HiL PLC

HOMECHOICE INTERNATIONAL PLC

ANNUAL RESULTS 2020

HomeChoice International plc is an investment holding company listed on the JSE Limited. The group is a leading participant in the retail homeware and financial services sectors to the urban middle-income mass market in southern Africa. It has serviced this market for 35 years and has built up a loyal, primarily female, customer base of more than 905 000 active customers. The group operates through two trading operations, Retail and Financial Services.

Cash on hand
up >100% to

R415 million

(2019: R80 million)

>50%

of transactions on digital platforms

Digital Retail sales
contribution now

25%

(2019: 14%)

Revenue
down 6.0% to
R3.3 billion

Loan disbursements
curtailed by 15.3% to
R1.9 billion

Retail sales
down 8.1% to
R1.8 billion

Headline earnings per share
down 62.3% to
164.2 cents

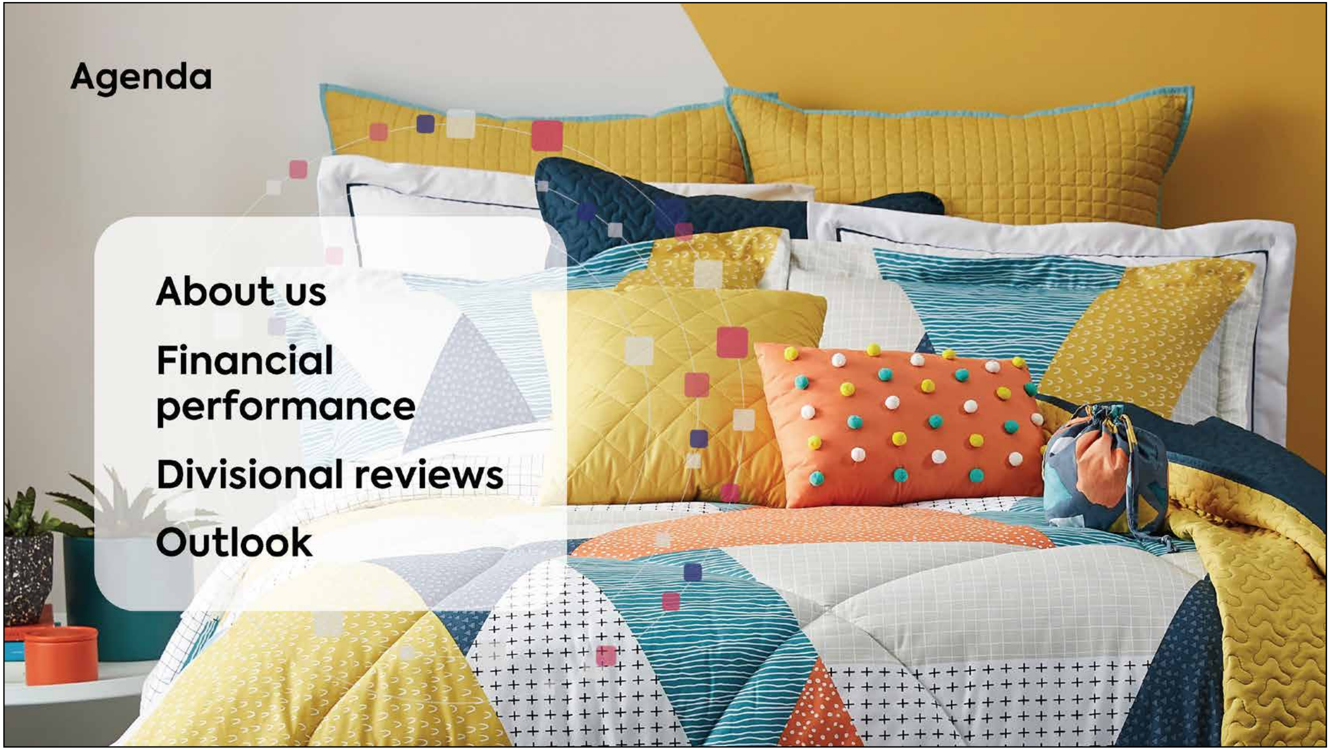
270 000
new customers acquired

Operating profit
decreased by 60.2% on impact of Covid-19 and lower gross profit margin

HiL PLC

HOMECHOICE INTERNATIONAL PLC

ANNUAL RESULTS 2020


Agenda
About us
Financial performance
Divisional reviews
Outlook

Omni-channel retail and FinTech group

HiL

RETAIL

homechoice

Omni-channel retailer delivering quality homeware merchandise directly to homes

FINANCIAL SERVICES

finchoice

Digital FinTech business offering personal lending, insurance and value-added services

homechoice		finchoice
75% R2 440m	Revenue	25% R835m
R60m 29%	Segmental operating profit	R165m* 80%

** Segmental operating profit includes interest charge*

3

Our customer

Digitally savvy, urban African woman

Group customers

905 000

80% women

R10 000 average monthly income

Social

Where she engages us

Facebook +12.3%	**1 mil**
Instagram +100%	**105k**
E-mail +17.0%	**4 mil**

Digital engagement

How she engages us

Digital visits +67.1%	**24.2 mil**
HomeChoice App	**75k**

Achieved NPS scores **>70**

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Digital transformation entrenched, > 50% of transactions

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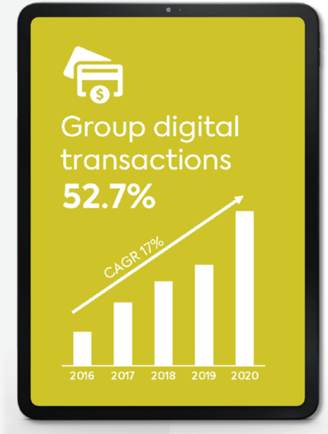
	homechoice 2020	homechoice 2019		finchoice 2020	finchoice 2019	
Digital	34%	22%	↑	90%	85%	↑
Contact centre	52%	61%	↓	10%	15%	↓



Based on number of Retail sales and Financial Services loan transactions

Macro dynamics adversely impacting the year

Consumer confidence at lowest levels

Q2
-30%

Q3
-25%

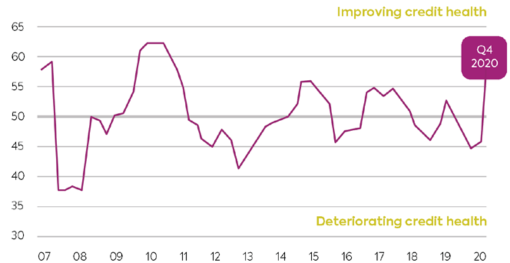
Q4
-13%

- Affordability challenges
- Retrenchment concerns
- Covid impact on mortality
- However fiscal support:
  - Temporary employment relief scheme
  - Credit provider payment holidays
  - 300 bps repo rate cuts
- Working from home driven household upgrades

32.5%
Unemployment
Q4 2020 highest level in 17 years

2.2 million
jobs lost in Q2 2020

TRANSUNION SA CONSUMER CREDIT INDEX



Sources: Stats SA, BER Consumer Confidence, TransUnion Consumer Credit

Covid impacted the impetus of the group

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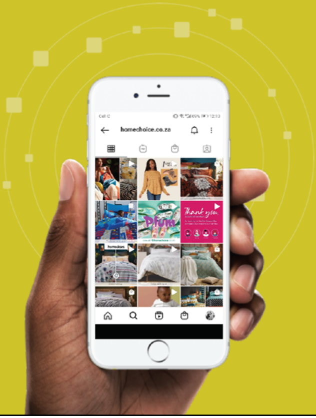
"conserve cash, protect the book, focus on collections, look after our staff, accelerate digital"



Protected Staff	- Ensure health and well-being - Investments to enable WFH - Second wave impacted absenteeism	
Tightened Credit	- H1 stopped new loans - Reduced credit limits - Scorecards adjusted - Focus on collections	
Accelerated Digital	- Pivot to digital marketing - Stopped sending catalogue - Social media influencers	
Conserved Cash	- Refinanced and increased facilities - Deliberately cut loan disbursements	

Impact

Loan disbursements
-R700m

Sales
-R264m

Debtor costs
+R126m

Covid spend
+R22m

Cash balance
R415m


Financial
Performance
Paul Burnett

Group financial performance

HiL

Revenue
R3 275m
-6.0%

Gross profit
44.9%
-250bps

Total costs
+13.2%

HEPS
164.2cps
-62.3%

Operating profit
R270m
-60.2%

Cash on hand
R415m
(2019: R80m)

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Performance significantly impacted by Covid

