


HiL PLC



2018 INTERIM RESULTS

HomeChoice International plc

CONTENTS

Revenue up
16.1%
to **R1.5 billion**

Retail sales up
18.9%
to **R856 million**

Loan disbursements up
30.0%
to **R853 million**

Financial highlights

Credit extended on digital channels up
54.7% to
39.1% of all credit

Cash generated from operations up
37.9%
to **R240 million**

Headline earnings per share up
14.7%
to **250 cents**

Customer base up
5.0%
to **836 000**

Interim dividend up
15.9%
to **95 cents**




HiL PLC

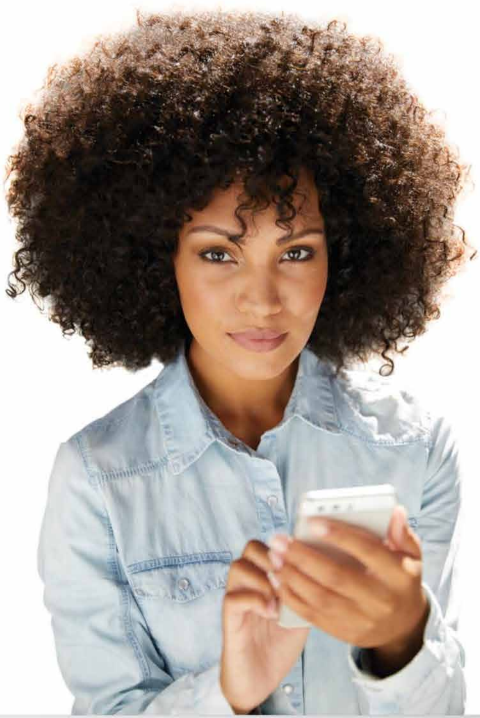
HomeChoice International plc



Interim results presentation

6 months to 30 June 2018

Agenda



1 Who we are

2 2018 performance

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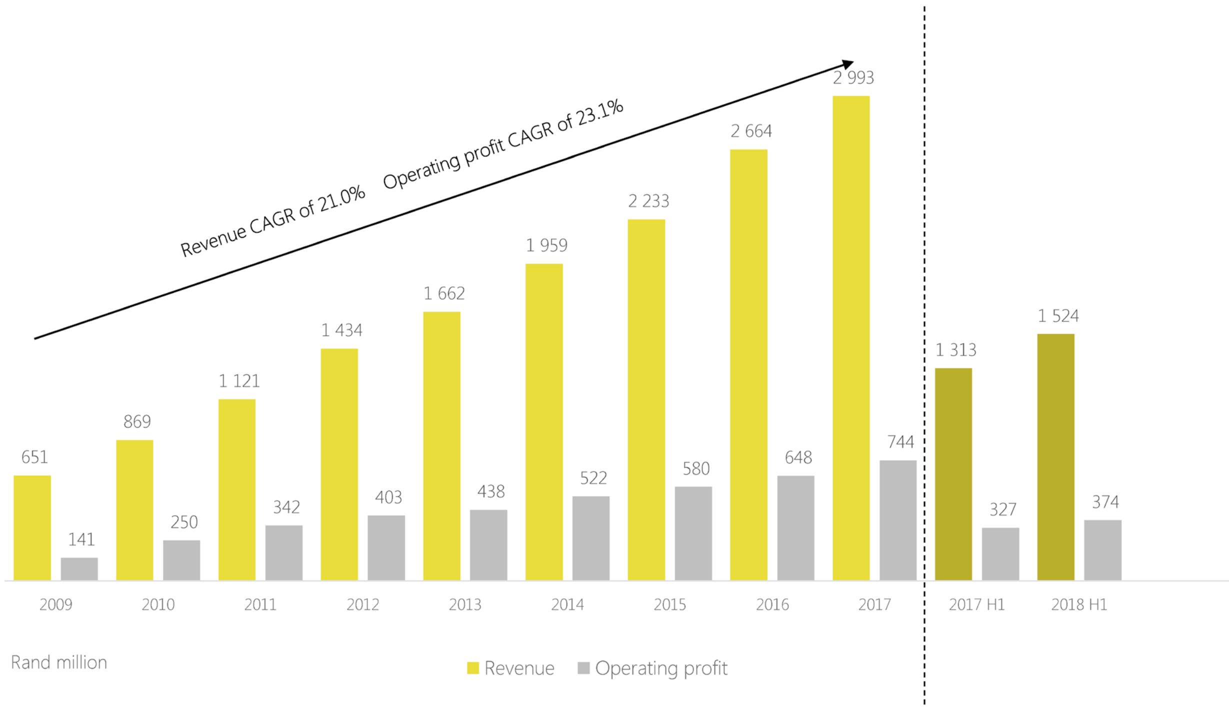
We are a leading provider of innovative **Retail** and **Financial Services** products to a loyal and growing female customer base in southern Africa

Continuing our history of profitable growth



Two divisions: aspirational retail and financial products

HomeChoice (Retail)

- An omni-channel retailer in southern Africa offering her convenience and our own delivery network
- Innovative own brand textiles, homewares, personal electronics, apparel and more than 100 external brands
- Credit facility a powerful enabler of sales

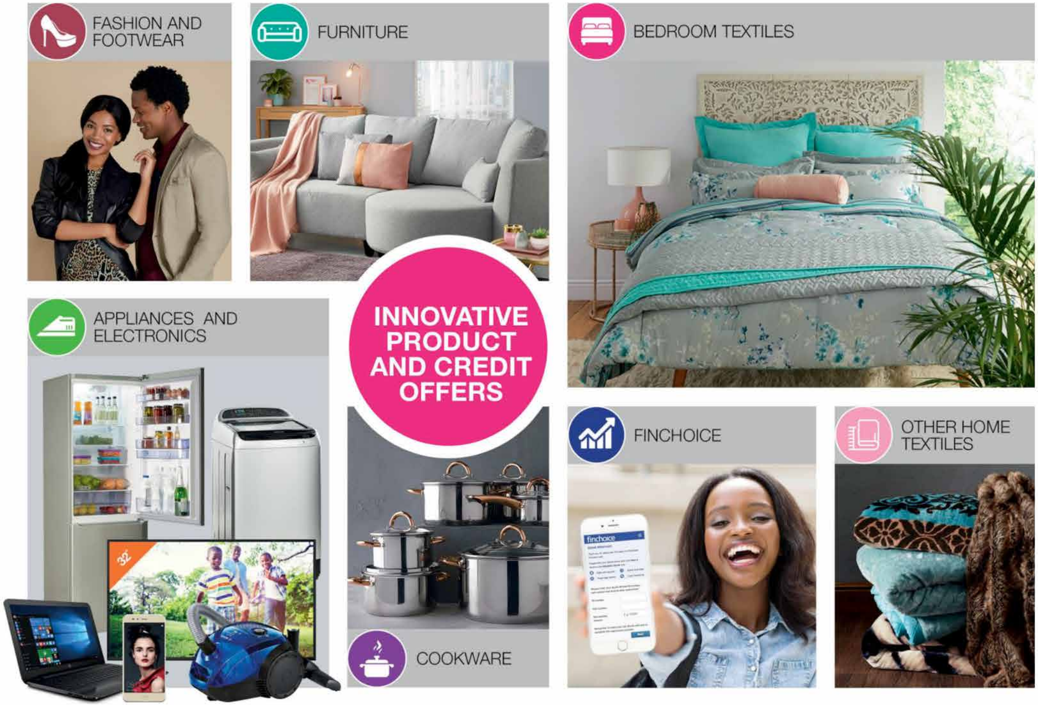
6 months to June 2018

FinChoice (Financial Services)

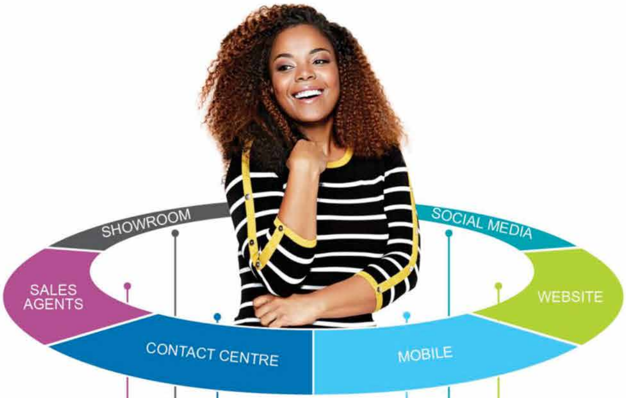
- A leading FinTech platform in the mass market providing innovative loans, insurance products and value-added financial services
- Serves the HomeChoice customer base of good credit standing
- 24/7 customer engagement through digital channels

6 months to June 2018

Appealing to LSM 4 – 8, urban female, who wants to invest in her home



Omni-channel offering with accelerating digital component



Omni-channel customer offering

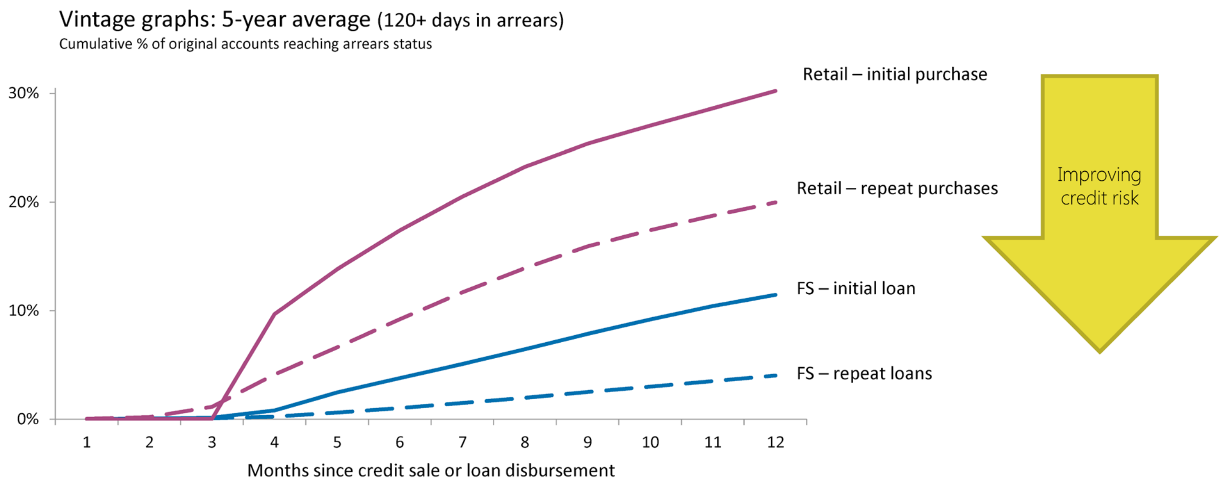
Well positioned to deliver an omni-channel experience for our customers.

