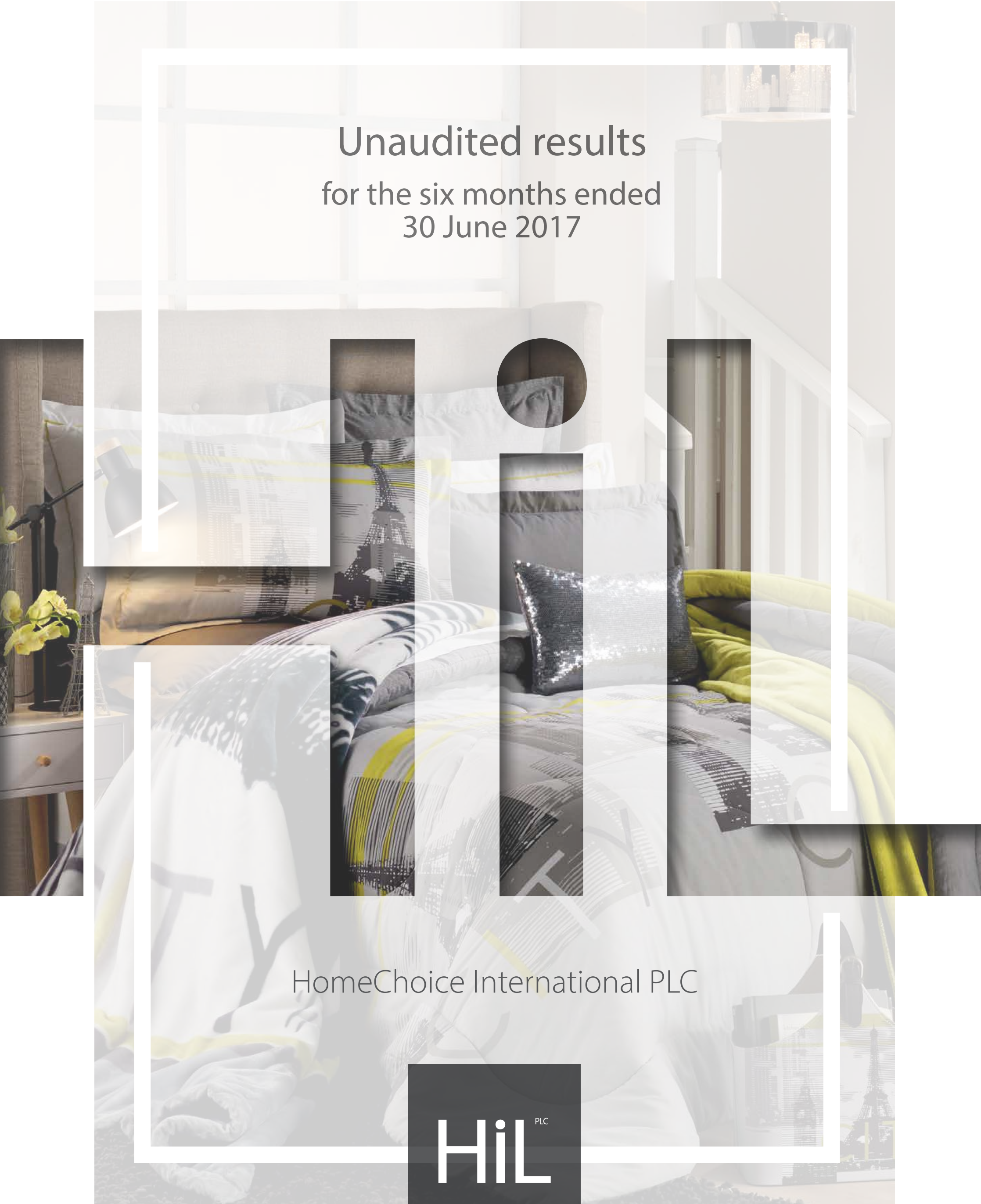
Unaudited results

for the six months ended 30 June 2017



HomeChoice International PLC

HiL PLC

Group highlights

Cash generated from operations increased by **19.8%** to **R174 million**

Revenue increased by **14%** to **R1 314 million**

Headline earnings per share increased by **15.9%** to **218 cents** per share

EBITDA increased by **14.6%** to **R355 million**

Commentary

Overview

HomeChoice International PLC (HIL) is an investment holding company incorporated in Malta and listed on the JSE Limited. Through its two main operating companies, HomeChoice (Retail) and FinChoice (Financial Services), the group operates a retail direct marketing business and financial service business to the LSM 4 – 8 middle-income market in southern Africa.

HomeChoice is the largest home-shopping retailer in southern Africa and offers products through digital channels, call centres, sales agent networks and catalogues. FinChoice offers personal loans and insurance products to Retail customers of good credit standing.

