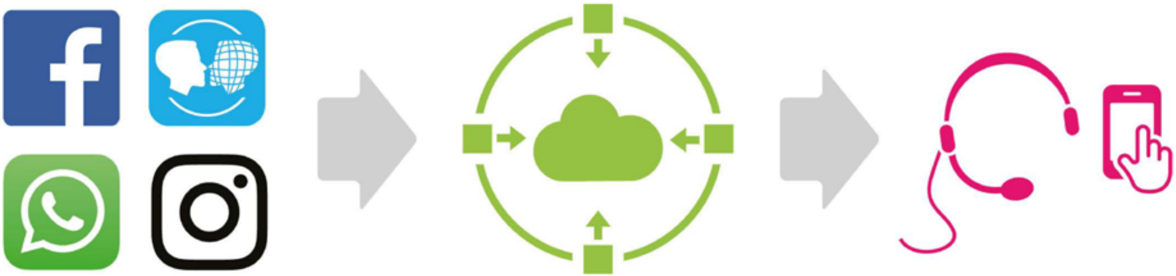
- Potential for 50+ across the country

- Partnership with SMEs and sales agents
- Key features
  - Community integration
  - Upgrades of surrounding areas
  - Security with centralised monitoring

Improving shopping experience

Net promoter score improved to 72%

Harnessing social media – monetisation and customer experience



8 customer social media channels funnelled into one customer dashboard

- Contact centre agents empowered with holistic view of data – transition to "digital agents"
- Improvements in customers' first-call resolution
- Generating sales and efficiency gains in staffing

2 bots launched, with more to come

– 22 000 webchats in last three months

Seamless personalised offers achieve high conversion rates

5 affiliate websites linked to FinChoice platform

- Information flows enable affiliates to dynamically curate FinChoice products
- Personalised offers have improved take-up and conversion rates
- Acquiring more digital-savvy customers
- End-to-end digital process
- Positive customer experience
- Cost-effective acquisition channel

*API = application programming interface

2 OUR PERFORMANCE

Financial performance

Revenue
+7.3%
to R3.5 billion

Retail sales
+4.9%
to R2.0 billion

EBITDA
–8.5%
to R751 million

Final dividend
79.0c
down 20.2%

Loans disbursed
+27.0%
to R2.3 billion

HEPS
436.0c
down 14.1%

Cash conversion
58.2%
from 57.7%

R2.0 bn
Digital credit extended
(40.2% of total credit)

IFRS 16 effective 1 January 2019, comparatives not restated – impact not significant

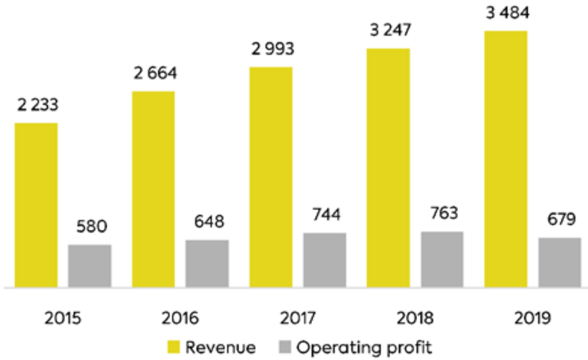
A challenging year with lower profit conversion

- Revenue growth of 7.3% up to R3.5 billion
  - 4.9% growth in Retail sales
  - Finance income up 7.6% – Financial Services loan disbursements up 27.0%
  - Ancillary services increased 18.6%, stand-alone insurance business performing well
- Operating profit, -11.0% to R679 million
- Lower gross profit margin at 47.4%
  - High clearance sales in H1 from stock overhang
  - Lower exchange rate gains
  - Non-comparable warehouse costs
- Higher debtor costs +28.7%
  - Bad debt write-offs +4.8%
  - Non-comparable movements of impairment provision
- Trading expenses +7.6%
  - Cost containment in non-growth areas
  - Focused spending in technology, showroom and container roll-outs
- IFRS 16 implemented, comparatives not restated – impact not significant

	2019 Rm	% change	2018 Rm
Revenue	3 484	7,3	3 247
Retail sales	1 951	4,9	1 860
Finance income	1 093	7,6	1 016
Ancillary services	440	18,6	371
Gross profit margin	47,4%		49,6%
Debtor costs	(717)	28,7	(557)
Other trading expenses	(1 068)	7,6	(993)
EBITDA	751	(8,5)	821
Operating profit	679	(11,0)	763

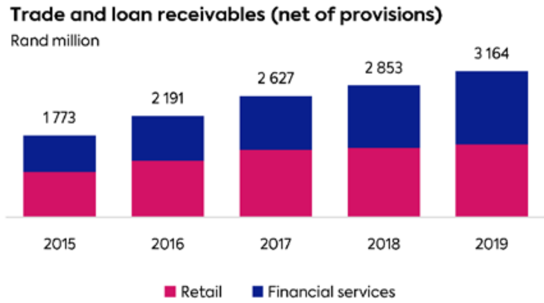
Group Revenue and Operating profit

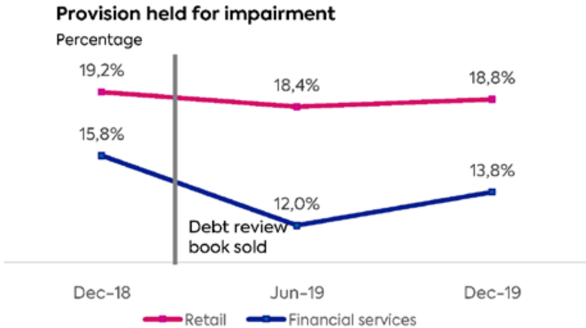
Rand million



Bad debt write-offs impact profit

- Net debtors' book increased by 10.9%
  - Retail only up 5.0% due to lower sales growth
  - Financial Services growth of 17.5% due to higher disbursements
- Retail debtor costs* up 16.1% relative to sales growth of 4.9%
  - Bad debts written off well managed, 0.3% decrease on 2018
- Financial Services debtor costs up 54.1% relative to disbursements growth of 27.0%
  - 17.5% increase in bad debts written off due to:
    - Credit limits to new MobiMoney and externally sourced customers too high for low score categories
    - Credit limit increases provided to portion of external customers too early in life cycle
    - Corrective action taken – limits and scorecards aligned with score categories, early vintages showing improvements
- Provision for impairment impacted by:
  - Shift in book mix with the sale of R220m debt review book – refer detail in Annexure
  - Marginal increases in provision % and growth of both books





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

Debtors portfolio summary

		2019	% change	2018
Retail				
Gross receivables	Rm	1 947	4,4%	1 865
Active accounts		581 818	(3,7%)	603 944
Debtors costs as % of revenue	%	16,5%		14,9%
Provision as % of receivables	%	18,8%		19,2%
Non-performing loans (120+ days)	%	10,2%		9,6%
Active account holders able to purchase	%	66,4%		68,8%
NPL cover	times	1,8		2,0
Financial Services				
Gross receivables	Rm	1 837	14,9%	1 599
Active accounts		223 743	20,8%	185 177
Debtors costs as % of revenue	%	32,7%		24,7%
Provision as % of receivables	%	13,9%		15,8%
Non-performing loans (120+ days)	%	4,3%		4,1%
Active account holders able to reloan	%	76,4%		72,1%
NPL cover (times)	times	3,2		3,8

- Active accounts lower in Retail due to lower sales, Financial Services increase reflective of new customer acquisition
- Healthy levels of accounts able to utilise credit
- NPL covers remain conservative

Good cost containment - focused spend on growth areas

	2019 Rm	% change	2018 Rm	2019 % of rev	2018 % of rev
Marketing expenses (including Showroom)	426	0,2%	425	12,2%	13,1%
Customer operations and support	170	4,7%	162	4,9%	5,0%
Technology	97	16,3%	83	2,8%	2,6%
Staff	201	1,0%	199	5,8%	6,1%
Amortisation and depreciation	73	24,6%	58	2,1%	1,8%
Insurance and other	102	57,0%	65	2,9%	2,0%
Total Trading expenses	1 068	7,6%	993	30,7%	30,6%