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

780 000 Facebook community

18 900 customers engage on Instagram

Credit is a powerful enabler for customers

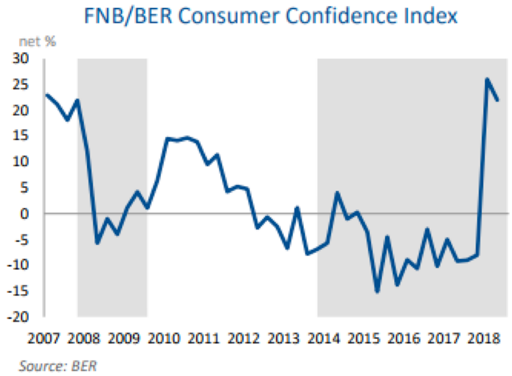


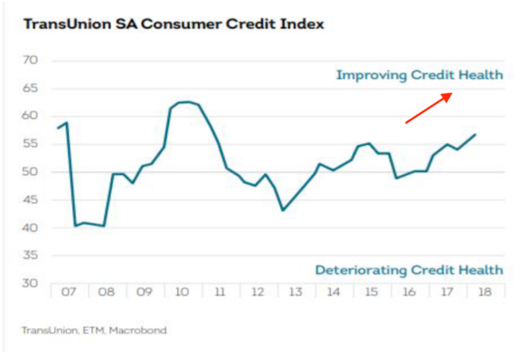
- Retail drives acquisition for the group (92% of customers utilise credit)
- New customers offered low-value, short-term credit – stepped up on performance
- Financial Services leverages data and response models to make loan offers

2018 performance

Tough environment: consumers under pressure

- Increased consumer confidence not translating into growth – negative GDP in Q1
- Consumer wallets impacted by VAT increase, higher transport costs and food inflation
- Persistent unemployment at record levels
- Period of labour instability – strikes and wage disputes
- Rand has weakened and remains vulnerable
- Consumer credit health continues to improve, although not to previous highs
- Proportion of consumers in arrears remains stable despite economic headwinds





Financial highlights

Retail sales
+18.9%
to R856 million

Loans disbursed
+30.0%
to R853 million

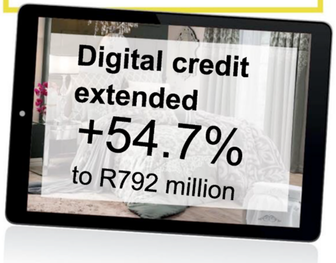
Revenue
+16.1%
to R1.5 billion

EBITDA
+14.7%
to R406 million

HEPS
+14.7%
250 cents

DPS
+15.9%
to 95 cents

Cash generated from operations
+37.9%
to R240 million



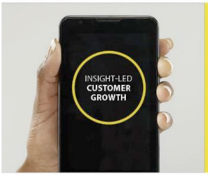
Operational highlights

Innovative product offering

- Innovation in market-leading bedding and textiles categories
- 100+ external retail brands
- Airtime and data value-added services launched on Mobi platform
- Encouraging growth in funeral insurance policies

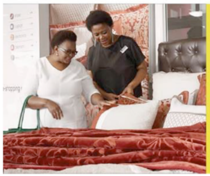
Digital transformation

- Digital Retail sales up 46.7% (18.5% contribution)
- 78.2% of loan transactions are digital (up from 68.0%)
- MobiMoney™ innovation driving online engagement
- Digital customer self-services launched



Insight-led customer growth

- 128 000 new Retail customers acquired
- 5.0% growth in group customer base to 836 000
- New customer segmentation model implemented
- Analytics enabling personalisation



Enhance customer experience

- New Gauteng warehouse drives speed and efficiency
- Maponya Mall (Soweto) showroom opened
- Improvement in delivery days
- Real-time customer communication for all deliveries

New IFRS has a modest impact on the group

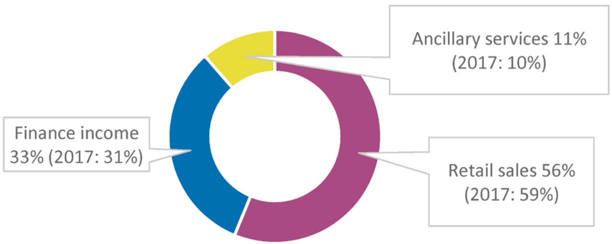
Standard		Impact
IFRS 9	Classification and Measurement of Financial Instruments	• Debtor provisions change from incurred loss to expected loss basis – new models reviewed by PwC • Provisions have increased 20% under IFRS 9 • Retail impairment provisions up R64 million (from 17.9% to 21.0%) • Financial Services impairment provisions up R38 million (from 14.0% to 16.3%) • No impact to earnings – adjustment to equity • Derecognition of revenue on credit impaired accounts – reduces both revenue and debtor costs (no impact on profit)
IFRS 15	Revenue from Contracts with Customers	• Immaterial – restated comparatives

Continued growth in a challenging environment

- Revenue growth of 16.1% driven by
  - Retail sales up 18.9% to R856 million
  - Loans disbursed up 30.0% to R853 million
- Finance income up 11.3% to R494 million after normalisation of lower interest rates
- Good growth in insurance business driving 16.8% increase in fees from ancillary services to R174 million
- Debtor costs impacted by IFRS 9 and book growth
- Significant investment cycle in technology and skills
- Good trading performance reflected in operating profit up 14.4% to R374 million

	2018 Rm	% change	2017 Rm
Revenue	1 524	16.1	1 313
Gross profit margin	51.9%		50.1%
Debtor costs	(260)	18.7	(219)
Other trading expenses	(482)	15.6	(417)
EBITDA	406	14.7	354
Operating profit	374	14.4	327

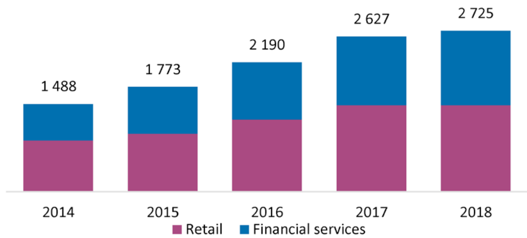
Revenue contribution



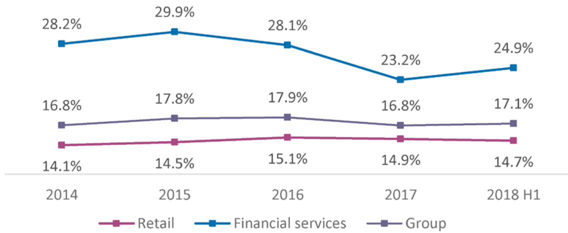
Stable credit performance in both businesses

- Retail debtor costs* up 17.1% in line with revenue growth
  - New customer vintages showing increased risk, existing customer vintages improving
  - Implemented Instinct fraud system and developed new scorecards
- Financial Services debtor costs up 21.9% against revenue growth of 13.0%
  - Strong 30.0% growth in disbursements
  - Debtor costs increased by provisions raised against book in advance of future revenue
  - Risk distribution of book improved – credit vintages stable

Trade and loan receivables (net of provisions)
Rand million



Debtor costs as a % of revenue
Percentage



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

Growing a quality book with conservative NPL coverage

	Jun 2018 IFRS 9	% change	Jun 2017 IAS 39	Dec 2017 IAS 39
Retail: gross receivables	R1 845 m	20.4%	R1 533 m	R1 784 m
Provision as % of receivables	20.6%		18.6%	17.9%
Non-performing loans (120+ days)	9.8%		10.3%	9.9%
NPL cover (times)	2.1		1.8	1.8
Financial Services: gross receivables	R1 500 m	24.5%	R1 205 m	R1 352 m
Provision as % of receivables	16.0%		14.9%	14.0%
Non-performing loans (120+ days)	4.2%		4.4%	4.2%
NPL cover (times)	3.8		3.4	3.3

- Improvement in non-performing loans reflective of quality of books
- Adoption of IFRS 9 resulted in higher impairment provisions (up 20%)
- NPL cover remains very conservative

Trading expenses

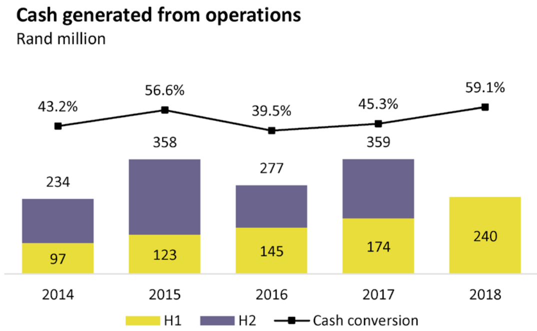
	2018 R mill	% change	2017 R mill	2018 % of rev	2017 % of rev
Marketing costs	128	23.1%	104	8.4%	7.9%
Staff costs	196	18.8%	165	12.9%	12.6%
Amortisation and depreciation	32	14.3%	28	2.1%	2.1%
Other	126	5.0%	120	8.3%	9.1%
Other trading expenses	482	15.6%	417	31.6%	31.8%