Trading and financial performance

Despite the favourable interest rate environment, high levels of unemployment coupled with persistent inflation in food and household expenditure continue to exert pressure on consumers. In this difficult retail and credit market the group has delivered another good financial performance for the period under review:

		6 months ended 30 June 2017	6 months ended 30 June 2016	% change (June to June)	12 months ended 31 Dec 2016 (audited)
Group					
Revenue	(Rm)	**1 314**	1 152	14.0	2 664
EBITDA	(Rm)	**355**	310	14.6	701
Operating profit	(Rm)	**329**	280	17.2	648
Operating profit margin	(%)	**25.0**	24.3		24.3
Headline EPS	(cents)	**218.1**	188.2	15.9	414.6
Cash generated from operations	(Rm)	**174**	145	19.8	277
NAV per share	(cents)	**2 086**	1 816	14.8	1 973
Retail					
Revenue	(Rm)	**997**	875	14.0	2 083
Retail sales	(Rm)	**720**	579	24.3	1 498
Gross profit margin	(%)	**49.4**	47.9		49.3
EBITDA	(Rm)	**197**	172	14.9	420
Financial Services					
Loan disbursements	(Rm)	**655**	583	12.4	1 249
Revenue	(Rm)	**317**	277	14.2	581
EBITDA	(Rm)	**145**	127	14.2	261

Group revenue increased by 14.0% to R1 314 million for the six-month period, driven by strong growth of 24.3% in Retail sales. The National Credit Regulator's (NCR) reduction of the maximum prescribed interest rates on credit contracts in May 2016, together with the strategic introduction of a lower interest-earning Retail credit facility account, resulted in group finance charges and initiation fees declining by 7.5% to R445 million. The group continues to be negatively impacted by the affordability assessment regulations introduced by the NCR, in particular the requirement for customers to provide proof of income, which has resulted in significant cost increases and lost revenue.

Fees from ancillary services, which comprises insurance and service fees, grew 62.3% to R149 million and represents 11.4% of total revenue earned, reflecting the group's reduced reliance on interest revenue.

Despite the impact of the reduced finance charges, group earnings before interest, tax, depreciation and amortisation (EBITDA) increased by 14.6% to R355 million, highlighting the continued focus on creating operating efficiencies and improving credit risk performance over the period. This, together with improvements in customer cash collection processes, has resulted in cash generated from operations increasing by 19.8% to R174 million. Operating profit increased by 17.2% to R329 million with the operating margin improving from 24.3% to 25.0%.

Headline earnings for the period increased by 17.1% to R225 million, with higher interest costs off-set by a lower effective taxation rate attributable to the Mauritius insurance business. Headline earnings per share increased by 15.9% to 218.1 cents.

The group is one of the leading digital retailers in southern Africa and is well positioned to capitalise on strong digital growth. Credit extended via digital channels across the group has increased by 38.3% to R507 million for the six-month period and represents 32.2% of total credit extended (2016: 26.8%). The group has over 560 000 Facebook followers and receives over 1 million visitors on its digital platforms each month. Strong digital engagement has assisted in the growth of the group's customer base by 4.4% to 776 000 over the reporting period.

RETAIL PERFORMANCE

Retail revenue increased 14.0% to R997 million. Retail sales increased by 24.3% to R720 million despite the constrained economic environment. Volume growth was 18% with the average basket value increasing by 14%. This increase was driven by strong demand in the core textiles range and further expansion of the branded goods offering. Innovation remains key to growth across all categories. This, coupled with the change in the credit offer from instalment to facility in May 2016 continues to drive strong demand from customers.

Digital, now the second-largest sales channel, remains the fastest-growing channel and represents 15% sales contribution (up from 12%). Customer engagement with digital channels has been driven by improved digital systems and the marketing of web-only merchandise. The customer base has increased by 3.6% over the six-month period to 725 000, with 111 000 new customers acquired.

The introduction of the credit facility product (from the previous instalment credit product) attracts a lower interest rate and resulted in a 17.2% decrease in finance charges and initiation fees earned for the period to R214 million. Fees from ancillary services were up 69.5% to R64 million and is attributable to the increase in service fees in line with the NCR caps on the introduction of the credit facility account.

The gross profit margin has strengthened by 150 basis points from 47.9% to 49.4% despite the increased mix of branded merchandise at lower margins. The prior year's gross profit margin was negatively impacted by the devaluation of the Rand, but the currency has marginally strengthened and been relatively stable since the second half of 2016. Inventory has increased by 17.3% to R295 million and stock turn maintained at 2.8 times.

Retail EBITDA increased by a pleasing 14.9% to R197 million despite the impact of the reduction in finance charge revenue.