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- Strategic decision to drive top-line growth
  - Too optimistic in Retail on Covid recovery
  - Well executed in Financial Services
- Finance income impacted by 300 bps in repo rate
- Product mix shifts deteriorated gross profit margin
- Debtor costs impacted by Covid and change in write-off point
- Overinvestment in staff and projects – cost management requires improvement

	2020 Rm	% change	2019 Rm
Revenue	3 275	(6.0)	3 484
Retail sales	1 792	(8.1)	1 951
Finance income	1 438	(3.3)	1 533
Gross profit margin	44.9%		47.4%
Debtor costs	(874)	21.9	(717)
Other trading expenses	(1 146)	7.3	(1 068)
Operating profit	270	(60.2)	679

Retail sales		Loan disbursements	
H1	H2	H1	H2
Impact of hard lockdowns	Improving consumer demand	Cut disbursements	Selective acquisition
-10%	-3%	-30%	+0%

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Early and decisive credit actions taken

	homechoice DEC 2020	homechoice DEC 2019	finchoice DEC 2020	finchoice DEC 2019
Applications accepted	70.3%	73.5%	64.8%	76.8%
Average sales/ Disbursements term	16.1 months	16.9 months	12.2 months	14.2 months
Average balances	R4 542	R4 349	R7 100	R8 628
Active account holders able to purchase/reload	64.8%	67.1%	74.3%	76.3%

Actions taken H1:

- Controlled customer acquisition in Retail
- Tightened credit criteria:
  - Cut acceptance rates
  - Reduced limits
  - Focus on stable employment sectors
- No new customer loans in Financial Services

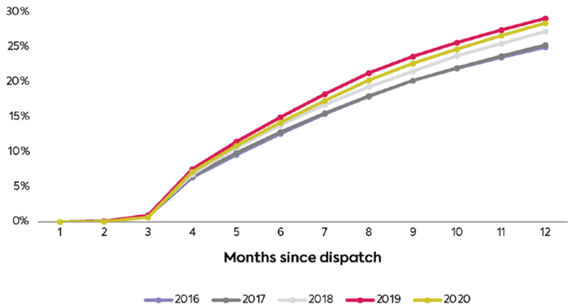
Actions taken H2:

- Maintained strict credit-granting criteria
  - Retail credit limit increases to proven repeat customers
  - Financial Services capitalised on market opportunity with selective acquisition of external customers
- Shortened terms to manage risk

Vintages now below pre-Covid levels

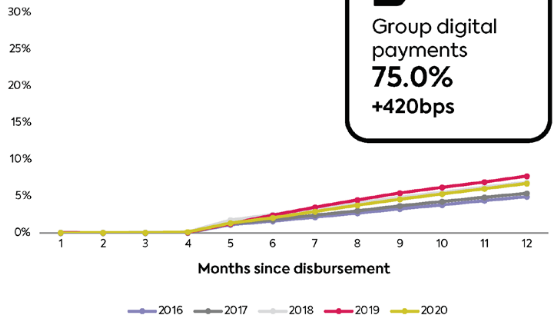
RETAIL VINTAGES

120+ days in arrears and written off



FINANCIAL SERVICES VINTAGES

120+ days in arrears and written off



Group digital payments
75.0%
+420bps

Vintages in both businesses better than 2019

Reflects payment strategies and collections focus:

- Significant investment in collections teams
- Successful insourcing of collections pre-write-offs
- Provided customer payment assistance for selected accounts
- Accelerated digital payments

Retail credit books impacted by Covid

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homechoice	DEC 2020	JUNE 2020	DEC 2019
Gross book	R1.92bn	R1.92bn	R1.95bn
Debtor costs as % of revenue	22.7%	22.9%	16.5%
Debtor provision as % of receivables	21.1%	20.8%	18.8%
Stages 2 and 3 loans cover	56.4%	47.9%	50.2%

Higher bad debt write-offs; book performance deteriorated; provisions increased in H1

- Payment performance deterioration due to macro environment and Covid
- Reduced recoveries from post-write-off books
- Syndicated fraud from external data leaks
- Necessitated higher credit provisions – decisive action taken in H1

R556m
+28.7%
Debtor costs

Covid-19
+R71m
Increase in debtor costs

Financial Services write-off change benefits debtor costs

HiL

finchoice

	DEC 2020 ACTUAL	DEC 2020 PRE WOPA*	JUNE 2020	DEC 2019
Gross book	**R1.76bn**	R1.69bn	R1.62bn	R1.84bn
Debtor costs as % of revenue	**38.1%**	41.8%	44.1%	32.7%
Debtor provision as % of receivables	**15.3%**	13.6%	15.5%	13.8%
Stages 2 and 3 loans cover	**71.4%**	76.0%	73.4%	57.6%

Conservative provisions maintained

- Covid impacted book health in H1 and provisions were increased – anticipated worsening
- Sale of debt review book in November reduced provisions required
- * Write-off point adjustment (WOPA) extended by 2 months – R31m benefit to profit

R318m
+11.6%
Debtor costs

Covid-19
+R55m
Increase in debtor costs

Trading expenses too high for levels of activity

HiL

+7.3%
R1 146m
Trading expenses

+R22m
Covid-19 spend

Marketing and Showrooms
-1.8%
R418m
- Stopped printed catalogue, substantial savings
- Pivot to digital spend and social media

Customer operations and Support
+1.6%
R173m
- Digitalisation of processes
- Additional customer self-service options

Staffing and Technology
+9.5%
R289m
- Overinvestment in future Retail projects
- No reduction in headcount

Insurance
+49.3%
R87m
- Higher costs to drive acquisition
- Increase in number of claims:
  - Funeral +135%
  - Retrenchment +86%
- Increase in IBNR provisions for second wave

Amortisation and Depreciation
+17.8%
R86m
- Technology roadmap to transform business, new showrooms

Significant improvement in cash

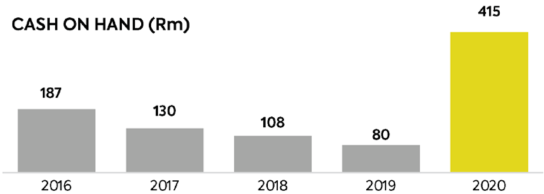
HiL

- Successful focus on cash generation
- Proactive management of collections from credit books – R4 billion collected, (1.5 times book value)
- Cash sales contribution of 7.3% (2019: 5.3%)
- Inventory down 9.7%
- Refinanced and upsized banking facilities

	2020	**% change**	2019
Cash from operations	**R630m**	44.2	R437m
Cash conversion	**177.0%**		58.2%
Capex	**R117m**	–	R116m
Cash balance	**R415m**	>100.0	R80m
Net debt*	**R332m**	(35.2)	R512m
Net debt:equity*	**10.7%**		18.1%

R655m
Unutilised banking facilities

CASH ON HAND (Rm)



** Excluding property debt of R276 million*


homechoice
Retail Division
Chris de Wit

A challenging year in Retail

- Sales recovered and accelerated in H2
- Gross profit margin deterioration:
  - Shift to lower-margin categories
  - Discounting due to overstocks
- Higher bad debt write-offs and increase in provision
- Poor management of discretionary expenses

	2020 Rm	% change	2019 Rm
Revenue	2 440	(6.6)	2 613
Retail sales	1 792	(8.1)	1 951
Finance income	648	(2.1)	662
Gross profit	805	(12.7)	924
GP margin	44.9%		47.4%
Debtor costs	(556)	28.7	(432)
Other trading expenses	(835)	0.2	(833)
Operating profit	60	(81.5)	325

Retail sales	
H1	H2
Impact of hard lockdowns	Improving consumer demand
-10%	**-3%**

Covid hurt sales, exacerbated by misaligned strategy

RETAIL SALES GROWTH (% INC/(DEC))

Quarter 1	Quarter 2	Quarter 3	Quarter 4
+11.7%	-29.8%	-6.1%	+0.1%

Quarter 1 — Business as usual

- Good sales growth first 10 weeks
- Buy for 2020 planned based on current trading
- Gross margin stable

Quarter 2 — Adverse lockdown impact

- Stopped retail catalogue, Post Office unable to deliver
- Pivot to digital marketing
- Stopped selling all but essential classified products

Quarter 3 — Aggressive price cuts implemented

- Anticipated sharper recovery post lockdown
- Chased market share gains
- Aggressive price cuts in appliances and electronics
- Strategy damaged core bedding sales