- Marketing costs impacted by increased investment in customer experience and the acquisition of new customers
- Staff costs impacted by increased resource capability to support our digital transformation, data and technology teams
- Other costs well controlled significantly below revenue increase

Strong focus on cash generation

- Cash from operations up 37.9% to R240 million whilst funding growth of trade and loan receivables
- Improved stock turn benefiting inventory levels
- Cash conversion* improves from 49.2% (June 2017) to 59.1%
- Capex investment cycle for future growth
  - Gauteng distribution centre
  - Showrooms and micro hubs
  - Migration from legacy IT systems
  - Oracle commerce engine
- Conservative gearing – net debt to equity reducing from 29.2% to 28.2% (20.3% excluding property finance)

	2018 Rm	% change	2017 Rm
Cash flows before working capital changes	401	14.2%	351
Movement in working capital	(161)	(9.0%)	(177)
Cash generated from operations	240	37.9%	174
Interest and taxation	(111)	4.7%	(106)
Capex	(66)	>100%	(16)
Free cash before dividends and financing	63	21.2%	52

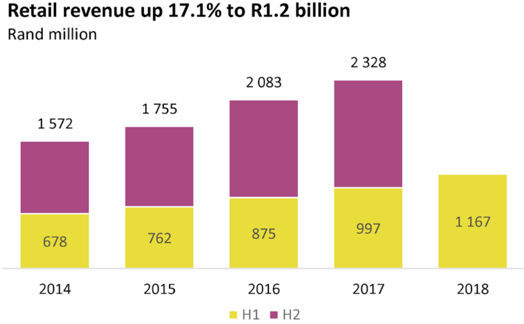


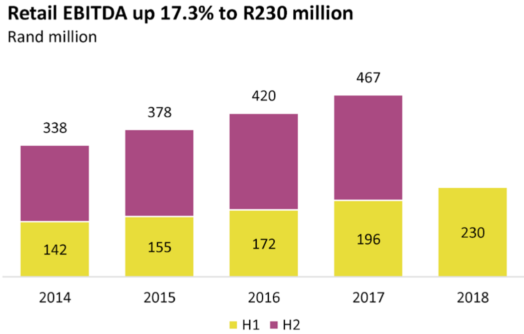
* Cash conversion = cash from operations divided by EBITDA

2018 performance – divisional review

Consistently strong growth from Retail

- Retail sales up 18.9% to R856 million
  - Volume-led organic growth
  - Homeware textiles remains core strength with highly innovative offering
- Good improvement in gross profit margin – up from 50.1% to 51.9%
  - Exchange rate gains off-set new DC costs
  - Group absorbed 1% VAT increase
- Significant investment in distribution centre, showrooms and IT, data and digital teams
- Strong trading performance, reflected in operating profit up 18.9% to R201 million
- EBITDA up 17.3% to R230 million and EBITDA margin maintained at 19.7%

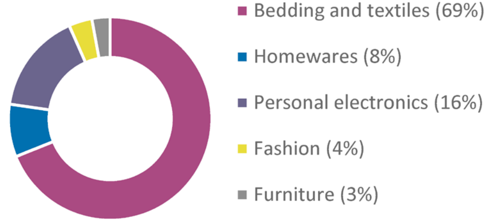




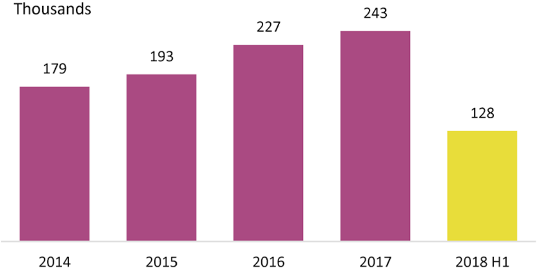
Progress towards a digital department store

- Digital the fastest-growing channel (up 46.8%)
  - 18.5% of sales (from 14.8%)
  - 26.0% of orders from existing customers (from 20.6%)
  - Digital-only product driving adoption
- Customer service enhanced through self-service capabilities
- Continued roll-out of external brands
  - Expansion to 100+ brands (13.3% contribution)
  - Reinvigorated hard goods category
  - Halo benefit to own-label products
- Marketing drives acquisition of 20 000 new customers per month

2018 Retail sales



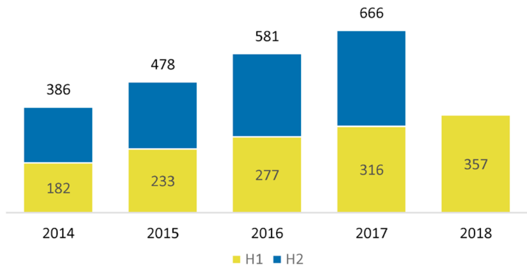
New customers acquired
Thousands



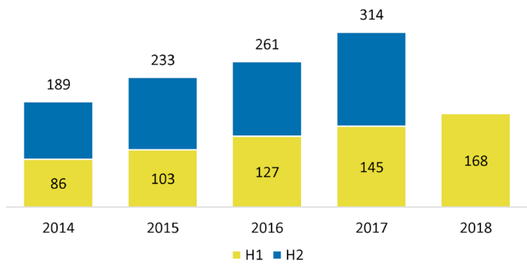
Rapid growth from Financial Services

- Disbursements up 30.0% to R853 million (2017: up 12.4%)
    - Strong MobiMoney™ facility take-up
    - 19 800 new customers acquired
    - Controlled growth to targeted non-Retail prospects – credit performance acceptable
- Maintaining focus on short-term loans and low value; MobiMoney™ driving reduced term and average balances
    - Average term from 20.4 to 19.8 months
    - Average balance from R10 444 to R9 876
- Operating profit up 12.4% to R136 million
- EBITDA up 15.9% to R168 million and margin improving from 45.9% to 47.1%

Financial Services revenue up 13.0% to R357 million
Rand million

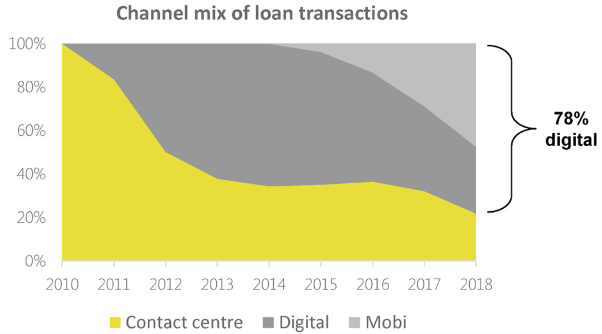


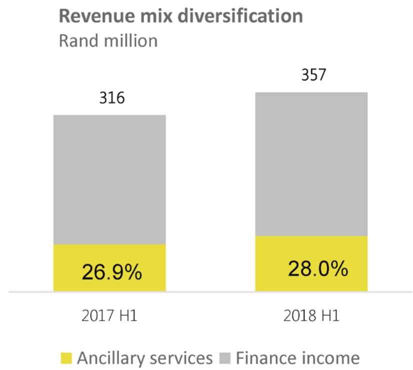
Financial Services EBITDA up 15.9% to R168 million
Rand million



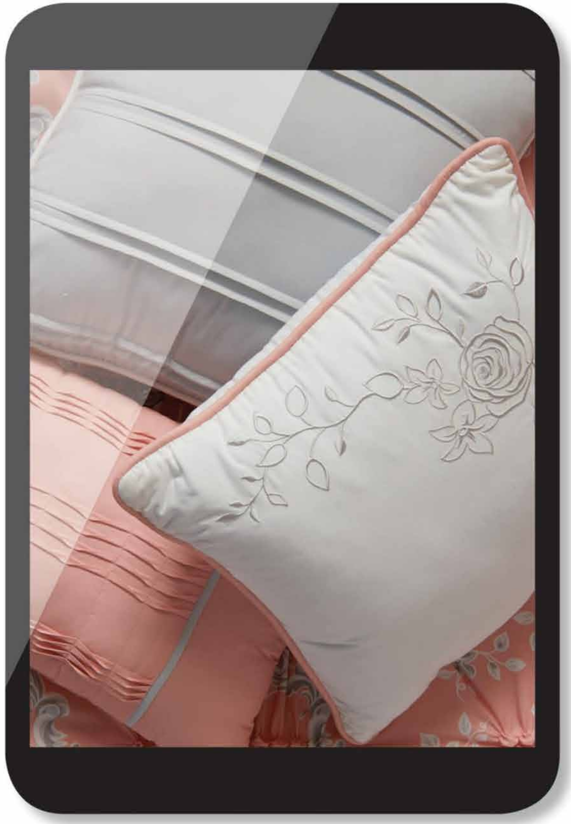
A growing FinTech platform

- High utilisation with 78.2% of all loan transactions via digital channels (up from 68.0%)
  - 31.3% of initial loan originations
  - 86.0% of customer base registered for digital platforms
- Digital-only MobiMoney™ product supporting platform for mobi-wallet portal
- Income diversification progressing well
  - Good growth in new insurance business
  - Value-added services (airtime and data sales) driving increased platform engagement





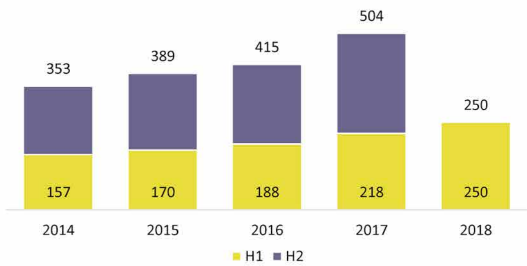
Our strategy



Proven strategy delivering consistent returns

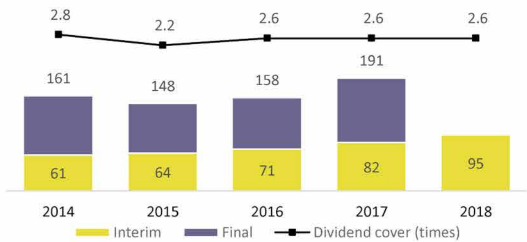
Headline earnings per share up 14.7% to 250 cents