FINANCIAL SERVICES PERFORMANCE

Revenue increased by 14.2% to R317 million. Interest income earned was impacted by the reduction in the interest caps in May 2016 and decreased by 4.8% over the prior period. Revenue earned from insurance products has grown significantly with the introduction of credit life on short-term products and funeral insurance last year, which is showing encouraging growth. EBITDA grew by 14.2% to R145 million following good debtors' performance and the growing insurance business.

Loan disbursements increased by 12.4% to R655 million. Loans to existing customers decreased marginally from 79.9% to 77.5% of total disbursements over the period, reflecting greater acceptance by first-time customers of the processes required for the affordability regulations introduced in 2015. The customer base has increased by 5.0% to 149 000 from December 2016.

Financial Services is a strongly digitally enabled business. Loan transactions concluded by digital channels account for 67% of all lending, with the remainder concluded through the call centres. Enhanced self-service functionality on the mobi site and a constant focus on improving the customer experience on this digital platform is shifting customer engagement online, with 37% of the active loans base now registered for mobi. The mobi site has recently overtaken the popular USSD platform in loan disbursements.

The business is strategically positioned as a short-term, low-value lender. The average term in the book has reduced to 20.4 months (December 2016: 20.8 months) and the average balance is R9 786 (December 2016: R9 972), which are both well below the market averages. The shift to shorter terms has resulted in an improved yield out of the book.

The Financial Services business headquartered in Mauritius (FinChoice Africa) is on track to open lending operations in Botswana later this year to pilot loan products to the Retail customer base. The Mauritian insurance business is seeing pleasing growth in its funeral and credit life products and this new business line is expected to grow strongly going forward.

Credit management

		6 months ended 30 June 2017	6 months ended 30 June 2016	% change (June to June)	12 months ended 31 Dec 2016 (audited)
Group					
Gross trade and loans receivable	(Rm)	**2 750**	2 257	21.9	2 655
Debtor costs as % of revenue	(%)	**16.6**	18.9		17.9
Retail					
Gross trade receivables	(Rm)	**1 545**	1 231	25.5	1 507
Debtor costs as % of revenue	(%)	**14.6**	15.7		15.1
Provision for impairment as % of gross receivables	(%)	**18.6**	19.0		18.9
Non-performing loans (>120 days)	(%)	**10.3**	8.9		10.3
Financial Services					
Gross loans receivable	(Rm)	**1 206**	1 026	17.5	1 147
Debtor costs as % of revenue	(%)	**22.9**	29.0		28.0
Provision for impairment as % of gross receivables	(%)	**14.9**	16.3		15.5
Non-performing loans (>120 days)	(%)	**4.4**	4.6		4.7

Group debtor cost growth of only 0.4% is well below revenue growth and reflects prudent credit risk management and better credit performance in both businesses.

The prior year's Retail debtor costs were negatively impacted by the introduction of television advertising to drive customer acquisition and below-par performance by external debt collectors (EDCs). The tightening of credit criteria, introduction of new scorecards, shortening of terms and changes in credit processes for the media channel saw improved metrics in the second half of 2016 which has continued through 2017. The Retail new business vintages are showing signs of improvement and we expect the vintages to improve further over the remainder of this year. Rates of silent customers (fraudulent orders) have also decreased through considerable front-end focus on fraud prevention tools. Furthermore, investment in collections resources and a strategic focus on collection processes has resulted in debts written off during the year (net of recoveries) increasing by 10.8% over the prior period, which is well below the 25.5% growth in gross trade receivables. Debtor costs as a percentage of revenue have reduced from 15.7% in 2016 to 14.6% for the reporting period.

The successful implementation of late-payment activation strategies at EDCs, which improves cash collections but keeps arrear customers on the books for longer, has resulted in a deterioration in Retail non-performing loans from 8.9% in June 2016 to 10.3% (Dec 2016: 10.3%). However, the improved credit performance has resulted in the provision for impairment of trade receivables being marginally reduced from 18.9% in December 2016 to 18.6%. Our conservative approach to provisioning remains the same and we have completed our IFRS provision model development and are monitoring the results.

Financial Services' initial loans are primarily restricted to Retail customers who have demonstrated good payment behaviour, and this selection criteria has enabled the business to deliver consistent credit performance throughout the credit cycle. The strength of this risk filter, coupled with improved collections and write-off recoveries, has resulted in debts written off during the year (net of recoveries) increasing by only 1.1% over the prior period. Debtor costs as a percentage of revenue have reduced from 29.0% in 2016 to 22.9% for the reporting period, due to improvement in reloan vintages and strong collections performance which have translated into the better roll rates and a better recency distribution. Non-performing loans have improved from 4.6% in June 2016 to 4.4% and the provision for impaired loans has been reduced from 15.5% at December 2016 to 14.9%.