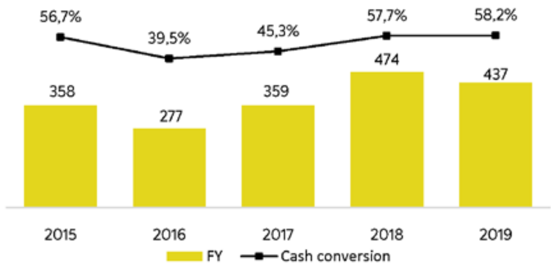
- Efficiencies in marketing benefiting from data science teams developing new marketing propensity models, off-set with costs from additional showrooms
- Use of technology for customer support and self-service processes delivers efficiency gains
- Technology investments in new e-commerce engine, credit decision engine, and commencement of new credit management and merchandise planning systems
- Insurance investment supporting income diversification strategy

Effective cash management

- Cash from operations down 7.8%
  - Lower profits
  - Higher loan disbursements
  - Increased focus on cash collections with Naedo debit orders
  - Tight management of stock
- R44 million once-off tax charge from industry-wide SARS ruling on treatment of bad debt write-offs
- Continuation of three-year capital investment programme:
  - Best-of-breed technology
  - Warehousing capacity and efficiency initiatives
  - Showrooms and containers
- Conservative gearing maintained and net debt to equity of 30.2%
- Cash conversion at 58.2%

	2019 Rm	% change	2018 Rm
Cash flows before working capital changes	718	(7,5%)	776
Movements in working capital	(281)	(7,0%)	(302)
Cash generated from operations	437	(7,8%)	474
Interest	(89)	8,5%	(82)
Tax	(174)	11,5%	(156)
Capex	(116)	(7,9%)	(126)
Free cash before dividends and financing	58	(47,3%)	110

Cash generated from operations
Rand million

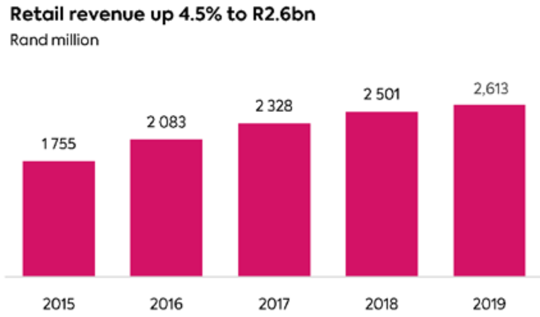


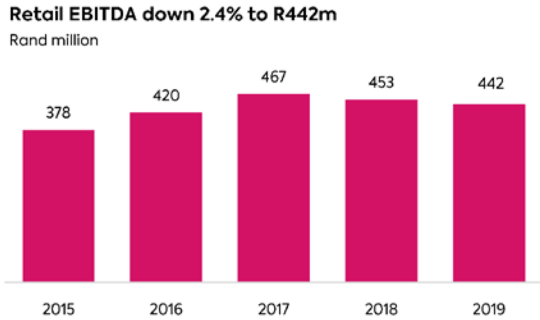
Cash conversion = cash from operations divided by EBITDA

3 DIVISIONAL REVIEWS

Retail top-line growth delivered in tough market

- Merchandise sales up 4.9% at R2.0 billion
  - 2018 SAPO strike negatively impacted H1
    - Clearance of excess bedding stocks with high markdowns and increased returns for non-deliveries of orders
    - Corrective action taken – reduced SAPO contribution from 23% to 16%, further declining to 5%
  - Decline in digital sales with complex implementation of e-commerce site in H2
    - Limited innovation on old platform, curtailed digital campaigns in transition period, reduction in overall traffic and conversions
    - Corrective action taken – increased in-house technical expertise, Webchat implemented providing customer support
- Debtor costs up 16.1% – (refer to detail provided earlier)
- Trading expenses up 6.8%, costs contained whilst continuing with strategic investments
- Operating profit down 18.5% to R325 million, primarily due to lower gross profit margin

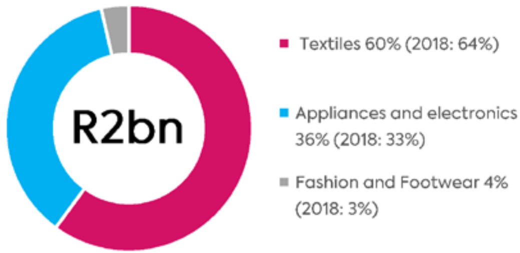




Innovation attracting >20 000 new customers per month

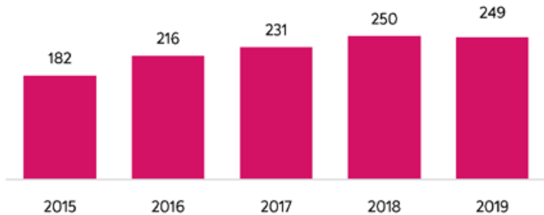
- Product performance mixed
  - Textiles contribution lower due to bedding performance
  - Double-digit growth from innovation and bundling in cookware and appliances
  - Continued growth in footwear – curated external brands
  - 145 external brands on offer (21% contribution)
- Growth in customer base +1.2%, driven by television media, Retail showrooms and targeted digital campaigns
  - Attrition in existing base due to lack of focus on reactivation strategies – marketing strategies adjusted for 2020
- Benefiting from digitalisation of processes
  - Monetisation of social media platforms
  - More holistic view of customer engagement
  - Quicker credit decision-making
  - Mobile payments for customer convenience, improving collections

Retail sales



New customers acquired

Thousands



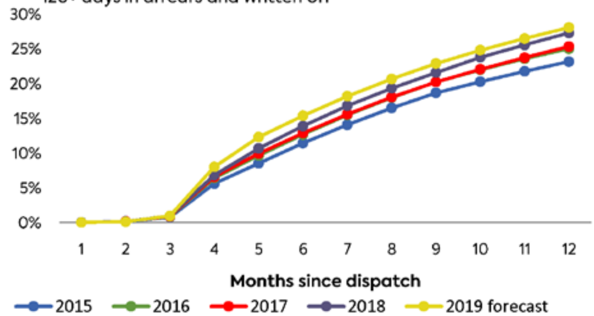
Retail credit metrics well managed

- Strong focus on credit conversion without loosening risk
  - Streamlining credit decision-making processes
  - Benefits from fraud detection tool
- Increased business with existing customers
  - Resulted in term shift and higher balances
  - Significant increase in Naedo debit order penetration to manage risk
- New customers managed in risk tolerances
  - Low-to-grow credit limit strategy, recognising good-paying customers
  - Entry-level limits for customers new to credit
- Vintages managed by increase in Naedo penetration and reactivation strategy for existing customers

	2019	2018
Applications accepted	73.5%	68.3%
Not taken up	2.3%	2.8%
CUSTOMER MIX		
Existing	75	73
New	25	27
Average term	18.8	18.3
Average balance	R4 349	R3 577

Retail Vintages

120+ days in arrears and written off



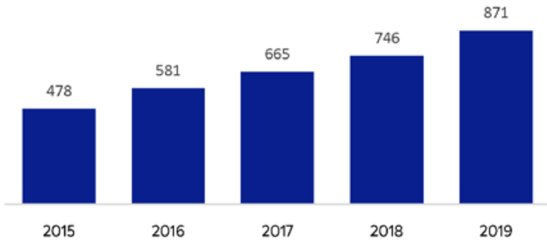
3 DIVISIONAL REVIEWS

Strong disbursements countered by growth in debtor costs

- Revenue up 16.8% to R871 million
- 27.0% growth in loan disbursements,
  - Reinvestment of proceeds from sale of debt review book in H1
- 48% increase in stand-alone insurance premiums
  - Two new products launched
  - Dedicated call centre and more digital integration
- Debtor costs up 54.1% - (refer to detail provided earlier)
- Trading expenses up 11.7%
  - Growth in costs enabling disbursements and insurance growth
  - Lower staffing costs with increase in digitalisation
- Disappointing operating profit conversion, down 2.0% to R286 million

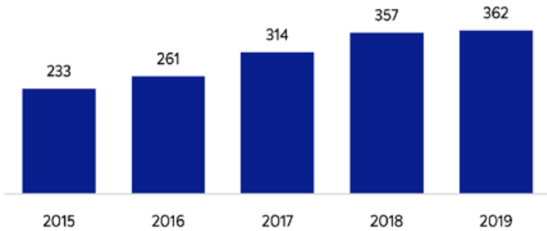
Financial Services revenue up 16.8% to R871m