Cents per share



Dividends per share up 15.9% to 95 cents

Cents per share



Transformation journey to a digital player

HomeChoice (Retail)

THEN — Mail order retailer

NOW — Omni-channel retailer

FUTURE — DIGITAL DEPARTMENT STORE

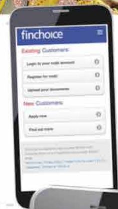
Digitalisation

Diversification

FinChoice (Financial Services)

THEN — Personal loans

NOW — Financial services and insurance



FUTURE — FINTECH PLATFORM

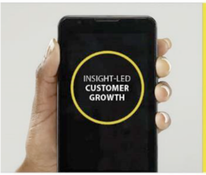
Strategies to continue sustainable growth

Innovative product offering

- Innovative product development for our growing customer base
- Manage merchandise risk through strict adherence to buying cycle
- Introduce more flexible credit products and terms
- Significantly expand insurance offering

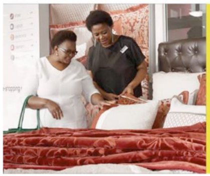
Digital transformation

- Oracle commerce engine and cloud investment
- Expand niche online content
- Accelerate development of FinTech platform
- Social media sales conversion



Insight-led customer growth

- Drive customer acquisition using new channels and media
- Improve retention and frequency of purchase through segmentation
- Leverage power of our customer database through data science
- Drive personalisation of our offer through customer insights
- Expand controlled growth to targeted external loan prospects



Enhance customer experience

- Channel expansion – roll out showroom footprint and micro hubs
- Real-time credit approval
- Digital self-services functionality
- Improve speed of order processing and delivery to her

Outlook

Continued investment to drive future growth

- We anticipate a tough trading environment
  - Consumers under severe pressure
  - Labour uncertainty and recent SAPO strike can negatively impact business
  - Rand's depreciation and further volatility could impact costs

- We are positioning ourselves for growth
  - Offering her innovative quality products through product development and extension
  - Expanding our omni-channel offering with additional show rooms and micro hubs
  - Enhancing her shopping experience
  - Continue investing in digital platforms, product ranges, growing our customer base and delivery network

- Medium-term targets unchanged

Thank you

HomeChoice International plc

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HiL PLC



INTERIM RESULTS

for the six months ended 30 June 2018 and cash dividend declaration

HomeChoice International plc

Commentary

HomeChoice International plc is an investment holding company listed on the JSE Limited.

INTRODUCTION

The group has specialised in the provision of retail and financial services to the mass market in southern Africa for more than 30 years. HomeChoice services its large, primarily female and LSM 4 – 8 customer base through two trading operations, HomeChoice (Retail) and FinChoice (Financial Services).

The Retail business is an omni-channel retailer on a digital transformation journey, with considerable expertise in both retail and credit management. We provide the customer with the convenience to engage with our group through their preferred channel, utilising digital platforms, contact centres, sales agents' networks and showrooms. Our Financial Services business is a fully fledged FinTech business with a contact centre providing digital support.

The Retail product offering comprises homeware textiles and related products with an increasing contribution from electronics, home appliances, apparel and footwear. Personal loans, value-added services and insurance products comprise the Financial Services offering.

KEY FINANCIAL STATISTICS

		6 months ended 30 June 2018*	6 months ended 30 June 2017 (restated)**	% change (June to June)	12 months ended 31 Dec 2017 (audited) (restated)**
Group					
Revenue	(Rm)	**1 524**	1 313	16.1	2 993
EBITDA	(Rm)	**406**	354	14.7	793
EBITDA margin	(%)	**26.6**	27.0		26.5
Operating profit	(Rm)	**374**	327	14.4	744
Operating profit margin	(%)	**24.5**	24.9		24.9
Headline EPS (HEPS)	(cents)	**249.6**	217.7	14.7	503.8
Cash generated from operations	(Rm)	**240**	174	37.9	359
Interim dividend declared/paid	(cents)	**95.0**	82.0	15.9	191.0
Retail					
Revenue	(Rm)	**1 167**	997	17.1	2 328
Retail sales	(Rm)	**856**	720	18.9	1 749
Gross profit margin	(%)	**51.9**	50.1		51.2
EBITDA	(Rm)	**230**	196	17.3	467
EBITDA margin	(%)	**19.7**	19.7		20.1
Financial Services					
Loan disbursements	(Rm)	**853**	656	30.0	1 468
Revenue	(Rm)	**357**	316	13.0	666
EBITDA	(Rm)	**168**	145	15.9	314
EBITDA margin	(%)	**47.1**	45.9		47.1

* *IFRS 9, Financial Instruments, adopted effective 1 January 2018. IAS 39 applied for the 2017 financial year.*

** *Restated based on the application of IFRS 15, Revenue from Contracts with Customers.*

CONTINUED STRONG TRADING AND FINANCIAL PERFORMANCE

Group revenue growth substantially outperformed the market, increasing by 16.1% to R1.5 billion. Retail sales increased by 18.9%, driven by strong volume growth in homeware textiles and the roll-out of further external brands which proved popular with customers. The group now sells more than 100 external brands, which contributes 13.3% to the total sales mix.

FinChoice grew revenue by 13.0%, supported by a 30.0% increase in loan disbursements, as well as insurance revenue. A notable 86% of loan customers are registered for FinChoice's digital platforms, underscoring its status as a leading FinTech services provider in the mass market.

Pleasingly, the group continues to acquire more than 20 000 new customers per month, contributing to a 5.0% growth in the group's customer base during the period.

In considering the results, investors should note that the group has adopted IFRS 15, *Revenue from Contracts with Customers* and IFRS 9, *Financial Instruments* with effect from 1 January 2018. The adoption of IFRS 9 increased the group's provision for the impairment of trade and loan receivables by 20% on a comparable basis from IAS 39. The application of IFRS 15 reduced revenue in prior periods by R1 million for the six months ended 30 June 2017 and by R10 million for the full 2017 financial year. For further details, refer to the Accounting policies note below.

Group finance income showed pleasing growth of 11.3% to R494 million, with a normalisation of the reduction of the National Credit Regulator's (NCR) maximum prescribed interest rates.

Good traction was achieved in the group's strategy to diversify its income streams beyond finance income. Fees from ancillary services, which comprises insurance and service fees, increased by 16.8% to R174 million, bolstered by good growth in our new insurance business, and strong adoption by customers of our mobi-wallet concept, MobiMoney™.

Expenses were well controlled, with investments in IT, distribution, merchandise and customer experience teams. Lingering uncertainty in the regulatory environment continues to necessitate additional expenditure in systems and processes in respect of compliance.

The group has continued to invest to improve customer experience and accelerate digital transformation. A R37 million new distribution centre, opened in Gauteng in January 2018, will substantially reduce delivery times for customers and the roll-out of showrooms and micro hubs is aimed at significantly enhancing the purchasing experience for our customers. Investment in key data and analytical skills, and fraud and technology platforms will continue to accelerate digital adoption by our customers and drive growth.

Excellent progress was achieved in digital transformation across the group during the period. Credit extended via digital channels increased by 54.7% to R792 million and now accounts for 39.1% (2017: 32.0%) of total credit extended.

Group earnings before interest, tax, depreciation and amortisation (EBITDA) increased by 14.7% to R406 million. The EBITDA margin has been maintained, with an 18.7% increase in debtor costs off-set by lower trading expenses.

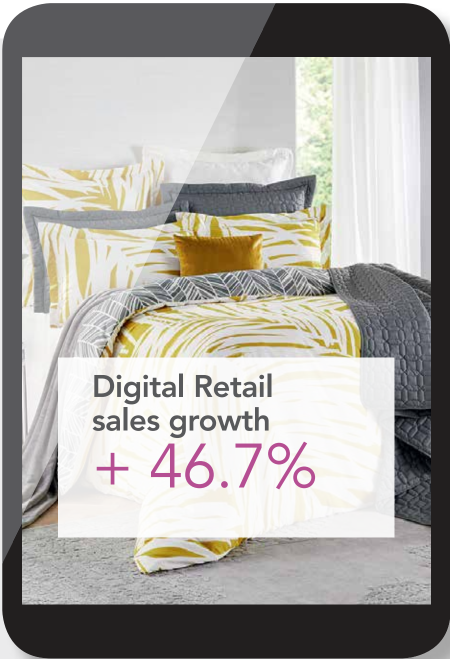
Operating profit increased by 14.4% to R374 million. Headline earnings increased by 16.1% to R260 million and HEPS increased by 14.7% to 249.6 cents, continuing its growth trajectory and pleasingly ahead of the five-year annual compound growth in HEPS of 13.2%.

The group declared an interim dividend of 95 cents, up 15.9% on the previous year. A dividend cover of 2.6 times was maintained.

RETAIL

NOTABLE PROGRESS IN OUR TRANSFORMATION TO A DIGITAL DEPARTMENT STORE

Retail revenue increased 17.1% to R1.2 billion, driven by robust merchandise sales growth of 18.9% and a finance income growth of 11.3%. The latter has normalised, following the lower interest rate credit facility product introduced in 2016. The good trading performance generated a 17.3% increase in EBITDA to R230 million.



Improved customer segmentation and strong data analytics continued to drive customer acquisition, with Retail adding 128 000 new customers during this period. Innovation in our market-leading homeware textiles category, as well as the introduction of 37 additional retail brands provide variety to existing customers and attract new customers looking for quality homeware, fashion, furniture and personal electronics. The contribution from branded sales increased from 11.0% at June 2017 to 13.3% at the end of June 2018.

Digital continues to be the fastest-growing channel, up 46.7%, and now represents 18.5% of Retail sales (2017: 14.8%). Customer engagement through digital, especially mobi channels is growing rapidly, with 60% of Retail digital sales executed from mobile phones. Our investment in Oracle Commerce Cloud will further accelerate our digital transformation.