A new debt collections business, HSA Debt Solutions, was successfully piloted in the group to levy collections fees on delinquent accounts. This business will provide incremental income to the group and encourage better customer payment performance.

Cash and capital management

The group remains cash generative and increased cash generated from operations by 19.8% to R174 million through efficient management of working capital, which increased by 8.9% to R178 million. The cash conversion rate (cash generated from operations as a percentage of EBITDA) improved from 46.8% to 48.9% over the period. Capital expenditure of R16 million (June 2016: R28 million) for the six months was focused mainly on the group's technology systems.

Net cash and cash equivalents was R129 million at 30 June 2017 (December 2016: R187 million).

The interim dividend has been increased by 15.5% to 82 cents per share, with the dividend cover remaining at 2.6 times headline earnings.

The group's debt structure is unchanged from the December 2016 year-end. The net debt to equity ratio has increased marginally from 28.7% at December 2016 to 29.0% due to lower cash balances and remains well below the board's upper limit of 40.0%. R60 million of the shareholder loan was repaid after the reporting period in July 2017, and the balance of R100 million will be repaid in the second half of 2017.

The financial position of the group remains strong, with net asset value increasing by 14.8% to 2 086 cents per share from June 2016.

Outlook

The trading environment is expected to remain difficult with continued financial pressure on consumers. In this environment, tight credit policies will be maintained, with cash collections and stringent cost control being management priorities. The group will also continue to mitigate the impact of the annualisation of reduced interest rates by growing other revenue streams. Driving digital engagement with customers remains a key strategic focus as the group looks to expand digital penetration in its target customer market, particularly via the mobile phone.

Both the Retail and Financial Services businesses have experienced good demand during subsequent trading, although at lower growth levels compared to the very strong performance in the second half of 2016.

Management believes that the group's clear strategy and proven business model position it well to deliver returns to shareholders.

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, 28 August 2017

Dividend declaration

Notice is hereby given that the board of directors has declared an interim gross cash dividend of 82.0 cents (65.6000 cents net of dividend withholding tax) per ordinary share for the six-month period ended 30 June 2017. The dividend has been declared from income reserves.

HIL is registered in the Republic of Malta and the dividend is a foreign dividend. A 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 104 542 901 ordinary shares.

The salient dates for the dividend will be as follows:

Last day of trade to receive a dividend	Tuesday, 19 September 2017
Shares commence trading "ex" dividend	Wednesday, 20 September 2017
Record date	Friday, 22 September 2017
Payment date	Tuesday, 26 September 2017

Share certificates may not be dematerialised or rematerialised between Wednesday, 20 September 2017 and Friday, 22 September 2017, both days inclusive.

G Said
Company secretary

Qormi, Malta, 28 August 2017

Group statement of financial position

	Notes	Unaudited Jun 2017 R'000	Unaudited Jun 2016 R'000	Audited Dec 2016 R'000
Assets				
Non-current assets				
Property, plant and equipment		**421 222**	428 602	425 926
Intangible assets		**82 218**	95 438	89 654
Investment in associates and other		**36 126**	18 989	24 259
Deferred taxation		**44 809**	29 216	38 217
		584 375	572 245	578 056
Current assets				
Inventories		**294 528**	251 078	213 750
Taxation receivable		**14 328**	14 269	4 756
Trade and other receivables	2	**2 313 059**	1 874 735	2 214 754
Trade receivables – Retail		**1 257 669**	997 038	1 221 729
Loans receivable – Financial Services		**1 026 386**	858 879	969 544
Other receivables		**29 004**	18 818	23 481
Cash and cash equivalents		**154 828**	95 119	187 277
		2 776 743	2 235 201	2 620 537
Total assets		**3 361 118**	2 807 446	3 198 593
Equity and liabilities				
Equity attributable to equity holders of the parent				
Stated and share capital		**1 045**	1 035	1 035
Share premium		**3 000 357**	2 998 296	2 998 429
Reorganisation reserve		**(2 960 639)**	(2 960 639)	(2 960 639)
		40 763	38 692	38 825
Treasury shares		**(2 666)**	(2 666)	(2 666)
Other reserves		**7 293**	5 144	6 377
Retained earnings		**2 122 687**	1 827 818	1 987 648
Total equity		**2 168 077**	1 868 988	2 030 184
Non-current liabilities				
Interest-bearing liabilities		**546 963**	241 835	579 140
Deferred taxation		**142 609**	116 913	134 844
Other payables		**4 415**	4 585	4 900
		693 987	363 333	718 884
Current liabilities				
Interest-bearing liabilities		**49 514**	138 775	31 453
Taxation payable		**14 657**	1 074	11 801
Trade and other payables		**232 097**	195 678	214 464
Provisions		**15 276**	6 000	31 713
Bank overdraft		**25 863**	76 531	–
Shareholder loan		**161 647**	157 067	160 094
		499 054	575 125	449 525
Total liabilities		**1 193 041**	938 458	1 168 409
Total equity and liabilities		**3 361 118**	2 807 446	3 198 593