Rand million



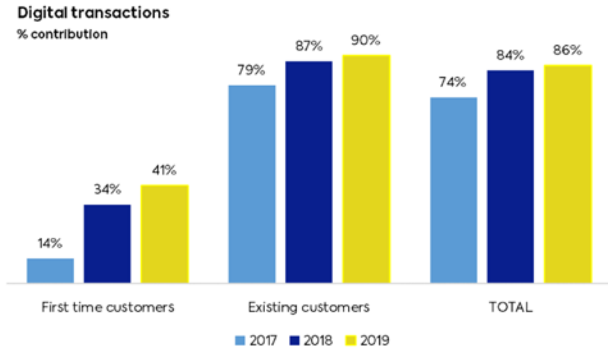
Financial Services EBITDA up 1.7% to R362m

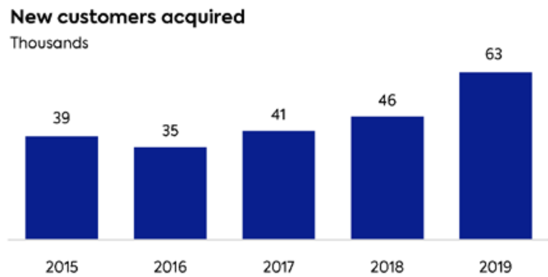
Rand million



Digital usage well embedded in diversified FinTech business

- Increased digital engagement
  - 86.0% digital transactions (2018: 84.1%)
  - Value-added services support more frequent digital engagement
- Good performance from FinChoice MobiMoney™
  - Digital-only facility product, 58% of customer base
  - Key platform for future e-wallet products, e.g. vendor payments, money transfers
- Stand-alone insurance products yielding diversification of income revenue
  - Parent and extended family funeral cover new
  - Increased penetration in customer base
- New customer growth, 63 000, +36.9%
  - 22 500 externals mainly from affiliate digital sites
    - 36% of new customers, and 5% of value of loan disbursements
    - Initial offer – lower credit limits and shorter terms to manage intake risk





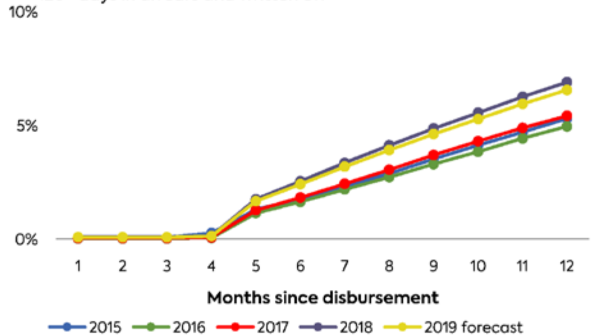
Financial Services credit metrics improving

- Increase in applications accepted
  - Increase in MobiMoney three-month facility account withdrawals
  - Personalised offers to external customers from affiliate sites
- Favourable reduction in terms and balances
  - Increased utilisation and penetration of MobiMoney product
  - Higher contribution of external customers brought in with lower credit limits and shorter terms
- Early vintages improving following corrective actions taken

	2019	2018
Applications accepted	**91.4%**	90.9%
Not taken up	**2.3%**	2.9%
DISBURSEMENT MIX		
Repeat loans	**85**	84
New loans	**15**	16
Average term	**19.4**	19.7
Average balance	**R8 628**	R9 474

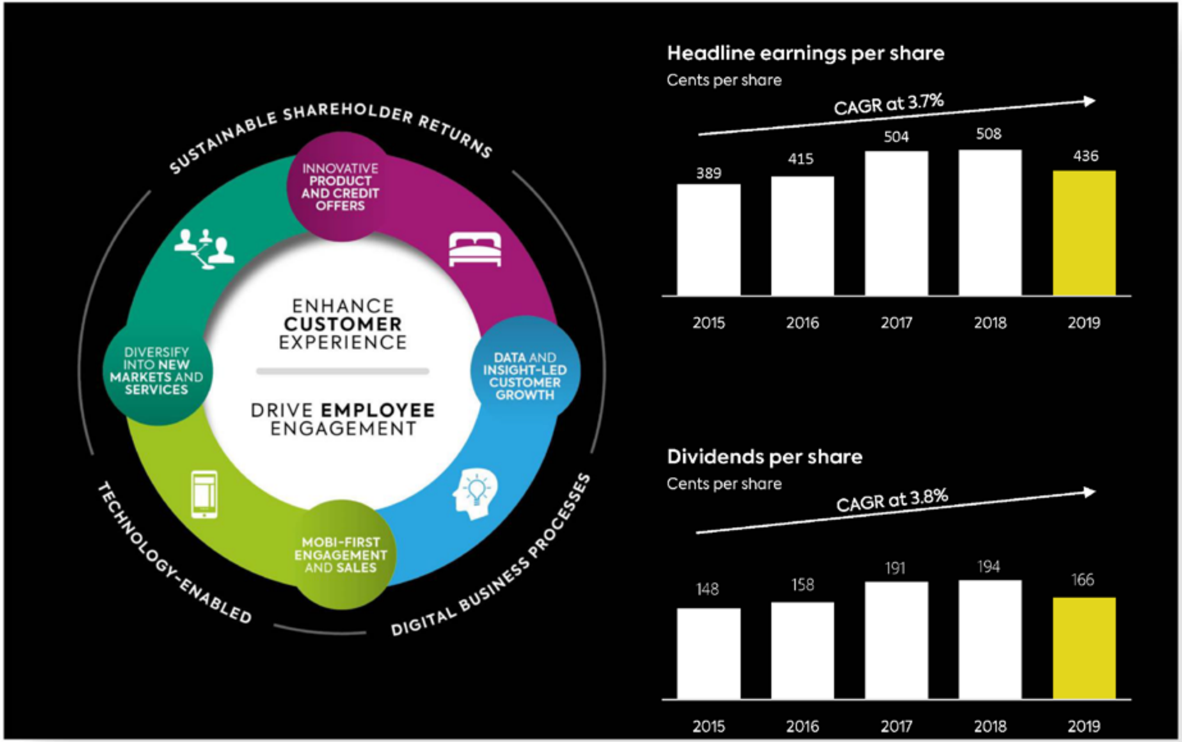
Financial Services Vintages

120+ days in arrears and written off



4 OUR STRATEGY

Transformation journey to a digital player progressing



Strategy to deliver sustainable profitable growth

PRODUCT AND CREDIT OFFERS

ACHIEVED IN 2019:

- Curated product and bundling offers delivered **strong growth in cookware, appliances and electronics**
- **145 external brands**, 21% contribution
- Vacuum packing of blankets delivering logistics savings and customer convenience
- **Parent and extended family funeral cover launched,** 48% growth in stand-alone insurance premiums

GOING FORWARD:

- **Range extension**, new product categories
- Flexible credit products and terms **from new credit origination engine**
- Additional **stand-alone insurance** products
- **Broaden range** of value-added services
- Benefits from **new merchandise planning tool**

DIGITAL TRANSFORMATION

ACHIEVED IN 2019:

- **Digital credit extended, 40.2%** of total credit
- Launched "**Digicat**" – digital catalogue with free data
- **Digital transactions** up to 86%
- Automation tools driving **successful social media monetisation**
- **Increase in digital** payments improving collections

GOING FORWARD:

- Optimise new Oracle commerce engine
- **Expand web-only product**
- Maximise **social media engagement and sales** conversion
- **Digitalise internal processes** to drive efficiencies
- Pilot **App for Financial Services** customers

Strategy to deliver sustainable profitable growth

DATA AND INSIGHT-LED CUSTOMER GROWTH

ACHIEVED IN 2019:

- **271 000 new** customers to the group
- **RFM marketing models** enabling more targeted offers and cost-efficiencies
- **API integration** enabling personalised offers – uplift in digital response rates
- **AI tools in credit risk** – large volumes of data, quicker response to trends

GOING FORWARD:

- Scale API integration for **digital customer acquisition**
- Focus on **customer retention** through recommendation engines and personalisation
- **Data analytics and data science** delivering marketing efficiencies