The gross profit margin showed a strong improvement to 51.9% from 50.1% in the corresponding period. Gains made on favourable foreign exchange rates more than off-set both the increase in the VAT rate on 1 April 2018 (which was absorbed by the group) and the increase in operating cost from the new distribution centre.

Retail has embarked on a strategy to roll out showrooms in key locations. A second small-format showroom was opened in Maponya Mall in Soweto during May 2018. We will open a further three showrooms in the second half of the year, one being a flagship on Rissik Street, Johannesburg. These showrooms will allow customers the opportunity to experience the products and handle customer service enquiries, as well as the added choice of a click and collect or delivery.

FINANCIAL SERVICES

A RAPIDLY GROWING FINTECH PLATFORM

Revenue increased by 13.0% to R357 million, supported by an 11.3% growth in finance income to R257 million. EBITDA grew by a creditable 15.9% to R168 million.

The division delivered strong growth in loan disbursements, increasing by 30.0% to R853 million. Loans to existing customers increased to 84.5% (2017: 77.5%) of total disbursements over the period, with increased utilisation of the new MobiMoney™ facility product and good customers qualified for increases in their credit limits.

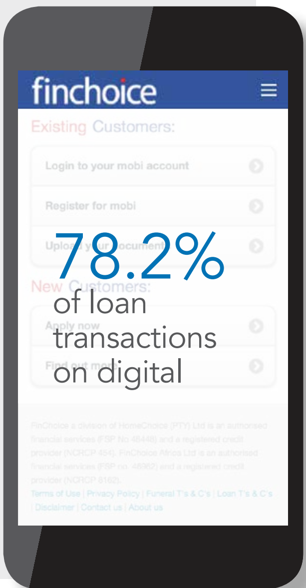
New customers are primarily acquired by the Retail business. Analytics on the customer base, including payment performance, and risk and response scorecards enables Financial Services to offer products to selected qualifying Retail customers. This has translated into consistently strong credit performance from this preselected base. FinChoice continues to explore external sources of new customers to supplement the Retail database and leverage its digital and credit capabilities. During the period FinChoice acquired 19 800 new customers, of whom 24% were from external sources.

Financial Services is rapidly growing as a leading FinTech platform in the mass market. With both a USSD and mobi offering, 86% of customers have signed up to our digital platforms. The mobi site has grown from 37% registered to 60% due to the strong focus on customer experience and the broader product suite offering on the richer smartphone platform. Customers are highly engaged on the platforms; of all loan transactions in the period 78% were concluded digitally, one-third outside of normal trading hours. The contact centre is now a digital support team, as well as a sales and customer service channel.

The innovative digital-only credit facility product, MobiMoney™, has been well received by customers and has further helped drive platform adoption and engagement. More than 25% of the active base has activated and engaged with this new product since its launch in 2017.

The richer mobi platform creates a portal for a multitude of products and value-added services to be offered to customers via their smartphones. Airtime and data bundles were successfully added as value-added services to drive increasing customer engagement and additional revenue streams.

The relatively new insurance business continues to show strong growth with its stable of funeral insurance products. This vertical represents an attractive growth opportunity to diversify income and increase customer share of wallet. The focus is on consolidating the insurance operations infrastructure, providing a solid platform to scale and expand the product offering.



78.2%
of loan transactions on digital

MANAGING CREDIT RISK

The group continued to grow a quality credit book with gross trade and loan receivables increasing by 22.2% to R3.3 billion. Group debtor costs growth of 18.7%, was marginally above comparable revenue growth of 16.1% and remains within the group's acceptable risk tolerances. Non-performing loans (NPLs) declined in both divisions, while NPL cover was bolstered by increased provisions.

Credit performance for the period is summarised below:

		6 months ended 30 June 2018*	6 months ended 30 June 2017 (restated)***	% change (June to June)	12 months ended 31 Dec 2017 (audited) (restated)***
Group					
Gross trade and loans receivable	(Rm)	**3 345**	2 738	22.2	3 136
Debtor costs as a % of revenue**	(%)	**17.1**	16.7		16.8
Retail					
Gross trade and loans receivable	(Rm)	**1 845**	1 533	20.4	1 784
Debtor costs as a % of revenue	(%)	**14.7**	14.6		14.9
Provision for impairment as a % of gross receivables	(%)	**20.6**	18.6		17.9
Non-performing loans (NPLs) (>120 days)	(%)	**9.8**	10.3		9.9
NPL cover	(times)	**2.1**	1.8		1.8
Financial Services					
Gross trade and loans receivable	(Rm)	**1 500**	1 205	24.5	1 352
Debtor costs as a % of revenue	(%)	**24.9**	22.9		23.2
Provision for impairment as a % of gross receivables	(%)	**16.0**	14.9		14.0
Non-performing loans (NPLs) (>120 days)	(%)	**4.2**	4.4		4.2
NPL cover	(times)	**3.8**	3.4		3.3

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

Retail debtor costs as a percentage of revenue was stable at 14.7% (2017: 14.6%), supported by continued focus on training of the collections teams, combined with improvements in internal and external collections processes. The refinement of scorecards, use of additional credit bureau data and investment in fraud prevention tools have culminated in improved Retail vintages and NPLs reducing to 9.8% from 10.3%. The new IFRS 9 provisioning methodology has resulted in the provision for impairment of trade receivables increasing to 20.6% (Dec 2017: 17.9%), maintaining a conservative NPL cover of 2.1 times.

Financial Services debtor costs as a percentage of revenue increased to 24.9% (2017: 22.9%). The increase is primarily attributable to the strong disbursements in the period and the provisions raised under IFRS 9 on these and is not reflective of a worsening credit performance. Existing vintages remain stable and NPLs have improved from 4.4% to 4.2%. The provision for impaired loans has been increased under IFRS 9 to 16.0% (Dec 2017: 14.0%) of the book, increasing the NPL cover from 3.4 to 3.8 times. 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 37.9% to R240 million, driven by 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 59.1% from 49.2% in June 2017. The strong cash-generation capability of the business is evidenced by the fact that the group has managed to grow a gross credit book of more than R3.3 billion while maintaining a net debt to equity ratio (excluding property) of 20.3%.

During December 2017 the group finalised an R800 million long-term funding facility, replacing a R350 million facility and R160 million shareholder loan. As at 30 June 2018 the group had drawn down R600 million (Dec 2017: R550 million) of this facility.

The net debt to equity ratio has decreased from 29.2% at December 2017 to 28.2%, comfortably below the board's upper limit of 40.0%.

Capital expenditure increased notably in this period as part of an investment cycle which will span the next two years. Investments are targeted at upgrading technology and infrastructure such as the origination engine and debtors' systems, as well as improving customer experience through self-service facilities, rolling out showrooms and speeding up delivery through an additional distribution centre.

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 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 adoption of IFRS 15 on revenue is immaterial for the six months ended 30 June 2017 and reduced revenue for the full 2017 financial year by R10 million.

IFRS 9 is the new standard for disclosure and measurement of financial instruments. IFRS 9 requires that the group classify and measure 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. Under IFRS 9 the group's provision for the impairment of trade and loan receivables has increased by 20% on a comparable basis from IAS 39. The new standard does not require restatement to prior periods and the increased provision is accounted for as an adjustment to opening retained earnings.

The new IFRS 9 models have been reviewed by our independent external auditor, PwC.

OUTLOOK

The group is continuing to position itself strongly for ongoing growth. Innovative Retail and Financial Services product ranges will appeal to our existing loyal customers and attract new customers to the group. The rapidly increasing digital engagement by our customers and development of our omni-channel offering will further enhance this growth trajectory.

Whilst investing for the future, the group remains cognisant of the tough trading environment. Consumers remain under severe pressure, unemployment is at record highs and there is a prevailing climate of political and labour uncertainty. Exchange rate volatility, as well as strike action, and particularly the recent postal strike, have the ability to negatively impact on the business.

In this environment tight credit policies, robust cash collections and cost control will remain key management priorities. We will continue to position ourselves as a leading digital player in the mass market, with an omni-channel offering that provides an attractive and seamless retailing experience across all channels.

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, 27 August 2018

DIVIDEND DECLARATION

Notice is hereby given that the board of directors has declared an interim gross cash dividend of 95.0000 cents (76.0000 cents net of dividend withholding tax) per ordinary share for the six-month period ended 30 June 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 104 762 901 ordinary shares.

The salient dates for the dividend will be as follows:

Last day of trade to receive a dividend	Tuesday, 11 September 2018
Shares commence trading "ex" dividend	Wednesday, 12 September 2018
Record date	Friday, 14 September 2018
Payment date	Monday, 17 September 2018

Share certificates may not be dematerialised or rematerialised between Wednesday, 12 September 2018 and Friday, 14 September 2018, both days inclusive.