Group statement of comprehensive income

	Notes	Unaudited six months ended Jun 2017 R'000	% change	Unaudited six months ended Jun 2016 R'000	Audited year ended Dec 2016 R'000
Revenue		**1 313 841**	14.0	1 152 247	2 664 230
Retail sales		**719 694**	24.3	579 189	1 497 610
Finance charges and initiation fees earned		**444 657**	(7.5)	480 939	940 585
Finance charges earned		**312 520**	(11.9)	354 753	672 083
Initiation fees earned		**132 137**	4.7	126 186	268 502
Fees from ancillary services		**149 490**	62.3	92 119	226 035
Cost of retail sales		**(358 614)**	20.8	(296 757)	(759 288)
Other operating costs		**(635 851)**	10.1	(577 690)	(1 267 819)
Debtor costs	5	**(218 635)**	0.4	(217 857)	(478 114)
Other trading expenses	5	**(417 216)**	15.9	(359 833)	(789 705)
Other net gains and losses		**4 857**	308.3	1 190	7 505
Other income		**4 360**	208.0	1 416	3 532
Operating profit		**328 593**	17.2	280 406	648 160
Interest received		**2 621**	58.1	1 658	3 393
Interest paid		**(40 221)**	45.8	(27 590)	(64 854)
Share of (loss)/profit of associates		**(1 377)**	<100	1 834	(1 564)
Profit before taxation		**289 616**	13.0	256 308	585 135
Taxation		**(65 046)**	0.9	(64 474)	(160 281)
Profit and total comprehensive income for the period		**224 570**	17.1	191 834	424 854
Earnings per share (cents)					
Basic	6.1	**218.1**		188.2	414.8
Headline	6.1	**218.1**		188.2	414.6
Diluted	6.2	**216.0**		186.3	410.5
Diluted headline	6.2	**216.0**		186.4	410.3
Additional information (%)					
Retail gross profit margin (%)		**50.2**		48.8	49.3

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

Group statement of changes in equity

	Unaudited six months ended Jun 2017 R'000	Unaudited six months ended Jun 2016 R'000	Audited year ended Dec 2016 R'000
Equity at the beginning of the period	**2 030 184**	1 751 428	1 751 428
Profit and total comprehensive income for the period	**224 570**	191 834	424 854
Dividends paid	**(89 532)**	(85 643)	(158 832)
Shares issued under share option scheme	**1 939**	10 727	10 859
Share option scheme expense	**916**	642	1 875
Equity at the end of the period	**2 168 077**	**1 868 988**	**2 030 184**

Group statement of cash flows

	Notes	Unaudited six months ended Jun 2017 R'000	% change	Unaudited six months ended Jun 2016 R'000	Audited year ended Dec 2016 R'000
Cash flows from operating activities					
Operating cash flows before working capital changes		**352 149**	14.0	308 886	698 784
Movement in working capital		**(178 372)**	8.9	(163 863)	(421 740)
Cash generated from operations	5	**173 777**	19.8	145 023	277 044
Interest received		**2 621**	58.1	1 658	3 286
Interest paid		**(38 189)**	38.9	(27 496)	(60 512)
Taxation paid		**(70 588)**	(2.4)	(72 293)	(140 574)
Net cash inflow from operating activities		**67 621**	44.2	46 892	79 244
Cash flows from investing activities					
Purchase of property, plant and equipment		**(7 528)**		(17 285)	(26 282)
Proceeds on disposal of property, plant and equipment		**–**		–	425
Purchase of intangible assets		**(8 403)**		(10 405)	(20 124)
Loans repaid by employees		**–**		207	207
Investment in associates and other		**(7 807)**		(3 927)	(6 753)
Net cash outflow from investing activities		**(23 738)**	24.4	(31 410)	(52 527)
Cash flows from financing activities					
Proceeds from the issuance of shares		**1 939**		10 727	10 860
Proceeds from interest-bearing liabilities		**3 814**		14 636	369 574
Repayments of interest-bearing liabilities		**(18 416)**		(23 134)	(140 371)
Finance-raising costs paid		**–**		–	(7 191)
Dividends paid		**(89 532)**		(85 643)	(158 832)
Net cash (outflow)/inflow from financing activities		**(102 195)**	22.5	(83 414)	74 040
Net (decrease)/increase in cash, cash equivalents and bank overdrafts		**(58 312)**		(67 932)	100 757
Cash, cash equivalents and bank overdrafts at the beginning of the period		**187 277**		86 520	86 520
Cash, cash equivalents and bank overdrafts at the end of the period		**128 965**	>100	18 588	187 277