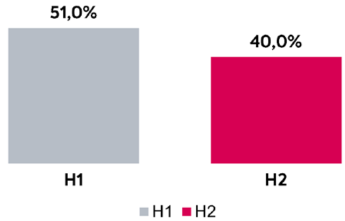
Quarter 4 — Sales acceleration at expense of margin

- Volumes below expectations
- Marketing spend less effective
- Erosion of gross margin
- High absenteeism in contact centre hurting sales

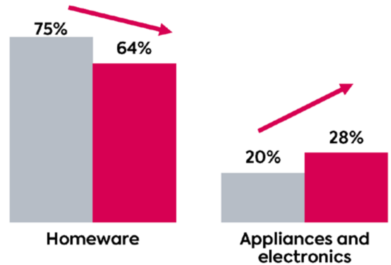
A tale of two halves

- **Aggressive shift in product strategy results in FY margin decline of 250 bps**
- **Pushed appliance and electronics growth in H2**
  - Cut prices to drive demand
  - Delivered 80% growth in low-margin category
  - Shift in strategy too fast
  - No strategy to balance impact of margin drop
- **Bedding performance below expectations**
  - Electronics strategy pursued at the expense of core bedding
  - Absence of printed catalogue made it difficult for customers to shop
  - Overstock position resulting in discounting

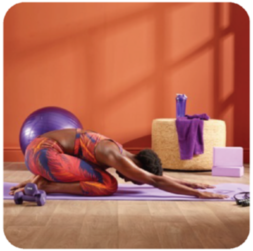
RETAIL GROSS PROFIT MARGIN (%)



RETAIL SALES CONTRIBUTION



Deliver merchandise growth with improved margins

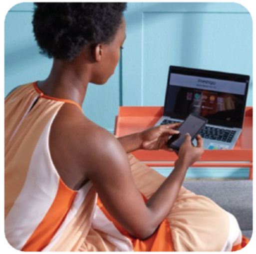


Drive product innovation

- Solutions focus for "new normal"
- Introduce gaming
- Range and brand extension

Reinvigorate bedding range

- Introduce premium and plain bedding
- Review price architecture
- Baby and teen bedding



Optimise margin

- Moderate appliance and electronics strategy
- Drive supply chain efficiencies
- Differential commission in contact centres

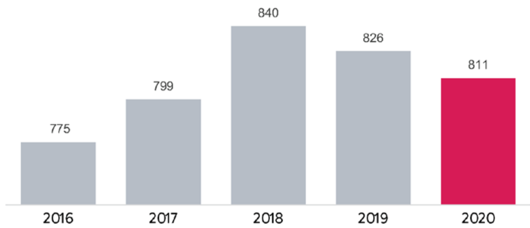
Quarterly catalogue

- Implement from Q1 2021
- Supports omni-channel strategy
- Strong customer appeal

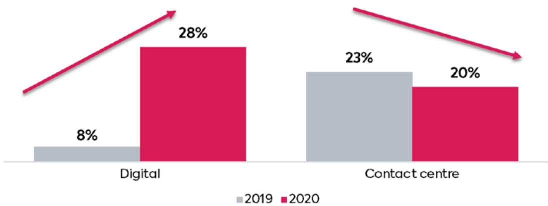
Grow and retain the customer base

- Retail customer base had modest decline of 1.8%
- Curtailed customer acquisition in H1 with refocus in H2 – 241 000 new customers
  - Benefit from updated scorecards
  - Automated decisioning now 58%
- Successful growth of cash customers
  - Now 54 000 customers, +14%
  - With 38 000 new customers, +30%
- Delivering future customer base growth through:
  - Improve retention through anti-attrition data science models
  - Rework customer origination flows
  - Improve new customer onboarding
  - Maximise digital channel journeys

CUSTOMER BASE (000's)



NEW CUSTOMER ACQUISITION CHANNEL (% CONTRIB)



Digital growth accelerated

Mobi and web traffic increasing

+54.5%
23 mill sessions

Social media monetised

+140% increase in sessions

Customers engaged

+ 100%

+12%

Pivot to digital advertising

E-mail and SMS campaigns

Digicat vs printed catalogue

Data trigger customer journeys

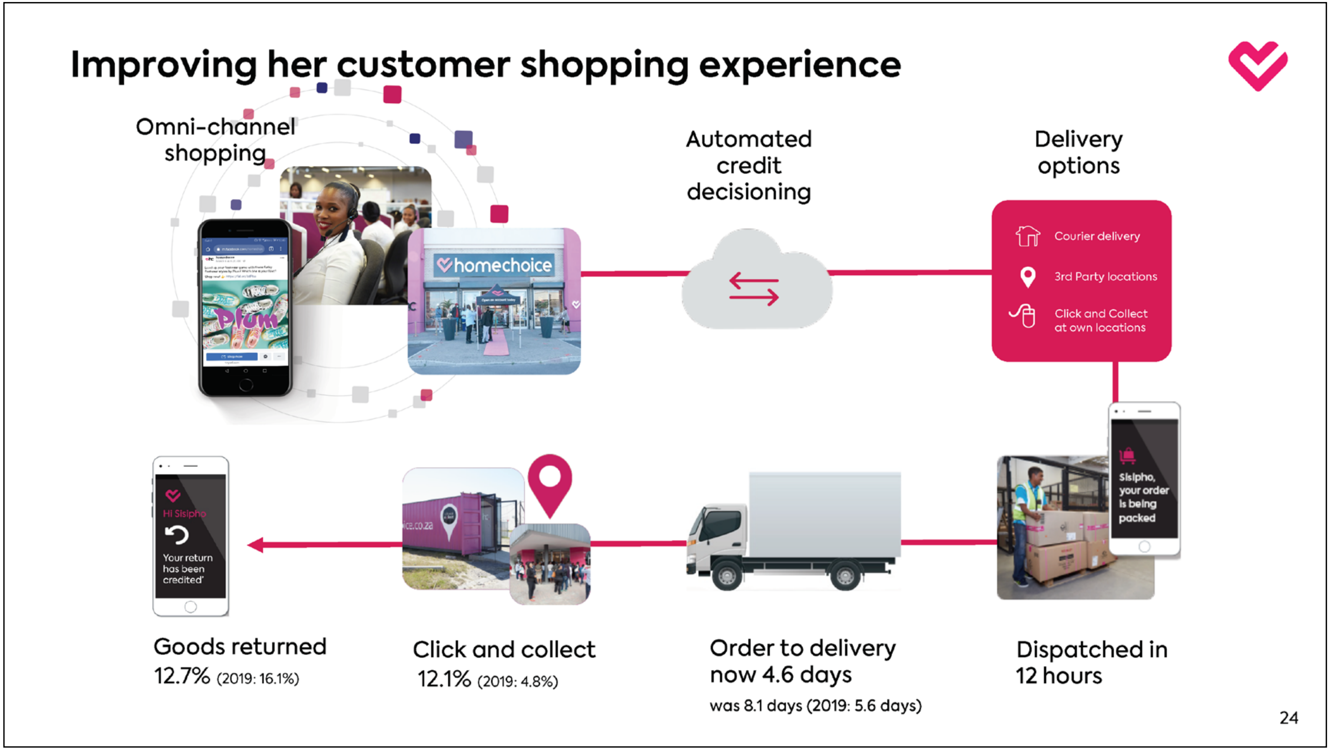
Micro influencers and socialites

Sales contribution

25.4%
(2019: 13.7%)

Digital customers

28.0%
(2019: 16.2%)


Improving her customer shopping experience
Omni-channel shopping
homechoice
Plum
Automated credit decisioning
Delivery options
Courier delivery
3rd Party locations
Click and Collect at own locations
Sisipho, your order is being packed
Hi Sisipho
Your return has been credited'
Goods returned
12.7% (2019: 16.1%)
Click and collect
12.1% (2019: 4.8%)
Order to delivery now 4.6 days
was 8.1 days (2019: 5.6 days)
Dispatched in 12 hours
24

Clear path for recovery

2021
Stabilise and implement

2022
Deliver turnaround

1
Innovate merchandise range

- Optimise product margin categories
- Bedding refocus

2
Grow customer base

- Data-driven, behavioural attrition models
- Digital acquisition

3
Expand credit offers

- Instalment credit
- Flexible credit system implementation

4
Reset the cost base

- Process optimisation
- Digitisation

5
Drive digital and CX

- Digital shopping
- NPS > 70


finchoice
Financial Services Division
Sean Wibberley

Growth momentum disrupted by Covid pandemic

- Disbursements:
  - H1: sizeable cut to conserve cash
  - H2: deliberate release with improved risk
- Debtor costs impacted by Covid, off-set with R31m benefit of write-off point adjustment
- Higher insurance claims with Covid-related increase in funerals and retrenchments
- Other trading expenses:
  - Limited capacity to adjust base costs for lower revenue
  - No reduction in headcount