G Said
Company secretary

Qormi, Malta, 27 August 2018

Group statement of financial position

	Notes	Unaudited Jun 2018 Rm	Restated* Unaudited Jun 2017 Rm	Restated* Audited Dec 2017 Rm
Assets				
Non-current assets				
Property, plant and equipment		**456**	421	429
Intangible assets		**93**	82	86
Investment in associates		**1**	14	14
Financial assets at fair value through profit and loss		**36**	22	30
Deferred taxation		**–**	45	–
		586	584	559
Current assets				
Inventories		**274**	295	257
Taxation receivable		**1**	14	4
Trade and other receivables	4	**2 772**	2 303	2 642
Trade receivables – Retail		**1 465**	1 248	1 464
Loans receivable – Financial Services		**1 260**	1 026	1 163
Other receivables		**47**	29	15
Cash and cash equivalents		**80**	155	130
Derivative financial instruments		**1**	–	–
		3 128	2 767	3 033
Total assets		**3 714**	3 351	3 592
Equity and liabilities				
Equity attributable to equity holders of the parent				
Stated and share capital		**1**	1	1
Share premium		**3 003**	3 000	3 003
Reorganisation reserve		**(2 961)**	(2 961)	(2 961)
		43	40	43
Treasury shares		**(3)**	(3)	(3)
Other reserves		**21**	7	14
Retained earnings		**2 453**	2 116	2 319
Total equity		**2 514**	2 160	2 373
Non-current liabilities				
Interest-bearing liabilities		**627**	547	616
Deferred taxation		**92**	140	120
Other payables		**4**	4	6
		723	691	742
Current liabilities				
Interest-bearing liabilities		**157**	50	166
Taxation payable		**31**	15	8
Trade and other payables		**282**	232	241
Provisions		**3**	15	38
Derivative financial instruments		**–**	–	5
Bank overdraft		**4**	26	19
Shareholder loan		**–**	162	–
		477	500	477
Total liabilities		**1 200**	1 191	1 219
Total equity and liabilities		**3 714**	3 351	3 592

* *See note 3 for details regarding the restatement as a result of the adoption of IFRS 15.*

Group statement of comprehensive income

	Notes	Unaudited six months ended Jun 2018 Rm	% change	Restated* Unaudited six months ended Jun 2017 Rm	Restated* Audited year ended Dec 2017 Rm
Revenue		**1 524**	16.1	1 313	2 993
Retail sales		**856**	18.9	720	1 749
Finance income		**494**	11.3	444	933
Fees from ancillary services		**174**	16.8	149	311
Cost of Retail sales		**(412)**	14.8	(359)	(853)
Other operating costs		**(742)**	16.7	(636)	(1 408)
Credit impairment losses	8	**(260)**	18.7	(219)	(502)
Other trading expenses	8	**(482)**	15.6	(417)	(906)
Other net gains and losses		**2**	(60.0)	5	1
Other income		**2**	(50.0)	4	11
Operating profit		**374**	14.4	327	744
Interest received		**2**	(33.3)	3	7
Interest paid		**(43)**	7.5	(40)	(83)
Share of loss of associates		**–**	<100	(1)	(9)
Profit before taxation		**333**	15.2	289	659
Taxation		**(73)**	12.3	(65)	(145)
Profit and total comprehensive income for the period		**260**	16.1	224	514
Earnings per share (cents)					
Basic	9.1	**249.6**	14.7	217.7	496.3
Diluted	9.2	**245.8**	14.0	215.6	491.2
Additional information (%)					
Retail gross profit margin (%)		**51.9**		50.1	51.2

The Retail gross profit margin percentage has been calculated as Retail sales less cost of Retail sales, divided by Retail sales.

* *See note 3 for details regarding the restatement as a result of the adoption of IFRS 15.*

Group statement of changes in equity

	Unaudited six months ended Jun 2018 Rm	Unaudited six months ended Jun 2017 Rm	Audited year ended Dec 2017 Rm
Equity at the beginning of the period as originally presented	**2 386**	2 030	2 030
Change in accounting policy	**(13)**	(7)	(7)
Change on initial application of IFRS 9	**(11)**	–	–
Restated equity at the beginning of the period	**2 362**	2 023	2 023
Profit and total comprehensive income for the period (restated for 2017)	**260**	224	514
Dividends paid	**(114)**	(90)	(175)
Shares issued	**–**	2	4
Share incentive scheme	**6**	1	7
Equity at the end of the period	**2 514**	**2 160**	**2 373**

Group statement of cash flows

	Notes	Unaudited six months ended Jun 2018 Rm	% change	Restated* Unaudited six months ended Jun 2017 Rm	Restated* Audited year ended Dec 2017 Rm
Cash flows from operating activities					
Operating cash flows before working capital changes		**401**	14.2	351	806
Movement in working capital		**(161)**	(9.0)	(177)	(447)
Cash generated from operations	10	**240**	37.9	174	359
Interest received		**2**	(33.3)	3	7
Interest paid		**(44)**	15.8	(38)	(78)
Taxation paid		**(69)**	(2.8)	(71)	(123)
Net cash inflow from operating activities		**129**	89.7	68	165
Cash flows from investing activities					
Purchase of property, plant and equipment		**(44)**		(8)	(28)
Purchase of intangible assets		**(22)**		(8)	(28)
Investment in associates		**13**		–	(12)
Financial assets at fair value through profit and loss		**–**		(8)	(8)
Net cash outflow from investing activities		**(53)**	(119.6)	(24)	(76)
Cash flows from financing activities					
Proceeds from issuance of shares		**–**		2	4
Proceeds from interest-bearing liabilities		**55**		4	715
Repayments of interest-bearing liabilities		**(52)**		(18)	(700)
Finance-raising costs paid		**–**		–	(9)
Dividends paid		**(114)**		(90)	(175)
Net cash outflow from financing activities		**(111)**	8.8	(102)	(165)
Net decrease in cash, cash equivalents and bank overdrafts		**(35)**		(58)	(76)
Cash, cash equivalents and bank overdrafts at the beginning of the period		**111**		187	187
Cash, cash equivalents and bank overdrafts at the end of the period		**76**	(40.9)	129	111

Group segmental information

	2018					
	Total Rm	Retail Rm	Financial Services Rm	Property Rm	Other Rm	Intra-group Rm
Six months ended 30 June – Unaudited						
Segmental revenue	1 553	1 167	357	29	–	–
Retail sales	856	856	–	–	–	–
Finance income	494	237	257	–	–	–
Fees from ancillary services	203	74	100	29	–	–
Intersegment revenue	(29)	–	–	(29)	–	–
Revenue from external customers	1 524	1 167	357	–	–	–
Total trading expenses (refer to note 8)	742	551	192	14	8	(23)
EBITDA	406	230	168	16	(8)	–
Depreciation and amortisation	(32)	(29)	(2)	(1)	–	–
Interest received	2		1		34	(33)
Interest paid	(29)		(31)		(31)	33
Segmental operating profit**	347	201	136	15	(5)	–
Interest received	–	–		–		
Interest paid	(14)	(3)		(11)		
Profit before taxation	333	198	136	4	(5)	–
Taxation	(73)	(45)	(25)	(2)	(1)	–
Profit after taxation	260	153	111	2	(6)	–
Segmental assets	3 714	2 244	1 916	340	1 264	(2 050)
Segmental liabilities	1 200	930	1 242	280	798	(2 050)
Operating cash flows before working capital changes	401	225	168	16	(8)	–
Movements in working capital	(161)	(53)	(107)	1	(2)	–
Cash generated/(utilised) by operations	240	172	61	17	(10)	–
Gross profit margin (%)	51.9	51.9				
Segmental operating profit margin (%)	22.3	17.2	38.1	51.7		

*** Refer to note 11 for further details on segments and segmental results.*

	2017 Restated*					
	Total Rm	Retail Rm	Financial Services Rm	Property Rm	Other Rm	Intra-group Rm
Six months ended 30 June – Unaudited						
Segmental revenue	1 341	997	316	28	–	–
Retail sales	720	720	–	–	–	–
Finance income	444	213	231	–	–	–
Fees from ancillary services	177	64	85	28	–	–
Intersegment revenue	(28)	–	–	(28)	–	–
Revenue from external customers	1 313	997	316	–	–	–
Total trading expenses (refer to note 8)	636	470	172	11	7	(24)
EBITDA	354	196	145	17	(3)	(1)
Depreciation and amortisation	(28)	(27)	–	(1)	–	–
Interest received	2		2		26	(26)
Interest paid	(26)		(26)		(26)	26
Segmental operating profit**	302	169	121	16	(3)	(1)
Interest received	1	1		–		
Interest paid	(14)	(2)		(12)		
Profit before taxation	289	168	121	4	(3)	(1)
Taxation	(65)	(39)	(28)	(1)	3	–
Profit after taxation	224	129	93	3	–	(1)
Segmental assets	3 351	1 833	1 141	340	660	(623)
Segmental liabilities	1 191	627	394	286	506	(622)
Operating cash flows before working capital changes	351	196	141	17	(3)	–
Movements in working capital	(177)	(122)	(46)	(2)	(7)	–
Cash generated/(utilised) by operations	174	74	95	15	(10)	–
Gross profit margin (%)	50.1	50.1				
Segmental operating profit margin (%)	22.5	17.0	38.3	57.1		

* *See note 3 for details regarding the restatement as a result of the adoption of IFRS 15.*
** *Refer to note 11 for further details on segments and segmental results.*

Notes to the interim financial statements

1. BASIS OF PRESENTATION

The condensed consolidated interim financial statements are prepared in accordance with International Financial Reporting Standard, *IAS 34, Interim Financial Reporting*, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, Financial Pronouncements as issued by the Financial Reporting Standards Council and the requirements of the Maltese Companies Act.

2. ACCOUNTING POLICIES

The accounting policies applied in the preparation of these interim financial statements are in terms of International Financial Reporting Standards and are consistent with those applied in the previous consolidated annual financial statements except for the adoption of the following new standards and interpretations by the group on 1 January 2018:

- *IFRS 9, Financial Instruments*; and
- *IFRS 15, Revenue from Contracts with Customers.*

The impact of the adoption of these standards are disclosed in note 3 below.

3. CHANGES IN ACCOUNTING POLICIES

3.1 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 new accounting policies are set out in note 3.4 below. In accordance with the transitional provisions in IFRS 9 (7.2.15), comparative figures have not been restated.

The total impact on the group's retained earnings as at 1 January 2018 is as follows:

	Notes	Rm
Closing retained earnings 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 1 January 2018 (before restatement for IFRS 15)		**2 321**

(i) Classification and measurement

IFRS 9 requires all financial assets 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 have assessed which business models apply to the financial assets held by the group and have 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) Cell captive insurance contracts

Previously the South African insurance cell captive was accounted for as an Investment in insurance contract where the net profit or loss after tax was accounted for in “Fees from ancillary services” in the statement of comprehensive income. The net investment was shown under "Investment in associates and other" in the statement of financial position together with the group’s investment in associates.