ENHANCE CUSTOMER EXPERIENCE

ACHIEVED IN 2019:

- **Higher contribution** of courier deliveries, negating SAPO dependencies
- **Delivery speed improved – 7.5 to 5.4** days
- Additional showrooms and ChoiceCollect **providing collection convenience**
- Customer service tools improving first-call resolution

GOING FORWARD:

- **Improve speed** of ordering and delivery
- Potential for 20+ showrooms and 50+ containers
- Up-skill contact centre to **digital agents**
- Expand **customer self-service** through greater use of Bots

5 OUTLOOK

Committed to strategy despite subdued economic outlook

- Focused on investments driving growth, technology and channels
  - Innovative, differentiated quality products through product development and range extension
  - Use data insights and machine learning models to drive customer growth
  - Omni-channel offering with additional showrooms and ChoiceCollect containers
  - Improving customers' experience

- HomeChoice South Africa leadership changes:
  - Gerhard Hayes appointed Retail CEO
  - Leanne Buckham moves to HomeChoice SA Group CEO role

- Good performance in first two months of 2020:
  - Good disbursements and digital growth continue to deliver in Financial Services
  - Higher Retail sales growth – at full value

- Actively managing the potential risks from Coronavirus, currently do not foresee it having a material impact on the group, stock brought forward to manage short-term impact

6 QUESTIONS


7
ANNEXURES

Debt review book sale 2019Q1 – rationale and impact

- We swopped a poor-performing, low-yielding asset for a high-performing, high-yielding asset, deployed to our best customers
- Sold R220 million of debtors held in a debt review book
- Customers who showed distress and had entered the formal NCA debt review process with a debt review counsellor
- Sold at market value with no loss as conservative provisions were held
- Used the proceeds to drive loans to existing low-risk customers

- Timing impact of the sale on the results:
  - Sale in March
  - Full value disbursed by June – income earned in second half

- Impact on debtors' costs:
  - Initial reduction in debtors book of R220 million
  - Higher loan disbursements resulting in immediate increase in provision value with timing delay on revenue earned
  - Provision as percentage of total book reduced

IFRS standards and credit regulations

IFRS 16 Leases	AUTHENTICATED EARLY DEBIT ORDER COLLECTION (Debicheck)
Impact	Impact

IFRS 16 Leases — Impact

- Effective 1 January 2019
- Offices, warehouses and Retail showrooms leased
- Applied simplified transition, adjust opening retained earnings
- Impact primarily in Retail segment
- R55 million depreciation impact
- R67 million shown as right-of-use assets
- R75 million as lease liabilities

IMPLEMENTED

AUTHENTICATED EARLY DEBIT ORDER COLLECTION (Debicheck) — Impact

- New debit order system to prevent fraudulent abuse
- Electronic system requiring prior approval from customers – puts control in customers' hands
- Processing functionality available from 1 November 2019, existing mandates migrated by 1 May 2020, new orders post-May require mandate
- Potential to have delays and negative effect on disbursements

IMPLEMENTATION ON TRACK

National Credit Amendment Act (number 7 of 2019)

DEBT RELIEF BILL

Impact

Background

- Signed into law August 2019, effective January 2021 with 24-month phased implementation
- Provides relief to over-indebted consumers:
  - with outstanding unsecured debt <R50 000
  - average monthly income <R7 500
- Disqualifications:
  - Secured debt
  - Customers not in distress
  - Married in community of property
  - Sec 129/130 debt

Considerations

- Conservative provisions held under IRFS 9 – largely covering potential future debt relief customers
- Affordability, credit assessment and low-to-grow approach currently only approves good-paying and loyal customers to the group
- 24-month time frame for potential accounts to work through the debt relief stages
- Opportunity to refine our credit strategy during 2020 in readiness for implementation

INVESTIGATIONS ONGOING

Disclaimer

This document has been prepared and issued by and is the sole responsibility of the management of HomeChoice International plc and its subsidiaries (the "Company" or the "Group"). This document does not constitute or form part of any offer or invitation to sell or issue, or any solicitation of any offer to purchase or subscribe for, any securities of the Company nor does it constitute a recommendation regarding the securities of the Company.

This presentation may include certain forward-looking statements, beliefs or opinions, including statements with respect to the Company's business, financial condition and results of operations. These statements reflect management's beliefs and expectations and involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. No representation is made that any of these statements or forecasts will come to pass or that any forecast results will be achieved.

There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these statements and forecasts. Past performance of the Company cannot be relied on as a guide to future performance. Forward-looking statements speak only as at the date of this presentation and the Company expressly disclaims any obligations or undertaking to release any update of, or revisions to, any forward-looking statements in this presentation. No statement in this presentation is intended to be a profit forecast. As a result, you are cautioned not to place any undue reliance on such forward-looking statements.

Any forward-looking statements, beliefs or opinions expressed in this presentation are confidential and subject to non-disclosure.

By participating in this presentation or by accepting any copy of the slides presented, you agree to be bound by the foregoing limitations. No part of these materials may be (i) copied, photocopied or duplicated in any form, by any means, or (ii) redistributed, in either case without the Company's prior consent.

SUMMARISED GROUP FINANCIAL **STATEMENTS**

for the year ended 31 December 2019
and cash dividend declaration

HOMECHOICE INTERNATIONAL PLC

COMMENTARY

The Retail business is an omni-channel retailer to the mass market with considerable expertise in both merchandise and credit management. Retail's multi-channel offering includes digital and social media platforms, contact centres, sales agents' networks, showrooms and the recently launched ChoiceCollect containers. Our 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 145 well-known external brands. Affordable and accessible credit offerings enable our customers to create the home they love.

Financial Services is a diversified FinTech business offering a range of personal lending, value-added services and insurance products on digital platforms. Providing convenient digital solutions to the increasingly mobi-savvy target market puts our customers in control of their own financial well-being.

		31 Dec 2019*	31 Dec 2018**	% change
Group				
Revenue	(Rm)	**3 484**	3 247	7.3
EBITDA	(Rm)	**751**	821	(8.5)
EBITDA margin	(%)	**21.5**	25.2	
Operating profit	(Rm)	**679**	763	(11.0)
Operating profit margin	(%)	**19.5**	23.5	
Earnings per share (EPS)	(cents)	**436.0**	506.8	(14.0)
Headline EPS (HEPS)	(cents)	**436.0**	507.7	(14.1)
Cash generated from operations	(Rm)	**437**	474	(7.8)
Cash conversion	(%)	**58.2**	57.7	
Final dividend declared/paid	(cents)	**79.0**	99.0	(20.2)
Total dividend	(cents)	**166.0**	194.0	(14.4)
Retail				
Revenue	(Rm)	**2 613**	2 501	4.5
Retail sales	(Rm)	**1 951**	1 860	4.9
Gross profit margin	(%)	**47.4**	49.6	
EBITDA	(Rm)	**442**	453	(2.4)
EBITDA margin	(%)	**16.9**	18.1	
Financial Services				
Loan disbursements	(Rm)	**2 266**	1 784	27.0
Revenue	(Rm)	**871**	746	16.8
EBITDA	(Rm)	**362**	357	1.4
EBITDA margin	(%)	**41.6**	47.8	

* IFRS 16, Leases *adopted effective 1 January 2019.*
** IAS 17, Leases *applied in 2018 financial year.*

Trading performance

Group revenue increased by 7.3% to R3.5 billion in a challenging retail market. This was boosted by strong loan disbursements growth of 27.0%, retail sales growth of 4.9% and the acquisition of 271 000 new customers.

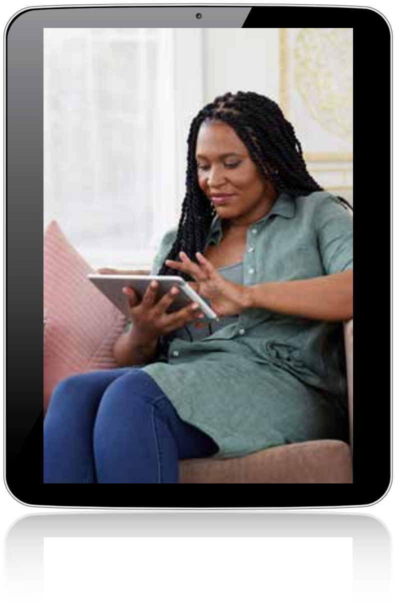
Finance charges and initiation fees earned increased by 7.6% to R1.1 billion, driven primarily by growth in the loan books.