Group segmental analysis

	Retail R'000	Financial Services R'000	Property R'000	Other R'000	Elimi-nations R'000	Total R'000
Six months ended 30 June 2017 – Unaudited						
Segmental revenue	**997 329**	**316 512**	**27 698**	**–**	**–**	**1 341 539**
Retail sales	**719 694**	**–**	**–**	**–**	**–**	**719 694**
Finance charges and initiation fees earned	**213 731**	**230 926**	**–**	**–**	**–**	**444 657**
Fees from ancillary services	**63 904**	**85 586**	**27 698**	**–**	**–**	**177 188**
Intersegment revenue	**–**	**–**	**(27 698)**	**–**	**–**	**(27 698)**
Revenue from external customers	**997 329**	**316 512**	**–**	**–**	**–**	**1 313 841**
Segment results*	**171 020**	**135 215**	**16 842**	**(19 445)**	**–**	**303 632**
Segment results margin (%)	**17.1**	**42.7**				**22.6**
Growth in segment results (%)	**17.9**	**24.9**	**12.3**			**13.1**
Segment assets**	**1 823 559**	**1 141 655**	**339 566**	**79 538**	**(23 200)**	**3 361 118**
Segment liabilities**	**415 845**	**54 774**	**238 876**	**505 748**	**(22 202)**	**1 193 041**
Operating cash flows before working capital changes	**195 725**	**142 196**	**17 488**	**(3 260)**	**–**	**352 149**
Movement in working capital	**(121 894)**	**(47 368)**	**(2 486)**	**(6 624)**	**–**	**(178 372)**
Cash generated/(utilised) from operations	**73 831**	**94 828**	**15 002**	**(9 884)**	**–**	**173 777**
Gross profit margin (%)	**49.4**					**50.2**
Six months ended 30 June 2016 – Unaudited						
Segmental revenue	875 156	277 091	26 011	–	–	1 178 258
Retail sales	579 189	–	–	–	–	579 189
Finance charges and initiation fees earned	258 261	222 678	–	–	–	480 939
Fees from ancillary services	37 706	54 413	26 011	–	–	118 130
Intersegment revenue	–	–	(26 011)	–	–	(26 011)
Revenue from external customers	875 156	277 091	–	–	–	1 152 247
Segment results*	145 002	108 270	14 992	176	–	268 440
Segment results margin (%)	16.6	39.1				22.8
Growth in segment results (%)	2.0	23.9	3.3			6.8
Segment assets**	1 548 386	933 891	340 151	19 935	(34 917)	2 807 446
Segment liabilities**	413 437	41 318	251 979	264 311	(32 587)	938 458
Operating cash flows before working capital changes	170 584	126 329	15 629	(3 656)	–	308 886
Movement in working capital	(106 058)	(61 516)	(824)	4 535	–	(163 863)
Cash generated from operations	64 526	64 813	14 805	879	–	145 023
Gross profit margin (%)	47.9					48.8

* *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 the 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.*

** *Excluding group loans.*

Reconciliation of segment results	**Unaudited Jun 2017 R'000**	Unaudited Jun 2016 R'000
Segment results as reported above	**303 632**	268 440
Interest received	**1 339**	957
Interest paid	**(13 978)**	(14 923)
Share of profit/(loss) of associates	**(1 377)**	1 834
Profit before tax	**289 616**	256 308

Notes to the interim financial statements

1. Basis of presentation and accounting policies

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 and Financial Pronouncements as issued by the Financial Reporting Standards Council and the requirements of the Maltese Companies Act. 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.