The insurance cell captive satisfies the conditions for classification as financial assets at fair value through profit and loss and hence there is no change to the measurement of these assets.The net profit or loss after tax is accounted for in “Fees from ancillary services” in the statement of comprehensive income. The net profit or loss after tax from insurance cell operations is the net insurance result of the investment in insurance contracts. The net result takes into account insurance premium revenue, insurance claims, salvage and recoveries, acquisition costs, reinsurance and taxes as accounted for by the insurance cell. The amounts are payable to the group in terms of the contract subject to certain liquidity and solvency requirements of the insurance cell. The net investment is no longer shown under “Investment in associates and other” in the statement of financial position together with the group’s investment in associates, but separately under “Financial assets at fair value through profit and loss”.

(b) 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 will 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 receivables – Financial Services; and
- 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 ECLs 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.

Significant accounting judgements, estimates and assumptions

Measurement of ECL allowance

The measurement of the ECL allowance is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour. Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed below.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- determining criteria for significant increase in credit risk;
- choosing appropriate models and assumptions for the measurement of ECL;
- establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- establishing groups of similar financial assets for the purposes of measuring ECL.

The key judgements and assumptions adopted by the group in addressing the accounting requirements of the standard for ECL measurement are discussed below:

(a) Significant increase in credit risk (SICR)

The group considers a financial instrument to have experienced a SICR since the time of initial recognition when one or more of the following quantitative, qualitative or backstop criteria has been met:

Quantitative criteria

- Where a customer has not met his or her minimum contractual obligations for at least two months

Qualitative criteria

- Where a customer applies for or enters into debt review; where a customer is allocated a higher risk score category based on the group's various behaviour scorecards; or where the customer has demonstrated a significant increase in credit risk on other group credit products

Backstop

A backstop is applied if the borrower is more than 30 days past due on its contractual payments

The assessment of SICR happens on a monthly basis at a portfolio and person level for all customers. The criteria used to identify SICR are monitored and reviewed periodically for appropriateness by the credit risk team.

(b) Definition of default and credit-impaired assets

The group defines a financial instrument as in default, which is fully aligned with the definition of credit impaired, when it meets one or more of the following criteria:

Retail

- Where a customer has not met their minimum contractual obligations for four months since the time of initial recognition

Financial Services

- Where a customer has not met their minimum contractual obligations for three consecutive months

(c) Measuring ECL – explanation of inputs, assumptions and estimation techniques

The ECL is measured on either a 12-month or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit impaired. ECLs are the discounted product of the probability of default (PD) and exposure at default (EAD) defined as follows:

- The PD represents the likelihood of a customer defaulting on her financial obligation, either over 12 months (12-month PD) or over the remaining lifetime (lifetime PD) of the obligation.
- EAD is based on the amounts the group expects to be owed at the time of default, over the next 12 months (12-month EAD) or over the remaining lifetime (lifetime EAD).

The ECL is determined by projecting the PD and EAD for each future month and for each collective segment. These three components are multiplied together. This effectively calculates the ECL for each future month, which is then discounted back to the reporting date and aggregated. The discount rate used in the ECL calculation is the original effective interest rate, or an approximation thereof.

The lifetime PD is developed by applying a behavioural matrix against the current balances. The behavioural matrix looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the contracts. The behavioural matrix is based on historically observed data and is assumed to be the same across all assets within a portfolio and credit band. This is supported by historical analysis.

The 12-month and lifetime EADs are determined based on the probability of write-off, which varies by product type.

(d) Forward-looking information incorporated in the ECL models

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The group has performed historical analysis and identified certain macroeconomic variables correlating with credit losses.

Due to the relative short-term nature of the book and constantly evolving credit criteria being applied, the impact of extrapolating the forward-looking information against credit variables was not material, however will continue to be monitored and reassessed at year-end.

(e) Groupings of instruments for losses on a collective basis

For ECL provisions modelled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within the group are homogenous. In performing this grouping there must be sufficient information for the group to be statistically credible. Group information include the following characteristics:

- new versus existing customers;
- term of the loan; and
- merchandise category.

Each segmentation was further segmented into IFRS 9-defined stages.

The appropriateness of groupings is monitored and reviewed on a periodic basis by the credit risk team.

Write-off policy
The group writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. This is usually the case when the group's in-house collection department and external collection companies which supplement the group's collection activities are unable to recover outstanding balances. The group's write-off policy by segment is as follows:

Retail
- Where the customer has not met his or her minimum contractual obligations for six months and has not made any payment at all within the last 90 days; or

Financial Services
- Where the debtor has not met his or her minimum contractual obligations for at least four months and has not made any payment at all within the last four months.

3.2 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 3.4 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 as at 1 January 2017 is as follows:

	Notes	2017 Rm
Opening retained earnings 1 January before IFRS 15 restatement (see note 3.1)		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 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 regard to initiation fees charged to customers.

The impact of IFRS 15 on the financial statements is disclosed under note 3.4 below.

3.3 Accounting policies applied from 1 January 2018

3.3.1 IFRS 9, Financial Instruments

(i) Financial assets

Classification

From 1 January 2018 the group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value through profit and loss; and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

Measurement

At initial recognition, the group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Subsequent measurement of debt instruments depends on the group's business model for managing the asset and the cash flow characteristics of the asset. There are two measurement categories into which the group classifies its financial instruments:

Amortised cost

These are assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest and are measured at amortised cost.

Interest income from these financial assets is included in finance charges earned using the effective interest rate method. This is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for:

(a) purchased or originated credit-impaired financial assets. For these financial assets the group applies the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition; and

(b) financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets. For these financial assets the group applies the effective interest rate to the amortised cost of the financial asset in subsequent reporting periods.

Initiation fees which are considered to be an integral part of the effective interest rate are accounted for over the shorter of the original contractual term and the actual term of the loan or credit sale using the effective interest rate. Trade receivables are reduced by the deferred portion of these fees.

Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in gains and losses arising from the derecognition of financial assets measured at amortised cost.

Fair value through profit and loss
These are assets that do not meet the criteria for amortised cost or fair value through other comprehensive income and are measured at fair value through profit and loss. A gain or loss on derivative financial instruments that are subsequently measured at fair value through profit and loss is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises. Changes in the fair value of equity instruments that are measured at fair value through profit and loss are recognised in "Fees from ancillary services" in the statement of profit or loss.

Impairment
From 1 January 2018 the group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. The group applies the general impairment approach. The group assesses at the end of each reporting period whether the credit risk on a financial instrument has increased significantly since initial recognition.

Where there has been a significant increase in credit risk since initial recognition the group measures the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses. Where there has not been a significant increase in credit risk since initial recognition the group measures the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses. The group recognises in profit or loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the end of the reporting period.

Note 3.2 provides more detail on how the group determines a significant increase in credit risk and how the expected credit loss allowance is measured.

3.3.2 IFRS 15, Revenue from Contracts with Customers
Revenue is recognised at the amount of the transaction price that is allocated to that performance obligation excluding amounts collected on behalf of third parties. Revenue is recognised when (or as) the entity satisfies a performance obligation by transferring a promised good or service (i.e. an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset.

The following specific criteria must also be met before revenue is recognised:

(i) Retail sales
Retail sales comprise revenue from the sale of goods, income earned from the delivery of such goods and related product protection insurance, and is recognised when control of the products has transferred, usually on delivery of the goods. It is the group's policy to sell its products to retail customers with a right to return within 14 days. The group records a liability for estimated returns based on historical rates. The group does not operate any loyalty programmes.

(ii) Fees from ancillary services
Fees from ancillary services include revenue earned for administration of transactions with customers, as well as insurance profits received on credit life products and group schemes. These fees are recognised in revenue in the accounting period in which the services are rendered.

3.4 Impact on the financial statements

The following tables set 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
Non-current assets					
Financial assets at fair value through profit and loss	30	–	30	–	30
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

	Unaudited 30 Jun 2017 Rm	IFRS 15 Rm	Restated 30 Jun 2017 Rm
Non-current assets			
Financial assets at fair value through profit and loss	22	–	22
Current assets			
Trade receivables – Retail	1 258	(10)	1 248
Equity			
Retained earnings	2 123	(7)	2 116
Non-current liabilities			
Deferred taxation	143	(3)	140

Notes to the interim financial statements
(continued)

Group statement of comprehensive income

	Unaudited six months ended Jun 2017 Rm	IFRS 15 Rm	Restated six months ended Jun 2017 Rm	Audited year ended Dec 2017 Rm	IFRS 15 Rm	Restated year ended Dec 2017 Rm
Revenue	1 314	(1)	1 313	3 003	(10)	2 993
Finance income	445	(1)	444	943	(10)	933
Other operating costs	(636)	–	(636)	(1 410)	2	(1 408)
Credit impairment losses	(219)	–	(219)	(504)	2	(502)
Other trading expenses	(417)	–	(417)	(906)	–	(906)
Operating profit	328	(1)	327	752	(8)	744
Profit before taxation	290	(1)	289	667	(8)	659
Taxation	(65)	–	(65)	(147)	2	(145)
Profit and total comprehensive income for the period	225	(1)	224	520	(6)	514
Earnings per share (cents)						
Basic	218.1	(0.4)	217.7	501.9	(5.6)	496.3
Diluted	216.0	(0.4)	215.6	496.7	(5.5)	491.2

Group statement of cash flows

	Unaudited six months ended Jun 2017 Rm	IFRS 15 Rm	Restated six months ended Jun 2017 Rm	Audited year ended Dec 2017 Rm	IFRS 15 Rm	Restated year ended Dec 2017 Rm
Cash flows from operating activities						
Operating cash flows before working capital changes	352	(1)	351	814	(8)	806
Movement in working capital	(178)	1	(177)	(455)	8	(447)