In line with the group's diversification strategy to generate additional non-interest-bearing income, fees from ancillary services grew by 18.6%. Stand-alone insurance income grew by a credible 22.2%.

Gross profit margin declined from 49.6% to 47.4%. The 2018 South African Post Office (SAPO) strike meant that we had higher than normal opening stock holdings at the beginning of the year. The decision to aggressively promote and clear the surplus stock resulted in higher markdowns and a reduction in the gross profit margin for the year.

A debt review book of R220 million was sold in the first half of the year. By reinvesting the proceeds in loans to existing Financial Services customers, the sale had the effect of replacing a poor-performing, low-yielding asset with a higher-performing, higher-yielding asset. Credit impairment losses (debtor costs) increased by 28.7%, despite low bad debt write-offs growth of 4.8%. A higher provision charge, non-comparable with 2018, increased the debtor costs .

Trading expenses were well controlled, up 7.6%, notwithstanding continuing investment in digital transformation, in expanding the retail footprint and in growing the insurance business. Gains were achieved through effective marketing spend benefiting from the new marketing propensity models developed by our data science and analytics teams. The digitalisation of customer service processes has also successfully delivered improvements in customers' experience and cost-efficiencies.



Profit conversion was impacted by the lower gross profit margin and higher debtor provision movements. Operating profit decreased by 11.0% to R679 million.

Headline earnings decreased by 14.0% to R455 million and HEPS decreased by 14.1% to 436.0 cents. The dividend cover of 2.6 times has been maintained. The board has declared a final dividend of 79.0 cents, bringing the total dividend for the year to 166.0 cents, 14.4% down on the comparable period.

The group uses digital credit extended as a metric to measure the progress on our digital transformation. Pleasingly, we continue to see growth in digital engagement in Financial Services. Retail digital growth was impacted by the complex implementation of the new cloud-based e-commerce platform, resulting in lower digital Retail sales during the year. The group reached a milestone R2 billion of group credit transacted on digital platforms, 40.2% (2018: 39.1%) of the total credit extended.

The group has adopted *IFRS 16, Leases* with effect from 1 January 2019. The impact on the group is not significant and is explained in more detail below.

RETAIL

homechoice
for the home you love

EXPANSION ONGOING IN TOUGH RETAIL MARKET

Retail revenue increased by 4.5% to R2.6 billion, with a 4.9% merchandise sales growth. EBITDA decreased by 2.4% to R442 million largely due to a lower gross profit margin.

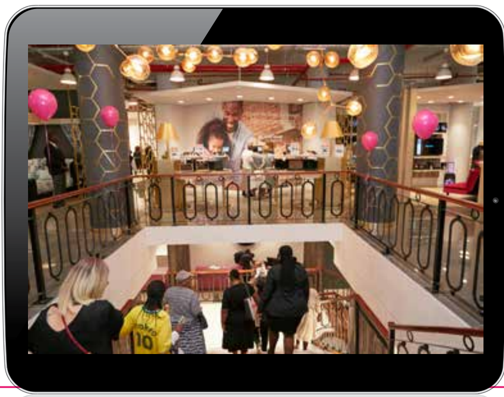
Trading performance across our product categories was mixed. Double-digit growth was achieved in cookware, appliances and electronics categories, by providing customers great value and high levels of innovation. High clearance levels of excess bedding stocks in H1 resulted in a lower contribution from textiles, declining from 64% to 60%. The 145 external brands on offer provide additional choice and convenience to customers, increasing the contribution to sales of 21.0% (2018: 16.0%).

The lower gross profit margin of 47.4% (2018: 49.6%) was the result of higher clearance activity in H1, non-comparable warehouse expenses for the Johannesburg distribution centre (opened in 2018) and lower levels of favourable exchange rate gains compared to 2018.

The HomeChoice brand continues to appeal to the mass market. 249 000 new customers were acquired during the period, with TV the primary acquisition channel. New customers are typically brought onto the book with lower credit limits and shorter terms. As they become more familiar with the credit process, their limits and terms are increased in line with their credit payment behaviour. An increasing proportion of new customers remain in a buying position after six months. We have actively controlled credit risk metrics through streamlining our vetting processes, driving mobile payments and improving the customer mix to more existing customers.

Our implementation of a new e-commerce engine during the year was complex and following a cautious approach, the site was launched in September 2019. While the resources were focused on implementation, limited upgrades and enhancements were made to the old digital site, resulting in reduced traffic and lower conversion rates, digital sales contribution decreased to 15% of total sales. To address this decline, additional in-house resources have been brought on board and the business is focused on increasing traffic to the new site, improving customers' digital experience and accelerating digital sales growth rates.

An additional four Retail showrooms and six ChoiceCollect containers were opened during the year, bringing the total to nine and eight respectively. ChoiceCollect containers are located 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 has increased to 10% of deliveries (2018: 6%) as more customers choose this convenient delivery option. We have continued to reduce our reliance on SAPO for parcel deliveries to 16% from 23% and are planning further reductions for 2020.



finchoice

for when you need it

DIGITAL USAGE WELL ESTABLISHED IN CUSTOMER BASE

Financial Services revenue increased by 16.8% to R871 million, comprising a 14.8% increase in finance income and a 21.5% growth in ancillary and insurance fees. Higher debtor costs of +54.1% were driven by higher non-comparable provision increases, with bad debts written off increasing by 17.5%. This has resulted in a muted increase in EBITDA of 1.4% to R362 million.

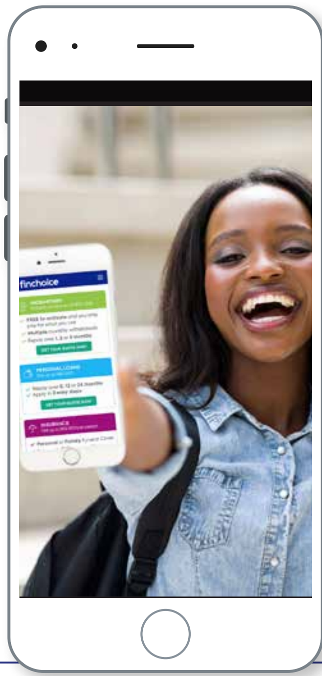
Loan disbursements increased by 27.0% to R2.3 billion. The strong growth was partially funded from the proceeds of the group's distressed debt review book sold in H1. 84% of loan disbursements were made to existing customers, reflective of the commitment of our loyal customer base. A higher utilisation of our facility account and an increase in loans to externally sourced customers resulted in the average loan term decreasing from 19.7 months to 19.4 months and the average loan balance reducing from R9 474 to R8 628.

86% of the active customer base are registered on our self-service digital platforms and 58% possess a digital-only FinChoice MobiMoney™ facility product. Digital engagement by customers continues to increase, as evidenced by 86.0% (2018: 84.1%) of all transactions being concluded on a digital platform. Higher digital engagement is also facilitated by sale of value-added services (airtime, data, electricity) using the MobiMoney platform.

Financial Services acquired 63 000 new customers, a 34.8% increase (2018: 46 000), with 22 500 (36%) 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 externally sourced customers with lower credit limits and shorter-terms 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 48.0%, supported by digital channels and a dedicated contact centre. Two new products were launched in the year and we saw increased penetration of the existing base as more customers elected to insure with the group. The stand-alone insurance book had 61 000 policies in force at the end of the period.

Trading expenses increased by 11.6%. Costs were contained to mitigate the impact of higher debtor costs while continuing to support the growth areas of insurance and digitalisation.



Mixed performance in credit

The group has a stable credit book, with gross trade and loans receivable increasing by 9.2% to R3.8 billion, primarily due to the high loan disbursements during the period under review. Group debtor costs increased by 28.7% resulting from the impact of non-comparable provision movements and an increase in the Financial Services bad debt write-offs (explained in more detail below).