2. Trade and other receivables

	Unaudited six months ended Jun 2017 R'000	Unaudited six months ended Jun 2016 R'000	Audited year ended Dec 2016 R'000
Trade receivables – Retail	**1 544 754**	1 230 533	1 507 312
Provision for impairment	**(287 085)**	(233 495)	(285 583)
	1 257 669	997 038	1 221 729
Loans receivable – Financial Services	**1 205 683**	1 026 101	1 147 250
Provision for impairment	**(179 297)**	(167 222)	(177 706)
	1 026 386	858 879	969 544
Other receivables	**29 004**	18 818	23 481
Total trade and other receivables	**2 313 059**	1 874 735	2 214 754
Trade and loan receivables	**2 750 437**	2 256 634	2 654 562
Provision for impairment	**(466 382)**	(400 717)	(463 289)
Other receivables	**29 004**	18 818	23 481
Movements in the provision for impairment were as follows:			
Retail			
Opening balance	**(285 583)**	(226 570)	(226 570)
Movement in provision	**(1 502)**	(6 925)	(59 013)
Debtor costs charged to profit and loss	**(146 101)**	(137 458)	(315 052)
Debts written off during the year, net of recoveries	**144 599**	130 533	256 039
Closing balance	**(287 085)**	(233 495)	(285 583)
Financial Services			
Opening balance	**(177 706)**	(157 011)	(157 011)
Movement in provision	**(1 591)**	(10 211)	(20 695)
Debtor costs charged to profit and loss	**(72 534)**	(80 399)	(163 062)
Debts written off during the year, net of recoveries	**70 943**	70 188	142 367
Closing balance	**(179 297)**	(167 222)	(177 706)

2. Trade and other receivables (continued)

		Unaudited six months ended Jun 2017 R'000	Unaudited six months ended Jun 2016 R'000	Audited year ended Dec 2016 R'000
Retail				
Debtor costs as a % of revenue	(%)	**14.6**	15.7	15.1
Debtor costs as a % of gross receivables (annualised)	(%)	**18.9**	22.3	20.9
Provision for impairment as a % of gross receivables	(%)	**18.6**	19.0	18.9
Financial Services				
Debtor costs as a % of revenue	(%)	**22.9**	29.0	28.0
Debtor costs as a % of gross receivables (annualised)	(%)	**12.0**	15.7	14.2
Provision for impairment as a % of gross receivables	(%)	**14.9**	16.3	15.5
Group				
Debtor costs as a % of revenue	(%)	**16.6**	18.9	17.9
Debtor costs as a % of gross receivables (annualised)	(%)	**15.9**	19.3	18.0
Provision for impairment as a % of gross receivables	(%)	**17.0**	17.8	17.5
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	(%)	**10.3**	8.9	10.3*
Financial Services	(%)	**4.4**	4.6	4.7

* *This has been restated from 8.7 which was incorrectly disclosed in the December 2016 annual financial statements.*

3. Contingent liabilities

The group had no contingent liabilities at the reporting date.

4. 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.

Notes to the interim financial statements

(continued)

5. Total trading expenses

	Unaudited six months ended Jun 2017 R'000	Unaudited six months ended Jun 2016 R'000	Audited year ended Dec 2016 R'000
Expenses by nature			
Debtor costs			
Trade receivables – Retail	**146 101**	137 458	315 052
Loans receivable – Financial Services	**72 534**	80 399	163 062
Total debtor costs	**218 635**	217 857	478 114
Amortisation of intangible assets	**15 839**	16 895	32 498
Depreciation of property, plant and equipment	**12 238**	10 926	22 408
Operating lease charges for immovable property	**570**	665	1 304
Total operating lease charges	**3 677**	2 105	4 022
Less: disclosed under cost of Retail sales	**(3 107)**	(1 440)	(2 718)
Marketing costs	**104 069**	92 320	188 863
Staff costs	**165 179**	142 189	332 010
Total staff costs	**184 299**	158 740	365 889
Less: disclosed under cost of Retail sales	**(11 928)**	(10 243)	(21 651)
Less: staff costs capitalised to intangibles	**(7 192)**	(6 308)	(12 228)
Other costs	**119 321**	96 838	212 622
Total other trading expenses	**417 216**	359 833	789 705
	635 851	577 690	1 267 819

6. Earnings per share

6.1 Basic and headline earnings per share

The calculation of basic and headline earnings per share is based on 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 2017 R'000	Unaudited six months ended Jun 2016 R'000	Audited year ended Dec 2016 R'000
Profit for the period	**224 570**	**191 834**	424 854
Adjusted for the after-tax effect of:			
Gain on disposal of property, plant and equipment and intangible assets	–	–	(241)
Impairment of property, plant and equipment	–	–	59
Headline earnings for the period	**224 570**	**191 834**	424 672
Weighted average number of ordinary shares in issue ('000)	**102 962**	**101 931**	102 419
Earnings per share (cents)			
Basic	**218.1**	**188.2**	414.8
Headline	**218.1**	**188.2**	414.6

6. Earnings per share (continued)

6.2 Diluted and diluted headline earnings per share

The calculation of diluted and diluted headline earnings per share is based on 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 2017 R'000	Unaudited six months ended Jun 2016 R'000	Audited year ended Dec 2016 R'000
Weighted average number of ordinary shares in issue	**102 962**	**101 931**	102 419
Number of shares issuable under the share option scheme for no onsideration	**1 006**	**1 023**	1 078
Diluted weighted average number of ordinary shares in issue	**103 968**	**102 954**	103 497
Earnings per share (cents)			
Diluted	**215.2**	**186.3**	410.5
Diluted headline	**215.2**	**186.3**	410.3