	2020 Rm	% change	2019 Rm
Loan disbursements	1 919	(15.3)	2 266
Revenue	835	(4.1)	871
Debtor costs	(318)	11.6	(285)
Insurance costs	(46)	>100.0	(18)
Other trading expenses	(248)	13.4	(219)
Interest expense	(62)	(4.8)	(65)
Operating profit	165	(42.3)	286

Loan disbursements	
H1	H2
Cut disbursements **-30%**	Deliberate release **+0%**

FinTech highlights

90%
Digital sales transactions
2019: 86%

6.0%
Market share in unsecured lending up to 36mths
2019: 4.9%

+5.8%
Lift in new loan disbursements from data science solutions

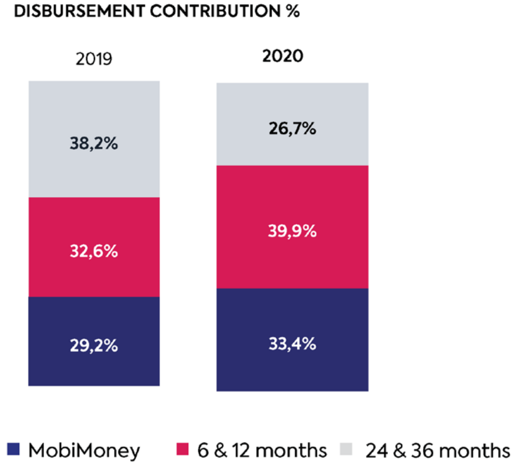
1 022:1
Customers: agent ratio
2019: 800:1

2.4 million
Mobisite logins
2019: 2.1 million

96%
Agree FinChoice is their favourite digital financial services provider

Product strategy driving sustained cash yield improvement

- FinChoice MobiMoney™ (3-month convenient digital facility account):
  - +44% active accounts to 121 000
  - Disbursements mix up to 33%
- 24- and 36-month products curtailed, in favour of shorter-term products
- Average disbursed term reduced to 12.2 months (2019: 14.2 months), significantly driving up yield and improving cash conversion
- Stand-alone insurance:
  - +13% policies in force
  - 42 600 new customers



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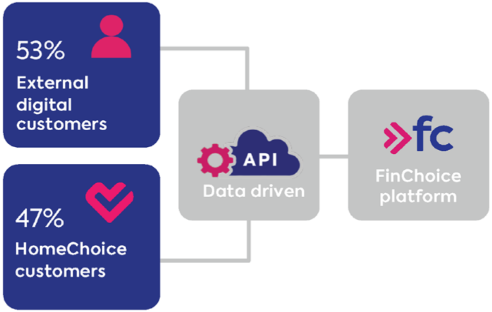
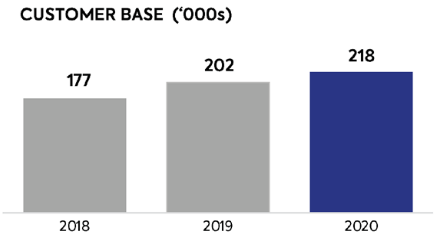
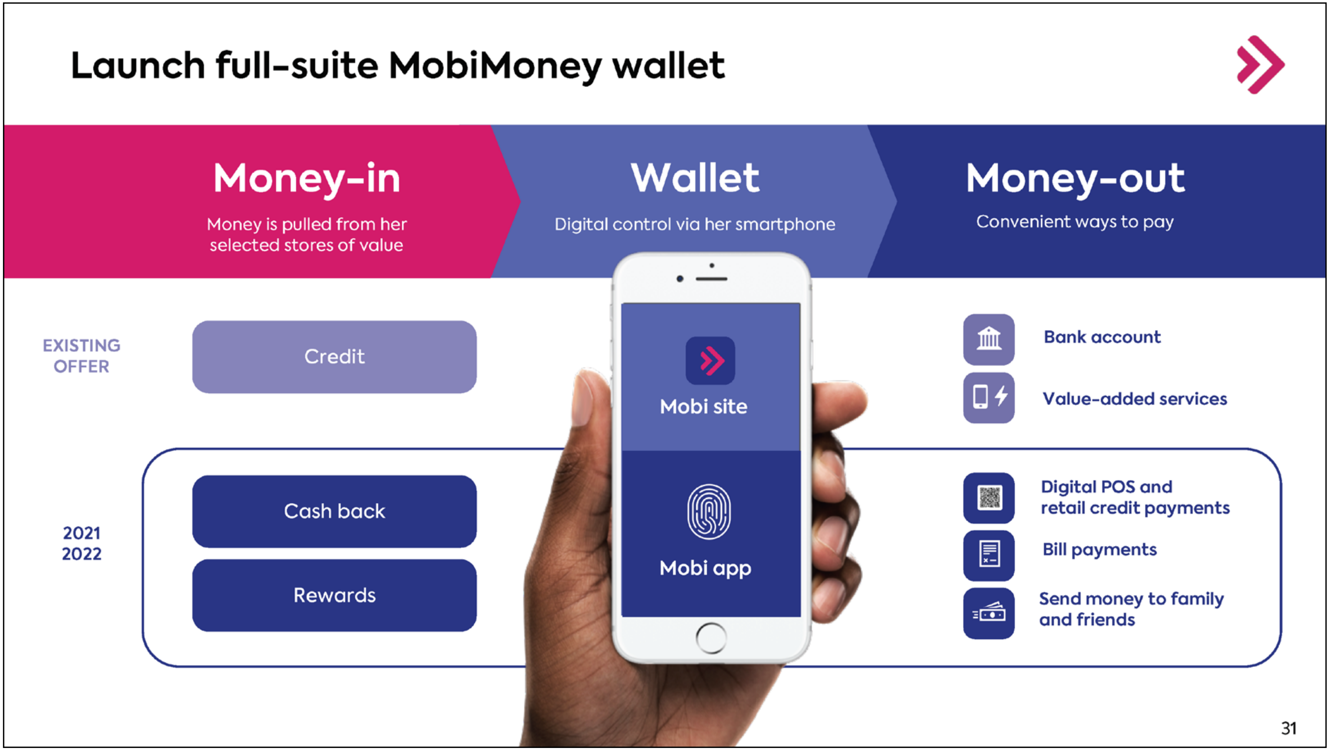
Over 50% new customers external to the group

- 8% increase in customer base to 218 000
- >90% of repeat business digital
- Customer acquisition remained a strong focus despite curtailments
  - 55 000 new loan customers (H2: 37 000)
    - 53% external to group with acceptable credit risk
  - API data-driven strategy enabling growth
- 58% of loan customer acquisition via smartphone (2019: 47%)






Launch full-suite MobiMoney wallet
Money-in
Money is pulled from her selected stores of value
Wallet
Digital control via her smartphone
Money-out
Convenient ways to pay
EXISTING OFFER
Credit
2021
2022
Cash back
Rewards
Mobi site
Mobi app
Bank account
Value-added services
Digital POS and retail credit payments
Bill payments
Send money to family and friends
31


Outlook
32

Drive digital momentum in Financial Services and course correct Retail

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Retail refocus

- Rebalance product range and recalibrate pricing
- Improve customer retention
- Omni-channel and social integration driving digital
- Right-size cost base

FinTech acceleration

- Grow digital market share in loans and insurance
- Continue external digital customer acquisition focus
- Expand MobiMoney wallet and payment functionality