Credit performance for the period is summarised below:

		31 Dec 2019	31 Dec 2018	% change
Group				
Gross trade and loans receivable	(Rm)	**3 784**	3 464	9.2
Debtor costs as a % of revenue*	(%)	**20.6**	17.1	
Retail				
Number of active accounts		**581 818**	603 944	
Active accounts able to purchase	(%)	**66.4**	68.8	
Gross trade and loans receivable	(Rm)	**1 947**	1 865	4.4
Debtor costs as a % of revenue	(%)	**16.5**	14.9	
Provision for impairment	(Rm)	**366**	359	
Provision for impairment as a % of gross receivables	(%)	**18.8**	19.2	
NPLs**	(%)	**10.2**	9.6	
NPL cover	(times)	**1.8**	2.0	
Financial Services				
Number of active accounts		**223 742**	185 177	
Active accounts able to reloan	(%)	**76.4**	72.1	
Gross trade and loans receivable	(Rm)	**1 837**	1 599	14.9
Debtor costs as a % of revenue	(%)	**32.7**	24.7	
Provision for impairment	(Rm)	**254**	252	
Provision for impairment as a % of gross receivables	(%)	**13.8**	15.8	
NPLs	(%)	**4.3**	4.1	
NPL cover	(times)	**3.2**	3.8	

* *Debtor costs include bad debts written off net of recoveries, as well as movements in provisions.*
** *Non-performing loans (>120 days).*

R220 million of distressed debtors' accounts, managed in line with the National Credit Act's debt review process, was sold during H1. The group holds high provisions on the debt review book reflective of their credit risk. Consequently, when this book was sold, the changing mix of the total debtors' book had the impact of reducing the overall provision percentages.

Well-controlled Retail credit risk

Debtor costs in Retail have increased by 16.1% relative to the sales growth of 4.9%. Well-controlled bad debt write-offs which reduced by 0.3%, was countered with a non-comparable shift in the quantum of the impairment provision.

The moderate increase in the debtors' book provision to 18.8% (June 2019: 18.4%) is non-comparable against the 2018 financial period when there was a reduction in the provision from 21.0% (January 2018) to 19.2% (December 2018) due to the adoption of IFRS 9.

Benefits in credit risk have been achieved from a higher proportion of business to existing customers, streamlining processes in credit approval and prevention of fraud, as well as an increase in the proportion of Naedo debit order payments.

NPLs have increased marginally to 10.2% (2018: 9.6%) and NPL coverage is within acceptable levels.

Financial Services credit risk increased; however corrective action taken

Debtor costs increased by 54.1% relative to loan disbursements growth of 27.0%. Bad debts written off (net of recoveries) increased by 17.5%, primarily due to higher credit limits given to new MobiMoney and externally sourced customers. Further, these customers were then given credit limit increases too early in their life cycle. Corrective action has been taken to treat external customers' limits more conservatively for longer durations of demonstrating good payment behaviour before migrating them into the existing customer risk profiles. The limits assigned to new customers from certain risk bands on the MobiMoney product have been curtailed and scorecards aligned.

The provision for impairment has increased to 13.8% at December 2019 (June 2019: 12.0%) due to the higher risk experienced in the year. The non-comparable increase in the movement in provisions was the primary driver of the high debtor costs increase. The movement is non-comparable due to the sale of the debt review book in H1, the subsequent growth in provisions on the new debt review book and the impact of the adoption of IFRS 9.

NPLs have increased marginally to 4.3% (2018: 4.1%) and NPL coverage remains conservative at 3.2 times.

Investments in strategic initiatives to support future growth

Cash generated from operations for the year was R437 million, 7.8% down due to lower profitability. Cash conversion improved to 58.2% despite the 27.0% increase in loan disbursements and lower Retail sales.

There was a strong focus on debtor collections. The implementation of digital payments and a higher percentage of debit orders in the Retail business assisted in keeping working capital within acceptable levels.

A change in the industry-wide SARS treatment of bad debts written off had the effect of a once-off tax charge of R44 million. Excluding this payment, cash balances are in line with 2018.

R116 million (2018: R126 million) of capex was spent on strategic investments in additional showrooms and technology. These investments will deliver an enhanced customer experience while the distribution centre capex drives productivity and capacity efficiencies.

Application of new accounting standards

As required by International Financial Reporting Standards (IFRS) the group has adopted *IFRS 16, Leases* effective 1 January 2019. The group leases various offices, warehouses and retail showrooms.

In adopting IFRS 16 the group has applied the simplified transition approach, recognising the cumulative effect as an adjustment to the opening balance of retained earnings at 1 January 2019.

As a result of adopting IFRS 16, R67 million is shown as right-of-use assets and R75 million as lease liabilities as at 31 December 2019.

Changes to board composition

At the annual general meeting, held on 10 May 2019, Pierre Joubert was appointed as an independent non-executive director. He is based in Mauritius and brings a wealth of financial services experience to the board's deliberations. He is also a member of the audit and risk committee.

Rick Garratt, the group's founder, stepped down from the board on 31 December 2019.

Redomiciliation

As previously announced on 27 August 2019, the board obtained shareholder approval to redomicile the company from Malta to Mauritius. The purpose of the redomiciliation is for the group to be managed from Mauritius, where the expansion of the Financial Services operations is to be driven from.

The administrative processes to effect the change are still in progress and are expected to conclude during the course of May 2020. In order to avoid any unintended consequences of the payment of a dividend during this period, the board has considered it appropriate to declare the final dividend of 79.0 cents and delay the dividend payment date to 25 May 2020, subject to the successful completion of the redomiciliation.

Further communication will be made to shareholders on the successful completion of the redomiciliation.

Outlook

The economic outlook for South Africa remains muted with high unemployment and a slow recovery in key economic indicators. The vibrant informal economy continues to show growth as more individuals supplement their primary income with a secondary income derived from the informal sector.

We are committed to continue to drive our strategic initiatives and, with a loyal and expanding customer base, strong brands and continuous innovation, we believe we are well positioned to drive growth.

Potential risks from the Coronavirus are being actively managed and we currently do not foresee it having a material impact on the group's supply chain.

Our vision is to provide for our customers' lifestyle through digitally focused and innovative retail and financial services products and for the group to be a leading digital player in the mass market.

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

S Portelli	**G Lartigue**	**S Maltz**
Chairman	Chief Executive Officer	Chief Executive Officer (South Africa)

Qormi, Malta, 12 March 2020

Dividend declaration

Notice is hereby given that the board of directors has declared a final gross cash dividend of 79.0000 cents (63.2000 cents net of dividend withholding tax) per ordinary share for the year ended 31 December 2019. 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 105 376 146 ordinary shares.

The salient dates for the dividend will be as follows:

Last day of trade to receive a dividend	Tuesday, 19 May 2020
Shares commence trading "ex" dividend	Wednesday, 20 May 2020
Record date	Friday, 22 May 2020
Payment date	Monday, 25 May 2020

Share certificates may not be dematerialised or rematerialised between Wednesday, 20 May 2020 and Friday, 22 May 2020, both days inclusive.

G Said
Company Secretary

Qormi, Malta, 12 March 2020

SUMMARISED GROUP FINANCIAL STATEMENTS

SUMMARISED GROUP **STATEMENT OF FINANCIAL POSITION**

	Notes	**2019 Rm**	% change	2018 Rm
Assets				
Non-current assets				
Property, plant and equipment		**471**	1.5	464
Intangible assets		**169**	45.7	116
Right-of-use asset		**67**	100.0	–
Financial assets at fair value through profit and loss		**24**	–	24
Deferred taxation		**2**	100.0	1
		733	21.2	605
Current assets				
Inventories	2	**349**	14.8	304
Taxation receivable		**1**	100.0	–
Trade and other receivables	3	**3 188**	9.8	2 903
Trade receivables – Retail		**1 581**	5.0	1 506
Loans receivable – Financial Services		**1 583**	17.5	1 347
Other receivables		**24**	(52.0)	50
Cash and cash equivalents		**80**	(25.9)	108
		3 618	9.1	3 315
Total assets		**4 351**	11.0	3 920
Equity and liabilities				
Equity attributable to equity holders of the parent				
Stated and share capital		**1**	–	1
Share premium		**3 010**	0.2	3 005
Reorganisation reserve		**(2 961)**	–	(2 961)
		50	11.1	45
Treasury shares		**(18)**	>100.0	(3)
Other reserves		**33**	83.3	18
Retained earnings		**2 881**	9.8	2 624
Total equity		**2 946**	9.8	2 684
Non-current liabilities				
Interest-bearing liabilities		**537**	(29.0)	756
Lease liabilities		**57**	100.0	–
Deferred taxation		**51**	(22.7)	66
Trade and other payables		**4**	(33.3)	6
		649	(21.6)	828
Current liabilities				
Interest-bearing liabilities		**391**	>100.0	92
Lease liabilities		**18**	100.0	–
Taxation payable		**16**	(65.2)	46
Trade and other payables		**283**	6.0	267
Provisions		**–**	(100.0)	3
Bank overdraft		**48**	100.0	–
		756	85.3	408
Total liabilities		**1 405**	13.7	1 236
Total equity and liabilities		**4 351**	11.0	3 920