4. TRADE AND OTHER RECEIVABLES

	Unaudited six months ended Jun 2018 Rm	Restated* Unaudited six months ended Jun 2017 Rm	Restated* Audited year ended Dec 2017 Rm
Trade receivables – Retail	**1 845**	1 533	1 784
Provision for impairment	**(380)**	(285)	(320)
	1 465	1 248	1 464
Loans receivable – Financial Services	**1 500**	1 205	1 352
Provision for impairment	**(240)**	(179)	(189)
	1 260	1 026	1 163
Other receivables	**47**	29	15
Trade and other receivables	**2 772**	2 303	2 642
Trade and loan receivables	**3 345**	2 738	3 136
Provision for impairment	**(620)**	(464)	(509)
Other receivables	**47**	29	15
Movements in the provision for impairment were as follows:			
Retail			
Opening balance	**(320)**	(284)	(284)
Change on initial application of IFRS 9	**(64)**		
Restated opening balance	**(384)**	(284)	(284)
Movement in provision	**4**	(1)	(36)
Total debtor costs charged to profit and loss:	**(171)**	(146)	(348)
Credit impairment losses	**(171)**	(146)	(348)
Debts written off during the year, net of recoveries	**175**	145	312
Closing balance	**(380)**	(285)	(320)
Financial Services			
Opening balance	**(189)**	(178)	(178)
Change on initial application of IFRS 9	**(38)**		
Restated opening balance	**(227)**	(178)	(178)
Movement in provision	**(13)**	(1)	(11)
Total debtor costs charged to profit and loss:	**(89)**	(73)	(154)
Credit impairment losses	**(89)**	(73)	(154)
Debts written off during the year, net of recoveries	**76**	72	143
Closing balance	**(240)**	(179)	(189)

* *See note 3 for details regarding the restatement as a result of the adoption of IFRS 15.*

Notes to the interim financial statements
(continued)

		Unaudited six months ended Jun 2018 Rm	Restated* Unaudited six months ended Jun 2017 Rm	Restated* Audited year ended Dec 2017 Rm
Retail				
Total debtor costs as a % of revenue	(%)	**14.7**	14.6	14.9
Total debtor costs as a % of gross receivables (annualised)	(%)	**18.5**	18.9	19.3
Provision for impairment as a % of gross receivables	(%)	**20.6**	18.6	17.9
Financial Services				
Total debtor costs as a % of revenue	(%)	**24.9**	22.9	23.2
Total debtor costs as a % of gross receivables (annualised)	(%)	**11.9**	12.0	11.4
Provision for impairment as a % of gross receivables	(%)	**16.0**	14.9	14.0
Group				
Total debtor costs as a % of revenue	(%)	**17.1**	16.7	16.8
Total debtor costs as a % of gross receivables (annualised)	(%)	**15.5**	15.9	15.9
Provision for impairment as a % of gross receivables	(%)	**18.5**	17.0	16.2
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	(%)	**9.8**	10.3	9.9
Financial Services	(%)	**4.2**	4.4	4.2

Credit-impaired trade receivables at transition date and at the end of the current reporting period were R152 million and R156 million respectively.

Credit-impaired loans receivable at transition date and at the end of the current reporting period were R47 million and R58 million respectively.

5. CONTINGENT LIABILITIES

The group had no contingent liabilities at the reporting date.

6. EVENTS AFTER THE REPORTING DATE

No event material to the understanding of this interim report has occurred between the end of the interim period and the date of approval of these interim results.

	Unaudited six months ended Jun 2018 Rm	Restated* Unaudited six months ended Jun 2017 Rm	Restated* Audited year ended Dec 2017 Rm
7. FEES FROM ANCILLARY SERVICES			
Service fees	**109**	97	198
Insurance fees	**60**	51	108
Other	**5**	1	5
	174	149	311
8. TOTAL TRADING EXPENSES			
Expenses by nature			
Credit impairment losses			
Trade receivables – Retail	**171**	146	348
Loans receivable – Financial Services	**89**	73	154
Total credit impairment losses	**260**	219	502
Amortisation of intangible assets	**15**	16	32
Depreciation of property, plant and equipment	**17**	12	26
Operating lease charges for immovable property	**1**	1	1
Total operating lease charges	**3**	4	8
Less: disclosed under cost of Retail sales	**(2)**	(3)	(7)
Marketing costs	**128**	104	220
Staff costs	**196**	165	395
Total staff costs	**231**	184	441
Less: disclosed under cost of Retail sales	**(20)**	(12)	(27)
Less: staff costs capitalised to intangibles	**(15)**	(7)	(19)
Other costs	**125**	119	232
Total other trading expenses	**482**	417	906
	742	636	1 408

** See note 3 for details regarding the restatement as a result of the adoption of IFRS 15.*

Notes to the interim financial statements
(continued)

9. EARNINGS PER SHARE

9.1 Basic and headline earnings per share

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

	Unaudited six months ended Jun 2018 Rm	Restated* Unaudited six months ended Jun 2017 Rm	Restated* Audited year ended Dec 2017 Rm
Profit for the period	**260**	224	514
Adjusted for the after-tax effect of:			
Impairment of investment in associate and other	**–**	–	4
Share of impairment of property, plant and equipment of associate	**–**	–	4
Headline earnings for the period	**260**	224	522
Weighted average number of ordinary shares in issue (million)	**104**	103	104
Earnings per share (cents)			
Basic	**249.6**	217.7	496.3
Headline	**249.6**	217.7	503.8

9.2 Diluted earnings and diluted headline earnings per share

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

	Unaudited six months ended Jun 2018 Million	Restated* Unaudited six months ended Jun 2017 Million	Restated* Audited year ended Dec 2017 Million
Weighted average number of ordinary shares in issue	**104**	103	104
Number of shares issuable under the share option scheme for no consideration	**2**	1	1
Diluted weighted average number of ordinary shares in issue	**106**	104	105
Earnings per share (cents)			
Diluted	**245.8**	215.6	491.2
Diluted headline	**245.8**	215.6	498.6

** See note 3 for details regarding the restatement as a result of the adoption of IFRS 15.*

10. RECONCILIATION OF CASH GENERATED FROM OPERATIONS

	Unaudited six months ended Jun 2018 Rm	Restated* Unaudited six months ended Jun 2017 Rm	Restated* Audited year ended Dec 2017 Rm
Profit before taxation	**333**	289	659
Share of loss of associates	**–**	1	9
Profit from insurance cells	**(5)**	(5)	(13)
Impairment of investment in associate	**–**	–	5
Depreciation and amortisation	**32**	28	58
Share-based employee service expense	**6**	1	7
Exchange (profits)/losses on foreign exchange contracts	**(6)**	–	5
Interest paid	**42**	38	77
Interest received	**(2)**	(3)	(7)
Capitalised bond costs – amortised cost adjustment	**1**	2	6
Operating cash flows before working capital changes	**401**	351	806
Movements in working capital	**(161)**	(177)	(447)
Increase in inventories	**(17)**	(81)	(43)
Increase in trade receivables – Retail	**(22)**	(35)	(253)
Increase in loans receivable – Financial services	**(94)**	(57)	(193)
(Increase)/decrease in other receivables	**(32)**	(5)	9
Increase in trade and other payables	**39**	17	27
(Decrease)/increase in provisions	**(35)**	(16)	6
	240	174	359

* *See note 3 for details regarding the restatement as a result of the adoption of IFRS 15.*

Notes to the interim financial statements
(continued)

11. 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 company, which owns commercial properties utilised within the group, are included in the Property segment. The Other segment relates mainly to the holding company's standalone 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.

12. 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.

13. CAPITAL COMMITMENTS FOR PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

	Unaudited six months ended Jun 2018 Rm	Unaudited six months ended Jun 2017 Rm	Audited year ended Dec 2017 Rm
Approved by the directors	**6**	36	14

14. 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 2017 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.

15. SEASONALITY

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

16. PREPARATION AND REVIEW OF INTERIM FINANCIAL STATEMENTS

These interim financial statements were prepared by the group's finance department, acting under the supervision of P Burnett, CA (SA), finance director of the group.

The interim results have not been reviewed or audited by our auditors, PricewaterhouseCoopers Inc.

17. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

Other than as disclosed under note 3.1 above, the significant judgements made by management in applying the group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2017.

Statistics

		Jun 2018	Restated* Jun 2017	Restated* Dec 2017
Growth in revenue	(%)	**16.1**	14.0	12.3
Retail gross profit margin	(%)	**51.9**	50.1	51.2
Operating profit margin	(%)	**24.5**	24.9	24.9
Earnings before interest, tax, depreciation and amortisation (EBITDA)	(Rm)	**406**	354	793
Growth in EBITDA	(%)	**14.7**	14.2	13.1
EBITDA margin	(%)	**26.6**	27.0	26.5
Solvency and liquidity				
Net asset value per share	(cents)	**2 417**	2 077	2 282
Growth in net asset value	(%)	**5.9**	5.3	15.7
Inventory turn	(times)	**3.1**	2.8	3.6
Net debt/equity ratio	(%)	**28.2**	29.2	28.3
Performance				
Growth in trade receivables – Retail	(%)	**0.1**	2.2	19.8
Growth in loans receivable – Financial Services	(%)	**8.3**	5.8	20.0
Growth in cash generated from operations	(%)	**37.9**	20.0	29.2
Cash conversion	(%)	**59.1**	49.2	45.3
Return on equity – annualised	(%)	**21.2**	21.4	23.3
Shareholding				
Number of shares	(million)			
– In issue, net of treasury shares		**104**	104	104
– Weighted shares in issue, net of treasury shares		**104**	103	104
– Diluted weighted average		**106**	104	105
Earnings per share (cents)				
– basic		**249.6**	217.7	496.3
– diluted		**245.8**	215.6	491.2
– headline (HEPS)		**249.6**	217.7	503.8
– diluted HEPS		**245.8**	215.6	498.6

In April 2018 the final dividend for the 2017 financial year of R114 million (109 cents per share) was paid to shareholders.

In April 2017 the final dividend for the 2016 financial year of R90 million (87 cents per share) was paid to shareholders.

* *See note 3 for details regarding the restatement as a result of the adoption of IFRS 15.*

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

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
Deutsche Bank International Limited
Channel Islands

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

HomeChoice International plc