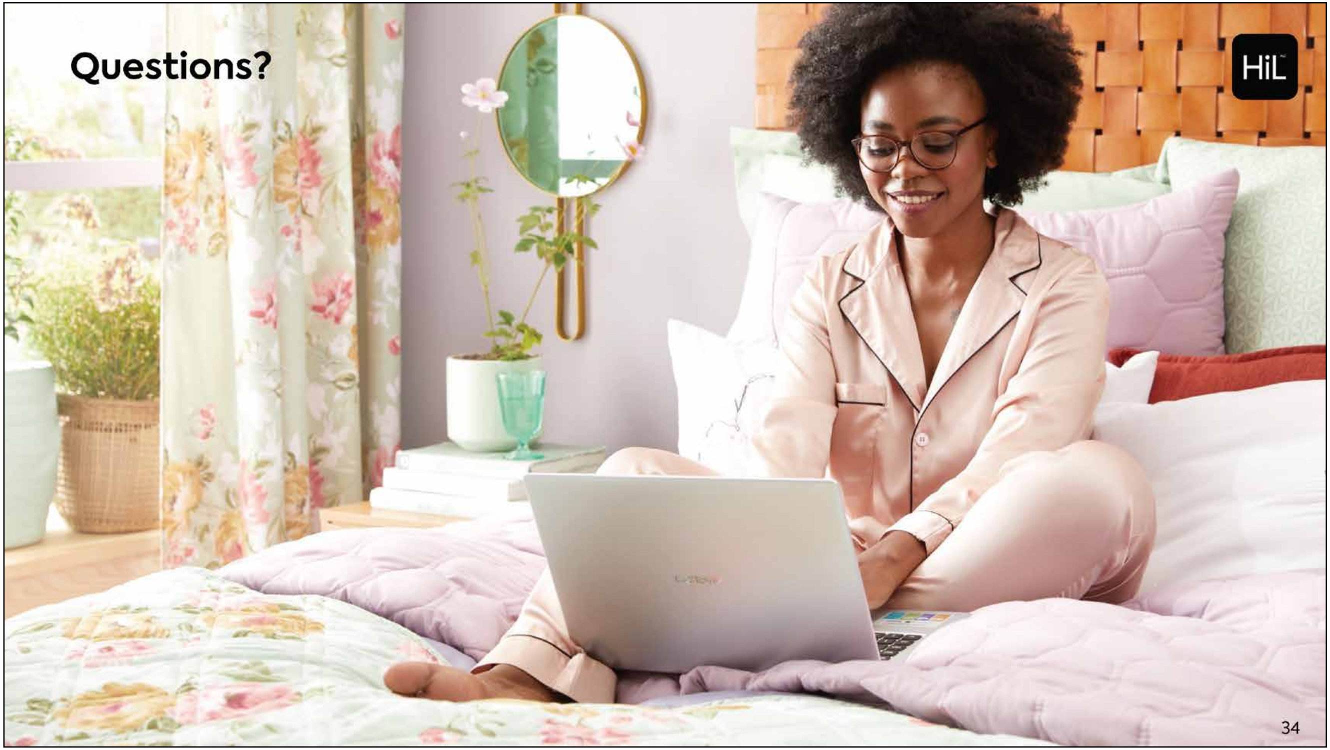
Maintain credit strategy

- Build on new scorecard methodology
- Enhance origination decisioning
- Drive digital payments in Retail

Customer growth

- Continue to build loyal female customer base
- Drive digital acquisition
- Provide continued innovation to her
- Focus on improving her experience

Business model proven defensive with strong cash position to enable change


Questions?
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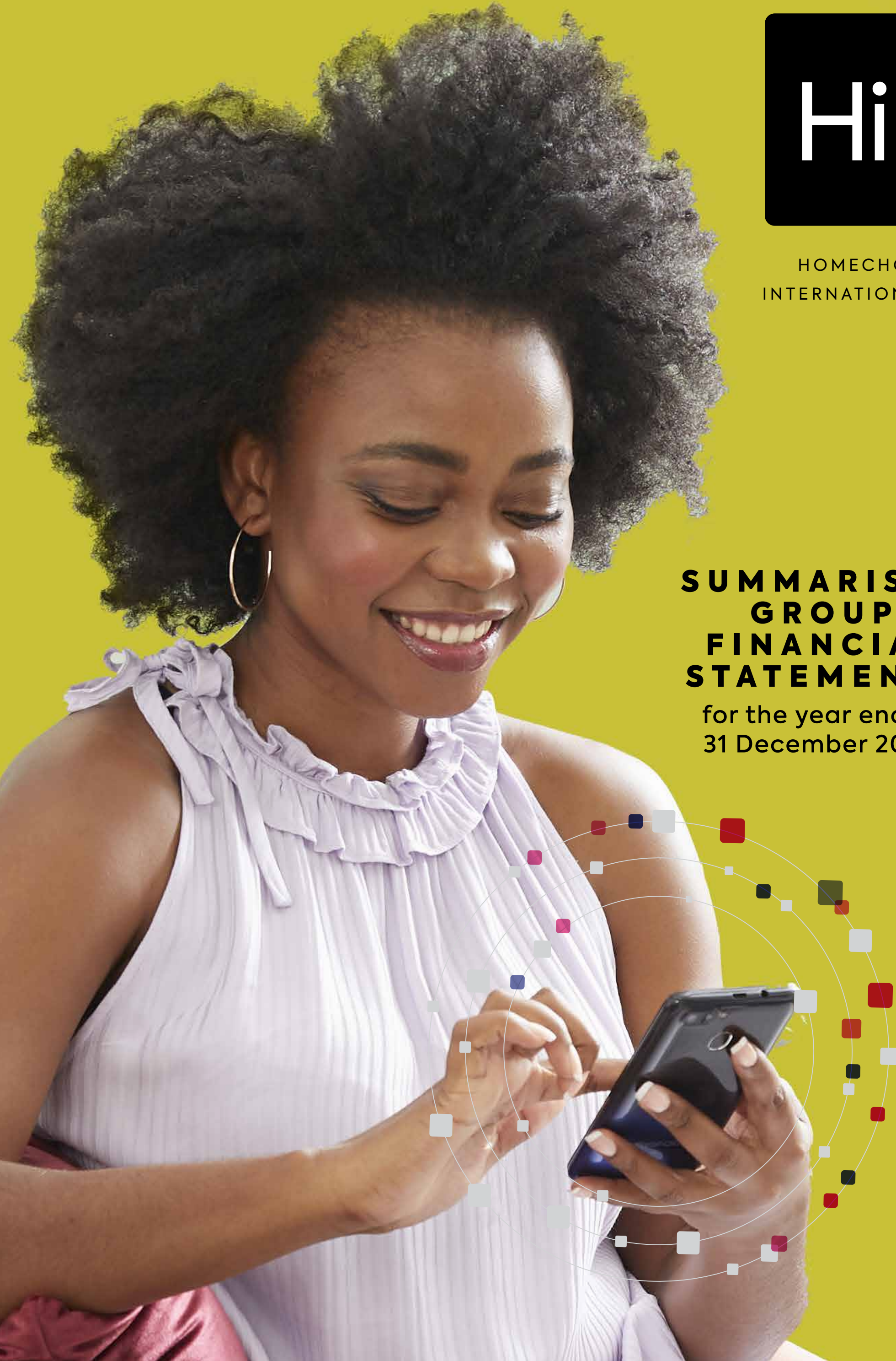
HOMECHOICE
INTERNATIONAL PLC



SUMMARISED GROUP FINANCIAL STATEMENTS

for the year ended
31 December 2020

COMMENTARY

Digital acceleration with robust cash management

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

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

		31 Dec 2020	31 Dec 2019	% change
Group				
Revenue	(Rm)	**3 275**	3 484	(6.0)
Operating profit	(Rm)	**270**	679	(60.2)
Operating profit margin	(%)	**8.2**	19.5	
Earnings per share (EPS)	(cents)	**160.4**	436.0	(63.2)
Headline EPS (HEPS)	(cents)	**164.2**	436.0	(62.3)
Cash generated from operations	(Rm)	**630**	437	44.2
Cash conversion	(%)	**177.0**	58.2	
Total dividend	(cents)	**–**	87.0	<100.0
Retail				
Retail sales	(Rm)	**1 792**	1 951	(8.1)
Revenue	(Rm)	**2 440**	2 613	(6.6)
Gross profit margin	(%)	**44.9**	47.4	
Operating profit	(Rm)	**60**	325	(81.5)
Operating profit margin	(%)	**2.5**	12.4	
Financial Services				
Loan disbursements	(Rm)	**1 919**	2 266	(15.3)
Revenue	(Rm)	**835**	871	(4.1)
Operating profit	(Rm)	**165**	286	(42.3)
Operating profit margin	(%)	**19.8**	32.8	

Performance significantly impacted by Covid-19

Financial performance for the year was negatively impacted by Covid-19. Decisive action taken to control the risk included reducing loan disbursement by R700 million, curtailing access to new credit and accelerating our digital platforms. This proved effective in managing the credit risk of the group and conserving cash.

Group revenue was down 6.0% to R3.3 billion, with a decline in Retail sales of 8.1% and a 15.3% decrease in loan disbursements. Finance income was adversely impacted by a 300 bps drop in the repo rate.

We were disappointed with the drop in gross profit margin from 47.4% to 44.9%. The margin declined to 40.0% in H2 after strong performance of 50.9% in the first half. This was due to rapid growth in appliances and electronics categories and a below expectation performance in bedding. Actions have already been taken to address this decline and we are now achieving a much-improved margin.