SUMMARISED GROUP
STATEMENT OF COMPREHENSIVE INCOME

	Notes	2019 Rm	% change	2018 Rm
Revenue		**3 484**	7.3	3 247
Retail sales		**1 951**	4.9	1 860
Finance income		**1 093**	7.6	1 016
Fees from ancillary services	4	**440**	18.6	371
Cost of Retail sales		**(1 027)**	9.5	(938)
Other operating costs		**(1 785)**	15.2	(1 550)
Credit impairment losses	5	**(717)**	28.7	(557)
Other trading expenses	5	**(1 068)**	7.6	(993)
Other net gains and losses		**(1)**	(80.0)	(5)
Other income		**8**	(11.1)	9
Operating profit		**679**	(11.0)	763
Interest income		**4**	33.3	3
Interest expense		**(101)**	13.5	(89)
Share of loss of associates		**–**	–	(1)
Profit before taxation		**582**	(13.9)	676
Taxation		**(127)**	(14.2)	(148)
Profit and total comprehensive income for the year		**455**	(13.8)	528
Earnings per share (cents)				
Basic	6	**436.0**	(14.0)	506.8
Diluted		**428.7**	(14.2)	499.8
Headline earnings per share (cents)				
Basic	6	**436.0**	(14.1)	507.7
Diluted		**428.7**	(14.4)	500.8

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 2018 as originally presented	1	3 003	(3)	(2 961)	13	2 320	2 373
Change on initial application of IFRS 9	–	–	–	–	–	(11)	(11)
Restated balance as at 1 January 2018	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	850
Balance at 1 January 2019	**1**	**3 005**	**(3)**	**(2 961)**	**18**	**2 624**	**2 684**
Change on initial application of IFRS 16 (note 1.2)	**–**	**–**	**–**	**–**	**–**	**(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 year	**–**	**–**	**–**	**–**	**–**	**455**	**455**
Shares issued	**–**	**5**	**–**	**–**	**–**	**–**	**5**
Dividends paid	**–**	**–**	**–**	**–**	**–**	**(195)**	**(195)**
Share incentive schemes	**–**	**–**	**–**	**–**	**15**	**–**	**15**
Shares purchased	**–**	**–**	**(15)**	**–**	**–**	**–**	**(15)**
Total changes	**–**	**5**	**(15)**	**–**	**15**	**260**	**265**
Balance at 31 December 2019	**1**	**3 010**	**(18)**	**(2 961)**	**33**	**2 881**	**2 946**

SUMMARISED GROUP
STATEMENT OF CASH FLOWS

	Notes	2019 Rm	% change	2018 Rm
Cash flows from operating activities				
Operating cash flows before working capital changes		**718**	(7.5)	776
Movements in working capital		**(281)**	(7.0)	(302)
Cash generated from operations	7	**437**	(7.8)	474
Interest received		**4**	33.3	3
Interest paid		**(93)**	9.4	(85)
Taxation paid		**(174)**	11.5	(156)
Net cash inflow from operating activities		**174**	(26.3)	236
Cash flows from investing activities				
Additions of property, plant and equipment		**(44)**		(70)
Proceeds on disposal of property, plant and equipment		**–**		1
Additions of intangible assets		**(72)**		(56)
Investment in associates		**–**		14
Financial assets at fair value through profit and loss		**11**		19
Net cash outflow from investing activities		**(105)**	14.1	(92)
Cash flows from financing activities				
Proceeds from the issuance of shares		**5**		2
Purchase of shares to settle forfeiture share scheme obligations		**(15)**		–
Proceeds from interest-bearing liabilities		**315**		271
Repayments of interest-bearing liabilities		**(243)**		(207)
Principal elements of lease payments		**(12)**		–
Dividends paid		**(195)**		(213)
Net cash outflow from financing activities		**(145)**	(1.4)	(147)
Net decrease in cash and cash equivalents and bank overdrafts		**(76)**		(3)
Cash, cash equivalents and bank overdrafts at the beginning of the year		**108**		111
Cash, cash equivalents and bank overdrafts at the end of the year		**32**	(70.4)	108

GROUP
SEGMENTAL INFORMATION

		2019					
		Total Rm	**Retail Rm**	**Financial Services Rm**	**Property Rm**	**Other Rm**	**Intra-group Rm**
Segmental revenue		**3 484**	**2 613**	**871**	**61**	**–**	**(61)**
Retail sales		1 951	1 951	–	–	–	–
Finance income		1 093	482	611	–	–	–
Fees from ancillary services		440	180	260	61	–	(61)
EBITDA		751	442	362	36	(34)	(55)
Depreciation and amortisation		(73)	(117)	(11)	–	–	55
Interest received		3		3		72	(72)
Interest paid		(68)		(68)		(72)	72
Segmental operating profit*		613	325	286	36	(34)	–
Interest income		1	1		–	–	–
Interest expense		(32)	(12)		(20)	–	–
Profit before taxation		582	314	286	16	(34)	–
Taxation		(127)	(68)	(55)	(5)	1	–
Profit after taxation		455	246	231	11	(33)	–
Segmental assets		4 351	2 359	1 725	340	1 211	(1 284)
Segmental liabilities		1 405	1 035	840	253	561	(1 284)
Gross profit margin	(%)	47.4	47.4				
Segmental results margin	(%)	17.6	12.4	32.8	59.0		
Operating cash flows before working capital changes		718	415	355	36	33	(55)
Movements in working capital		(281)	(72)	(212)	–	3	–
Cash generated/(utilised) by operations		437	343	143	36	30	(55)
Capital expenditure							
Property, plant and equipment		44	43	1	–	–	–
Intangible assets		72	49	23			

* *Refer to note 8 for further details on segments and segmental results.*

2018 Total Rm	Retail Rm	Financial Services Rm	Property Rm	Other Rm	Intra-group Rm
3 247	2 501	746	58	–	(58)
1 860	1 860	–	–	–	–
1 016	484	532	–	–	–
371	157	214	58	–	(58)
821	453	357	33	(22)	–
(59)	(54)	(4)	(1)	–	–
3		2		66	(65)
(62)		(63)		(64)	65
703	399	292	32	(20)	–
–	–		–	–	–
(27)	(5)		(22)	–	–
676	394	292	10	(20)	–
(148)	(89)	(60)	(3)	4	–
528	305	232	7	(16)	–
3 920	2 443	1 465	343	704	(1 035)
1 236	583	816	278	594	(1 035)
49.6	49.6				
21.3	16.0	39.1	55.2		
776	418	347	33	(22)	–
(302)	(108)	(191)	–	(3)	–
474	310	156	33	(25)	–
70	68	2	–	–	–
56	45	3	–	8	–

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 2019 and these summarised group financial statements have been prepared by the group's finance department, acting under the supervision of P Burnett, CA(SA), the finance director of the group.

The summarised group financial statements are prepared in accordance with the requirements of the JSE Limited Listings Requirements (JSE) for abridged reports. The JSE Limited Listings Requirements require abridged reports 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 summarised group 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, other than the adoption of *IFRS 16, Leases*, as outlined below.

1.2 Changes in accounting policies

1.2.1 IFRS 16, Leases – Impact of adoption

This note explains the impact of the adoption of *IFRS 16, Leases* on the group's financial statements and discloses the new accounting policies that have been applied from 1 January 2019.