7. Reconciliation of cash generated from operations

	Unaudited six months ended Jun 2017 R'000	Unaudited six months ended Jun 2016 R'000	Audited year ended Dec 2016 R'000
Profit before taxation	**289 616**	256 308	585 135
Share of loss/(profit) of associates	**1 377**	(1 834)	1 564
Profit from insurance cells	**(5 437)**		(5 823)
Gain on disposal of property, plant and equipment and intangible assets	**–**	–	(335)
Impairment of property, plant and equipment	**–**	–	81
Depreciation and amortisation	**28 077**	27 821	54 825
Share-based employee share expense	**916**	659	1 875
Interest paid	**38 135**	26 212	61 435
Interest received	**(2 621)**	(1 658)	(3 393)
Capitalised bond costs – amortised cost adjustment	**2 086**	1 378	3 420
Operating cash flows before working capital changes	**352 149**	308 886	698 784
Movements in working capital	**(178 372)**	(163 863)	(421 740)
Increase in inventories	**(80 778)**	(80 687)	(43 359)
Increase in trade receivables – Retail	**(35 940)**	(14 977)	(239 668)
Increase in loans receivable – Financial Services	**(56 842)**	(68 304)	(178 969)
Increase in other receivables	**(5 523)**	(4 181)	(8 844)
Increase in trade and other payables	**17 148**	10 643	29 744
Increase/(decrease) in provisions	**(16 437)**	(6 357)	19 356
	173 777	145 023	277 044

Notes to the interim financial statements

(continued)

8. Group segmental analysis

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

Retail consists mainly of the group's HomeChoice and FoneChoice operations, whereas Financial Services represents the group's FinChoice operations. The group's property company, which own 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 on a measure of operating profit and Financial Services and Other segments based on a measure of operating profit after interest received and interest paid.

9. Fair value of financial instruments

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

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

	Unaudited six months ended Jun 2017 R'000	Unaudited six months ended Jun 2016 R'000	Audited year ended Dec 2016 R'000
Approved by the directors	**36 060**	16 474	47 238
Approved by the directors and contracted for	**2 481**	–	–
	38 541	16 474	47 238

11. Related party transactions and balances

Related party transactions similar to those disclosed in the group's annual financial statements for the year ended 31 December 2016 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.

The group entered into a loan agreement with its shareholder, GFM Limited, in May 2015. The loan carries interest at the South African prime interest rate and is repayable in 2017.

12. Seasonality

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

13. 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.

14. Estimates

In preparing these condensed interim financial statements, 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 2016.

Statistics

		Jun 2017	Jun 2016	Dec 2016
Growth in revenue	(%)	**14.0**	15.8	19.3
Retail gross profit margin	(%)	**50.2**	48.8	49.3
Operating profit margin	(%)	**25.0**	24.3	24.3
Earnings before interest, tax, depreciation and amortisation (EBITDA)	('000)	**355 294**	310 062	701 422
Growth in EBITDA	(%)	**14.6**	15.5	11.0
EBITDA margin	(%)	**27.0**	26.9	26.3
Solvency and liquidity				
Net asset value per share	(cents)	**2 085.8**	1 816.3	1 972.8
Growth in net asset value	(%)	**5.7**	5.6	14.7
Inventory turn	(times)	**2.8**	2.8	4.0
Net debt/equity ratio	(%)	**29.0**	27.8	28.7
Performance				
Growth in trade receivables – Retail	(%)	**2.9**	1.5	24.4
Growth in loans receivable – Financial Services	(%)	**5.9**	8.6	22.6
Growth in cash generated from operations	(%)	**19.8**	18.3	(22.7)
Cash conversion	(%)	**48.9**	46.8	39.5
Return on equity – annualised	(%)	**21.4**	21.2	22.5
Shareholding				
Number of shares	('000)			
– In issue, net of treasury shares		**103 943**	102 900	102 911
– Weighted shares in issue, net of treasury shares		**102 962**	101 931	102 419
– Diluted weighted average		**103 968**	102 954	103 497
Earnings per share (cents)				
– basic		**218.1**	188.2	414.8
– diluted		**216.0**	186.3	410.5
– headline (HEPS)		**218.1**	188.2	414.6
– diluted HEPS		**216.0**	186.3	410.3

In April 2017 the final dividend for the 2016 financial year of R89.5 million (87 cents per share) was paid to shareholders.

In May 2016 the final dividend for the 2015 financial year of R85.6 million (84 cents per share) was paid to shareholders.

Directorate

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

HiL PLC