Group debtor costs increased by 21.9% to R874 million, of which R126 million is attributable to the deterioration from Covid-19 impacts. Early actions were taken to tighten credit criteria by reducing limits and shortening terms. Provisions were increased to reflect a deterioration in the books' performance. The most recent vintages indicate an improvement to pre-Covid-19 levels.

Trading expenses increased by 7.3%. A move to digital marketing and the suspension of the printed catalogue reduced marketing expenses by 1.8%. However, continued investment in staff and future-focused projects resulted in staff and technology costs increasing by 9.5%. Insurance costs increased by 49.3% due to Covid-19-related retrenchment and funeral claims and higher provisions raised in anticipation of claims arising from the second wave. Covid-19-related operational and capital expenditure of R22 million was incurred during the year. Ensuring the health and well-being of our staff meant that costs were incurred for personal protective equipment, health and safety protocols were implemented in the head office, and additional computer equipment and data packages were purchased to enable staff to work from home.

The impact of lost revenue and a lower gross profit margin resulted in operating profit decreasing by 60.2% to R270 million. Headline earnings per share decreased by 62.3% to 164.2 cents.

Against a background of ongoing uncertainty around the impact of Covid-19, the board has withheld the final dividend and has agreed to reinvest it in the group to take advantage of attractive growth opportunities in the year ahead.

Resilient balance sheet despite Covid-19

The result of early decisive actions in the initial lockdown and a deliberate focus on cash management delivered a cash conversion rate of 177.0% (2019: 58.2%) and a very healthy cash balance of R415 million at year-end (Dec 2019: R80 million).

Our net debt (excluding group-owned properties) has reduced to R332 million (2019: R512 million) and the net debt:equity ratio (excluding property) stands at 10.7% (2019: 18.1%). This provides the group opportunity to accelerate growth when economic circumstances are more favourable.

The group's banking facilities were successfully refinanced and upsized during the lockdown period to R1.05 billion. Unutilised facilities of R655 million are available to support future growth and protect against any further shocks from Covid-19.

Change in accounting estimate relating to debtor write-off point

IFRS 9 requires companies to consider that expected credit losses should more accurately align with actual credit losses. A review of the Financial Services credit losses necessitated a R31 million favourable adjustment to debtor costs as a result of changing the write-off point from month four to month six. This has had the effect of reducing the Financial Services debtor costs percentage to revenue from 41.8% to 38.1%. A similar review of the Retail credit losses was performed with no adjustment required.

homechoice

Retail digital transformation accelerated while margins disappointed

Performance in Retail was challenging, negatively impacted by Covid-19 and exacerbated by a misalignment in product strategies to drive top-line growth. After a decrease in retail sales of 10% in H1, the second half showed recovery with only a 3% decrease, ending 8.1% down on 2019. Price cuts in appliances and electronics, which drove strong demand in these lower-margin items, and discounting required for overstock bedding categories, resulted in a 250 bps decrease in gross profit margin to 44.9%. Debtor costs were up 28.7% mainly due to the impact of Covid-19. Trading expenses increased by 0.2%. Operating profit decreased by 81.5% to R60 million.

Despite the challenges caused by Covid-19 we acquired 241 000 new customers in the year, a decline of only 3% from 2019. A cautious approach to customer acquisition in the first half was followed by a release in demand during H2 to customers with acceptable credit risk. Our channels for customer acquisition have shifted to more digital platforms with 28% (2019: 8%) of new customers acquired digitally.

Pleasingly, digital sales for the year grew by 70% as Covid-19 pushed us to further accelerate our digital transformation. Digital sales now contribute 25.4% (2019: 13.7%) to total sales and is becoming firmly entrenched in our Retail business. Traffic to the website is up 54.5% with 23 million sessions during the year. Our social media platforms have 1 million Facebook followers, 105 000 Instagram followers and 75 000 users on the HomeChoice App. Monetisation of social media continues to grow as we increase our social media engagement to attract new customers and drive demand.

Use of our Click and Collect delivery option, from our own locations, has increased by 122% as customers enjoy the convenience and flexibility it offers. 12.1% (2019: 4.8%) of deliveries are now collected at our 12 (2019: 9) showrooms and 11 (2019: 8) ChoiceCollect containers.

We have developed a comprehensive recovery plan to improve profitability of the Retail business and anticipate showing substantial improvement in 2021.

finchoice

Financial Services' growth momentum disrupted by Covid-19

Financial Services revenue decreased by 4.1% to R835 million, mainly due to curtailed loan disbursements and the impact of the 300 bps drop in the repo rate. Higher Covid-19-related insurance claims, combined with the operational costs of our continued investment in arrears collections and second-half customer acquisition recovery, resulted in trading expenses increasing by 23.8% (13.4% excluding insurance). Debtor costs increased by 11.6% (post the previously mentioned write-off point adjustment) and 22.5% pre-WOPA due to higher bad debts in the first half due to the hard lockdown. Operating profit decreased by 42.3% to R165 million.

Loans were deliberately cut by R700 million to conserve cash and protect the book at the onset of Covid-19. Loans to new customers were stopped from March to May and the credit limits for existing customers were reduced and terms shortened. Direct feedback via our mobi site from more than 80% of customers on their employment status provided complementary industry and employer-based data to facilitate a confident recovery in the granting of credit to more financially stable customers. This drove disbursement levels in the second half to be in line with the same period in 2019. According to data from the National Credit Regulator, the Financial Services business increased its market share of disbursements of up to 36 months in tenure from 4.9% to 6.0%, as the business deliberately extended credit to stably employed customers.

55 000 new customers were acquired during the year. 53% of those new customers are external to the group, primarily from digital sources. Using data-driven acquisition models, the external customers are performing at acceptable and stable credit risk rates.

Our digital-only FinChoice MobiMoney™ three-month facility product is increasingly becoming a cornerstone product for the division. Active MobiMoney accounts increased by 44% in the year to 121 000 customers and 33.4% of disbursements are from these accounts, up from 29.2% in 2019. This product delivers strong cash conversion and results in the average disbursed term reducing from 14.2 months to 12.2 months. MobiMoney drives our digital engagement, which now sits at 90% of repeat business conducted online. The growing popularity of the product and our expanded MobiMoney wallet functionality will be leveraged to deliver an appealing and convenient financial product range to our customers and further entrench the FinTech business model.

We continue to grow our stand-alone personal insurance business with policies in force up 13% and 42 600 new customers. As experienced in the rest of the market, we have seen a jump in the number of Covid-19-related retrenchment and funeral claims of 86% and 135% respectively. Conservative IBNR provisions have been raised in anticipation of higher claims in 2021.

Curtailed credit and a strong focus on collections

Gross trade and loan receivables decreased by 2.6% to R3.7 billion, primarily due to the curtailment of loan disbursements and lower sales. Group debtor costs increased by 21.9% to R874 million. Covid-19 negatively impacted debtor costs with R126 million worsening from higher bad debts and increased provisions. The credit books are healthy with vintages for both Retail and Financial Services now below pre-Covid-19 levels.

Credit performance for the period is summarised below:

		31 Dec 2020	31 Dec 2019	% change
Group				
Gross trade and loans receivable	(Rm)	**3 685**	3 784	(2.6)
Credit impairment costs as a % of revenue*	(%)	**26.7**	20.6	
Retail				
Number of active accounts		**564 359**	581 818	
Active accounts able to purchase	(%)	**64.8**	67.1	
Gross trade receivable	(Rm)	**1 923**	1 947	(1.2)
Credit impairment costs as a % of revenue	(%)	**22.8**	16.5	
Provision for impairment	(Rm)	**406**	366	10.9
Provision for impairment as a % of gross receivables	(%)	**21.1**	18.8	
Stages 2 and 3 loans cover	(%)	**56.4**	50.2	
Financial Services				
Number of active accounts		**239 956**	223 742	
Active accounts able to reloan	(%)	**74.3**	76.3	
Gross loans receivable	(Rm)	**1 762**	1 837	(4.1)
Credit impairment costs as a % of revenue	(%)	**38.1**	32.7	
Provision for impairment	(Rm)	**269**	254	5.9
Provision for impairment as a % of gross receivables	(%)	**15.3**	13.8	
Stages 2 and 3 loans cover	(%)	**71.4**	57.6	

* *Credit impairment costs include bad debts written off net of recoveries, as well as movements in provisions.*

Retail credit book impacted by Covid-19

Debtor costs increased by 28.7% to R556 million, R71 million attributable to Covid-19.