The group has adopted IFRS 16 retrospectively from 1 January 2019 but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening statement of financial position on 1 January 2019.

1.2.1.1 Adjustments recognised on adoption of IFRS 16

On adoption of IFRS 16 the group recognised lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of *IAS 17, Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 10.25%.

	2019 Rm
Operating lease commitments disclosed as at 31 December 2018	**67**
Discounted using the lessee's incremental borrowing rate at the date of initial application	**(12)**
Lease liability recognised as at 1 January 2019	**55**

1.2 Changes in accounting policies (continued)

1.2.1.1 Adjustments recognised on adoption of IFRS 16 (continued)

The associated right-of-use assets for property leases were measured as if the standard had been applied since the lease commencement dates, but discounted using the incremental borrowing rate at the date of initial application of 10.25%.

The change in accounting policy affected the following items in the statement of financial position on 1 January 2019:

- right-of-use assets – increase by R50 million
- deferred tax assets – increase by R2 million
- lease liabilities – increase by R55 million

The net impact on retained earnings on 1 January 2019 was a decrease of R3 million.

1.2.1.2 Practical expedients applied

In applying IFRS 16 for the first time, the group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics; and
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application.

The group has also elected not to reassess whether a contract is or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the group relied on its assessment made applying IAS 17 and *IFRIC 4, Determining Whether an Arrangement Contains a Lease*.

1.2.1.3 Residual value guarantees

The group does not provide residual value guarantees in relation to leases.

2. Inventories

	2019 Rm	% change	2018 Rm
Merchandise for resale	**310**	8.4	286
Provision for inventory obsolescence	**(18)**	20.0	(15)
Goods in transit	**57**	72.7	33
	349	14.8	304

Inventory sold at less than cost during the current year amounted to R25 million (2018: R29 million).

3. Trade and other receivables

	2019 Rm	% change	2018 Rm
Trade receivables – Retail	**1 947**	4.4	1 865
Provision for impairment	**(366)**	1.9	(359)
	1 581	5.0	1 506
Loans receivable – Financial Services	**1 837**	14.9	1 599
Provision for impairment	**(254)**	0.8	(252)
	1 583	17.5	1 347
Other receivables	**24**	(52.0)	50
Total trade and other receivables	**3 188**	9.8	2 903
Total trade and loan receivables	**3 784**	9.2	3 464
Provision for impairment	**(620)**	1.5	(611)
Other receivables	**24**	(52.0)	50

3. Trade and other receivables (continued)

		2019 Rm	% change	2018 Rm
Movements in the provision for impairment were as follows:				
Retail				
Opening balance		**(359)**		(320)
Change on initial application of IFRS 9		**–**		(64)
Restated opening balance		**(359)**	(6.5)	(384)
Movement in provision		**(36)**	(>100.0)	25
Credit impairment costs charged to profit and loss		**(432)**	16.1	(372)
Debts written off during the year, net of recoveries		**396**	(0.3)	397
Sale of debt review book		**29**		–
Closing balance		**(366)**	1.9	(359)
Financial Services				
Opening balance		**(252)**		(189)
Change on initial application of IFRS 9		**–**		(38)
Restated opening balance		**(252)**	11.0	(227)
Movement in provision		**(97)**	>100.0	(25)
Credit impairment costs charged to profit and loss		**(285)**	54.1	(185)
Debts written off during the year, net of recoveries		**188**	17.5	160
Sale of debt review book		**95**		–
Closing balance		**(254)**	0.8	(252)
Retail				
Credit impairment costs as a % of revenue	(%)	**16.5**		14.9
Credit impairment costs as a % of gross receivables	(%)	**22.2**		19.9
Provision for impairment as a % of gross receivables	(%)	**18.8**		19.3
Financial Services				
Credit impairment costs as a % of revenue	(%)	**32.7**		24.7
Credit impairment costs as a % of gross receivables	(%)	**15.5**		11.6
Provision for impairment as a % of gross receivables	(%)	**13.8**		15.8
Group				
Credit impairment costs as a % of revenue	(%)	**20.6**		17.1
Credit impairment costs as a % of gross trade receivables	(%)	**18.9**		16.1
Provision for impairment as a % of gross receivables	(%)	**16.4**		17.6

3. Trade and other receivables (continued)

		2019 Rm	% change	2018 Rm
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	(%)	**10.2**		9.6
Financial Services	(%)	**4.3**		4.1

Credit-impaired trade receivables and loan receivables at the end of the current reporting period was R524 million and R188 million respectively.

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

Included in trade and loan receivables are amounts approximating R972 million (2018: R806 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.

4. Fees from ancillary services

	2019 Rm	% change	2018 Rm
Service fees	**262**	14.9	228
Insurance fees	**154**	22.2	126
Other	**24**	41.2	17
	440	18.6	371

5. Total trading expenses

	2019 Rm	% change	2018 Rm
Expenses by nature			
Credit impairment losses			
Trade receivables – Retail	**432**	16.1	372
Loans receivable – Financial Services	**285**	54.1	185
Total credit impairment losses	**717**	28.7	557
Amortisation of intangible assets	**19**	(24.0)	25
Depreciation of property, plant and equipment	**54**	58.8	34
Operating lease charges for immovable property	**–**	(100.0)	3
Total operating lease charges	**–**	(100.0)	8
Less: disclosed under cost of Retail sales	**–**	(100.0)	(5)
Marketing costs	**243**	(3.6)	252
Staff costs	**434**	5.6	411
Total staff costs	**509**	4.9	485
Less: disclosed under cost of Retail sales	**(35)**	(7.9)	(38)
Less: staff costs capitalised to intangibles	**(40)**	11.1	(36)
Other costs	**318**	18.7	268
Total other trading expenses	**1 068**	7.6	993
	1 785	15.2	1 550

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:

	2019 Rm	% change	2018 Rm
Profit for the year	**455**	(13.8)	528
Adjusted for the after-tax effect of:			
Impairment of investment in associate	**–**		1
Share of impairment of property, plant and equipment of associate	**–**		–
Headline earnings	**455**	(14.0)	529
Weighted average number of ordinary shares in issue ('000)	**104 363 945**		104 190 997
Earnings per share (cents)			
Basic	**436.0**	(14.0)	506.8
Headline	**436.0**	(14.1)	507.7
Basic – diluted	**428.7**	(14.2)	499.8
Headline – diluted	**428.7**	(14.4)	500.8

7. Reconciliation of cash generated from operations

	2019 Rm	% change	2018 Rm
Profit before taxation	**582**	(13.9)	676
Deduct finance income earned	**(1 093)**	7.6	(1 016)
Add back finance income received	**1 055**	7.3	983
Share of loss of associate	**–**	(100.0)	1
Profit from insurance cells	**(11)**	(15.4)	(13)
Depreciation and amortisation	**73**	23.7	59
Share-based employee share expense	**15**	>100.0	5
Exchange profits on foreign exchange contracts	**–**	(100.0)	(5)
Interest paid	**101**	13.5	89
Interest received	**(4)**	33.3	(3)
Operating cash flows before working capital changes	**718**	(7.5)	776
Movements in working capital	**(281)**	(7.0)	(302)
Increase in inventories	**(45)**	(4.3)	(47)
Increase in trade receivables – Retail	**(47)**	23.7	(38)
Increase in loans receivable – Financial Services	**(226)**	30.6	(173)
Decrease/(increase) in other receivables	**26**	(>100.0)	(35)
Increase in trade and other payables	**14**	(46.2)	26
Decrease in provisions	**(3)**	(91.4)	(35)
	437	(7.8)	474

8. Group segmental information

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. Related party transactions and balances

Related party transactions similar to those disclosed in the group's annual financial statements for the prior year took place during the year 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.

10. Capital commitments for property, plant and equipment and intangible assets:

	2019 Rm	2018 Rm
Approved by the directors	**6**	3

11. 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.

12. Contingent liabilities

The group had no contingent liabilities at the reporting date.

13. 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.

14. 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 these summarised group financial statements and that the financial information has been correctly extracted from the underlying group annual financial statements.

12 March 2020

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, E Gutierrez-Garcia*, R Hain,
P Joubert, C Rapa, A Ogunsanya* (alternate)
* Non-independent

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

HiL PLC