A controlled approach to customer acquisition was managed by tightening credit-granting criteria, reducing credit limits and cutting acceptance rates. These restrictions were eased in over time and credit limits were increased to proven repeat customers. Terms were shortened to manage risk, resulting in a decrease from 16.9 months to 16.1 months. There was a strong focus on collections, particularly digital payments via debit orders. Debit order collections have increased to 35% (2019: 29%).

Impairment provisions were increased to 21.1% of gross receivables to reflect book performance at December 2020. Stages 2 and 3 loans cover have increased to 56.4% (2019: 50.2%).

Redomiciliation and changes to board composition

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

Arising from the redomiciliation, shareholders were advised on 21 May 2020 of the following changes to the board:

- Stanley Portelli (board chairman) and Charles Rapa (chairman of the audit and risk committee) resigned with effect from 31 May 2020;
- Shirley Maltz was appointed executive chair from 1 June 2020;
- Pierre Joubert was appointed as the lead independent non-executive director and the chairman of the audit and risk committee with effect from 1 June 2020; and
- the company secretary was changed from George Said to Sanlam Trustees International.

Marlisa Harris was appointed as an independent non-executive director to the board on 22 February 2021. Marlisa is based in Mauritius and brings a wealth of financial services knowledge and experience to the board.

Effective 28 February 2021, the Retail chief executive officer, Gerhard Hayes, resigned from the group. Chris de Wit has been appointed the new Retail CEO.

Financial Services write-off point adjustment benefits debtor costs

Debtor costs increased by 11.6% to R318 million, R55 million due to Covid-19. The required IFRS change in the WOPA from month four to month six reduced debtor costs by R31 million but increased the provision for impairment.

Credit to new customers was curtailed in H1 and subsequently opened up to new customers working for proven employers and stable employment sectors. The average disbursement term was reduced from 14.2 months to 12.2 months and a reduction of credit limits reduced the average balances to R7 100 (2019: R8 628).

The provision for impairment has decreased marginally to 15.3% (June 2019: 15.5%), pre-WOPA 13.6% reflecting the improved quality of the debtor book. Stages 2 and 3 loans cover have increased to 71.4% (2019: 57.6%).

Outlook

The socio-economic outlook for South Africa remains challenging with high levels of unemployment and an uncertain growth path as the country recovers from and manages the devastating impact of Covid-19.

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

We will drive the growth momentum in Financial Services and "course correct" the Retail business by balancing product and margin strategy and right-sizing the cost base.

We will continue to accelerate our digital transformation and aggressively use digital marketing and social media to capture market share. Financial Services will expand the MobiMoney wallet and payment functionality.

We believe that the group has a defensive business model and is well positioned for growth with a strong cash position to support it.

S Maltz
Executive Chair

G Lartigue
Chief Executive Officer

Mauritius, 24 March 2021

SUMMARISED GROUP FINANCIAL STATEMENTS

Summarised group statement of financial position

	Notes	2020 Rm	% change	2019 Rm
Assets				
Non-current assets				
Property, plant and equipment		**476**	1.1	471
Intangible assets		**210**	24.3	169
Right-of-use assets		**60**	(10.4)	67
Financial assets at fair value through profit or loss		**34**	41.7	24
Deferred taxation		**45**	>100.0	2
		825	12.6	733
Current assets				
Inventories	2	**315**	(9.7)	349
Taxation receivable		**13**	>100.0	1
Trade and other receivables	3	**3 024**	(5.1)	3 188
Trade receivables – Retail		**1 517**	(4.0)	1 581
Loans receivable – Financial Services		**1 493**	(5.7)	1 583
Other receivables		**14**	(41.7)	24
Cash and cash equivalents		**415**	>100.0	80
		3 767	4.1	3 618
Total assets		**4 592**	5.5	4 351
Equity and liabilities				
Equity attributable to equity holders of the parent				
Stated and share capital		**1**	–	1
Share premium		**3 014**	0.1	3 010
Reorganisation reserve		**(2 961)**	–	(2 961)
		54	8.0	50
Treasury shares		**(33)**	83.3	(18)
Other reserves		**47**	42.4	33
Retained earnings		**3 048**	5.8	2 881
Total equity		**3 116**	5.8	2 946
Non-current liabilities				
Interest-bearing liabilities		**933**	73.7	537
Lease liabilities		**48**	(15.8)	57
Deferred taxation		**69**	35.3	51
Other payables		**4**	–	4
		1 054	62.4	649
Current liabilities				
Interest-bearing liabilities		**39**	(90.0)	391
Lease liabilities		**22**	22.2	18
Taxation payable		**12**	(25.0)	16
Trade and other payables		**349**	23.3	283
Bank overdraft		**–**	(100.0)	48
		422	(44.2)	756
Total liabilities		**1 476**	5.1	1 405
Total equity and liabilities		**4 592**	5.5	4 351

Summarised group statement of profit or loss and other comprehensive income

	Notes	2020 Rm	% change	2019 Rm
Revenue		**3 275**	(6.0)	3 484
Retail sales	4	**1 792**	(8.1)	1 951
Finance income		**1 038**	(5.0)	1 093
Fees from ancillary services	5	**445**	1.1	440
Cost of Retail sales		**(987)**	(3.9)	(1 027)
Other operating costs		**(2 020)**	13.2	(1 785)
Credit impairment losses	6	**(874)**	21.9	(717)
Other trading expenses	7	**(1 146)**	7.3	(1 068)
Other net gains and losses		**(8)**	>100.0	(1)
Other income		**10**	25.0	8
Operating profit		**270**	(60.2)	679
Interest income		**5**	25.0	4
Interest expense		**(93)**	(7.9)	(101)
Profit before taxation		**182**	(68.7)	582
Taxation		**(15)**	(88.2)	(127)
Profit and total comprehensive income for the year		**167**	(63.3)	455
Earnings per share (cents)				
Basic	8	**160.4**	(63.2)	436.0
Diluted		**158.6**	(63.0)	428.7
Headline earnings per share (cents)				
Basic	8	**164.2**	(62.3)	436.0
Diluted		**162.4**	(62.1)	428.7

Summarised group statement of changes in equity

	Stated and share capital Rm	Share premium Rm	Treasury shares Rm	Reorgan-isation reserve Rm	Other reserves Rm	Retained earnings Rm	Equity attributable to owners of the parent Rm
Balance at 1 January 2019	1	3 005	(3)	(2 961)	18	2 624	2 684
Change on initial application of IFRS 16	–	–	–	–	–	(3)	(3)
Restated equity at the beginning of the year	1	3 005	(3)	(2 961)	18	2 621	2 681
Changes in equity							
Profit and total comprehensive income for the year	–	–	–	–	–	455	455
Shares issued	–	5	–	–	–	–	5
Dividends paid	–	–	–	–	–	(195)	(195)
Share incentive schemes	–	–	–	–	15	–	15
Shares purchased	–	–	(15)	–	–	–	(15)
Total changes	–	5	(15)	–	15	260	265
Balance at 1 January 2020	**1**	**3 010**	**(18)**	**(2 961)**	**33**	**2 881**	**2 946**
Changes in equity							
Profit and total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**167**	**167**
Shares issued	**–**	**4**	**–**	**–**	**–**	**–**	**4**
Share incentive schemes	**–**	**–**	**–**	**–**	**15**	**–**	**15**
Shares purchased	**–**	**–**	**(16)**	**–**	**–**	**–**	**(16)**
Forfeitable shares vested	**–**	**–**	**1**	**–**	**(1)**	**–**	**–**
Total changes	**–**	**4**	**(15)**	**–**	**14**	**167**	**170**
Balance at 31 December 2020	**1**	**3 014**	**(33)**	**(2 961)**	**47**	**3 048**	**3 116**

Summarised group statement of cash flows

	Notes	2020 Rm	% change	2019 Rm
Cash flows from operating activities				
Operating cash flows before working capital changes		**315**	(56.1)	718
Movements in working capital		**315**	<(100.0)	(281)
Cash generated from operations	9	**630**	44.2	437
Interest received		**5**	25.0	4
Interest paid		**(93)**	–	(93)
Taxation paid		**(56)**	(67.8)	(174)
Net cash inflow from operating activities		**486**	>100.0	174
Cash flows from investing activities				
Additions of property, plant and equipment		**(46)**		(44)
Additions of intangible assets		**(71)**		(72)
Financial assets at fair value through profit or loss		**–**		11
Net cash outflow from investing activities		**(117)**	11.4	(105)
Cash flows from financing activities				
Proceeds from the issuance of shares		**4**		5
Purchase of shares to settle forfeiture share scheme obligations		**(16)**		(15)
Proceeds from interest-bearing liabilities		**781**		315
Repayments of interest-bearing liabilities		**(737)**		(243)
Principal elements of lease payments		**(18)**		(12)
Dividends paid		**–**		(195)
Net cash inflow/(outflow) from financing activities		**14**	<(100.0)	(145)
Net increase/(decrease) in cash and cash equivalents and bank overdrafts		**383**		(76)
Cash and cash equivalents and bank overdrafts at the beginning of the year		**32**		108
Cash and cash equivalents and bank overdrafts at the end of the year		**415**	>100.0	32

Group segmental information

		2020 Total Rm	Retail Rm	Financial Services Rm	Property Rm	Other Rm	Intra-group Rm
Segmental revenue		3 275	2 440	835	48	–	(48)
Retail sales		1 792	1 792	–	–	–	–
Finance income		1 038	468	570	–	–	–
Fees from ancillary services		445	180	265	48	–	(48)
EBITDA		356	145	235	22	(30)	(16)
Depreciation and amortisation		(86)	(85)	(8)	–	–	7
Interest income		2	–	8	–	65	(71)
Interest expense		(67)	–	(70)	–	(68)	71
Segmental operating profit*		205	60	165	22	(33)	(9)
Interest income		3	3	–	–	–	–
Interest expense		(26)	(21)	–	(12)	–	7
Profit before taxation		182	42	165	10	(33)	(2)
Taxation		(15)	7	(26)	(3)	7	–
Profit after taxation		167	49	139	7	(26)	(2)
Segmental assets		4 592	2 621	1 850	353	1 515	(1 747)
Segmental liabilities		1 476	1 376	917	269	678	(1 764)
Gross profit margin	(%)	44.9	44.9				
Segmental results margin	(%)	6.3	2.5	19.8	45.8		
Operating cash flows before working capital changes		315	112	224	22	(27)	(16)
Movements in working capital		315	176	143	(3)	(5)	4
Cash generated/(utilised) by operations		630	288	367	19	(32)	(12)
Capital expenditure							
Property, plant and equipment		46	42	2	2	–	
Intangible assets		71	50	21	–	–	

* *Refer to note 10 for further details on segments and segmental results.*

	2019				
Total Rm	Retail Rm	Financial Services Rm	Property Rm	Other Rm	Intra-group Rm
3 484	2 613	871	61	–	(61)
1 951	1 951	–	–	–	–
1 093	482	611	–	–	–
440	180	260	61	–	(61)
751	442	362	36	(34)	(55)
(73)	(117)	(11)	–	–	55
3	–	3	–	72	(72)
(68)	–	(68)	–	(72)	72
613	325	286	36	(34)	–
1	1	–	–	–	–
(32)	(22)	–	(20)	–	10
582	304	286	16	(34)	10
(127)	(68)	(55)	(5)	1	–
455	236	231	11	(33)	10
4 351	2 359	1 725	340	1 211	(1 284)
1 405	1 035	840	253	561	(1 284)
47.4	47.4				
17.6	12.4	32.8	59.0		–
718	415	355	36	(33)	(55)
(281)	(72)	(212)	–	3	–
437	343	143	36	(30)	(55)
44	43	1	–	–	–
72	49	23	–	–	–

Notes to the summarised group financial statements

1. Basis of presentation and accounting policies

1.1 Basis of presentation

The group annual financial statements for the year ended 31 December 2020 and these summary group financial statements have been prepared by the group's finance department, acting under the supervision of P Burnett, CA(SA), the finance director of the group.

The summary group financial statements are prepared in accordance with the requirements of the JSE Limited Listings Requirements for provisional reports. The Listings Requirements require provisional reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS) and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council and to also, as a minimum, contain the information required by *IAS 34, Interim Financial Reporting*.

The accounting policies applied in the preparation of the group financial statements from which the summary group financial statements were derived are in terms of IFRS and are consistent with those accounting policies applied in the preparation of the previous group annual financial statements, other than as outlined below.

1.2 Changes in accounting policies and accounting estimates

1.2.1 Amendments to IFRS 16 – Covid-19-related rent concessions

IFRS 16 was amended to provide a practical expedient for lessees' accounting for rent concessions that arise as a direct consequence of the Covid-19 pandemic and satisfy the following criteria:

(a) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;

(b) the reduction in lease payments affects only payments originally due on or before 30 June 2021; and

(c) there is no substantive change to other terms and conditions of the lease.

Lessees can elect to account for such rent concessions in the same way as they would if they were not lease modifications. In most cases, this results in the concessions being treated as variable lease payments in the period in which they are granted.

The group applied the practical expedient to all Covid-19 rent concessions and therefore was not required to assess whether the rent concessions were lease modifications. This resulted in the group accounting for the concessions as variable lease payments.

Decreases in lease liabilities during the current year which resulted from Covid-19-related rent concessions amount to R0.3 million and are included in profit or loss. The principal elements of lease payments in the statement of cash flows have decreased by the same amount.

1.2.2 *Change in accounting estimate – IFRS 9 Write-off point adjustment (WOPA)*

The group assesses the methods and assumptions used for estimating the expected credit losses on a regular basis in order to reduce any differences between estimates and actual credit loss experience. As part of the group's ongoing assessment of credit losses and recoveries trends and in accordance with IFRS 9, the Financial Services segment has moved its write-off point (at which there is no reasonable expectation of future recovery) out by two billing cycles during the current year. A similar assessment performed by the Retail segment did not result in any changes to the write-off point.

This change in estimate has resulted in an increase in the size of the non-performing loans in proportion to total loans as loans which would historically have been written off are held on book for a longer period. There has been a corresponding increase in the provision for impairment against the non-performing loans.

The effect of the change in estimate on the current year is as follows:

	2020 Rm
Decrease in credit impairment losses	**31**
Increase in taxation expense	**(3)**
Increase in profit after tax	**28**
Increase in gross loans receivable	**71**
Increase in provision for impairment	**(40)**
Increase in taxation payable	**(5)**
Increase in deferred tax asset	**2**
Increase in retained earnings	**28**

Management is unable to estimate the effect of the WOPA on future periods because the amount of debt and the related provision for impairment for future periods cannot be reliably estimated.

2. Inventories

	2020 Rm	% change	2019 Rm
Merchandise for resale	**293**	(5.5)	310
Provision for inventory obsolescence	**(29)**	61.1	(18)
Goods in transit	**51**	(10.5)	57
	315	(9.7)	349

The total amount of inventories expensed to cost of Retail sales during the year was R828 million (2019: R827 million). Inventory sold at less than cost during the current year amounted to R24 million (2019: R25 million) and inventory write-downs recognised as an expense during the year amounted to R11 million (2019: R3 million).

3. Trade and other receivables

		2020 Rm	% change	2019 Rm
Group				
Trade and loan receivables		**3 685**	(2.6)	3 784
Provision for impairment		**(675)**	8.9	(620)
Other receivables		**14**	(41.7)	24
		3 024	(5.1)	3 188
Provision for impairment as a % of gross receivables	(%)	**18.3**	11.6	16.4
Credit impairment costs as a % of revenue	(%)	**26.7**	29.6	20.6
Credit impairment costs as a % of gross receivables	(%)	**23.7**	25.4	18.9
Retail				
Gross carrying amount		**1 923**	(1.2)	1 947
Performing (stage 1)		**1 203**	(1.2)	1 218
Underperforming (stage 2)		**359**	(13.9)	417
Non-performing (stage 3)		**361**	15.7	312
Provision for impairment		**(406)**	10.9	(366)
Performing		**(78)**	(24.3)	(103)
Underperforming		**(129)**	10.3	(117)
Non-performing		**(199)**	36.3	(146)
Net carrying amount		**1 517**	(4.0)	1 581
Performing		**1 125**	0.9	1 115
Underperforming		**230**	(23.3)	300
Non-performing		**162**	(2.4)	166
Provision for impairment as a % of gross receivables	(%)	**21.1**		18.8
Performing	(%)	**6.5**		8.5
Underperforming	(%)	**35.9**		28.1
Non-performing	(%)	**55.1**		46.8
Credit impairment costs as a % of revenue	(%)	**22.8**		16.5
Credit impairment costs as a % of gross receivables	(%)	**28.9**		22.2

3. Trade and other receivables (continued)

		2020 Rm	% change	2019 Rm
Financial Services				
Gross carrying amount		**1 762**	(4.1)	1 837
Performing (stage 1)		**1 385**	(0.8)	1 396
Underperforming (stage 2)		**181**	(26.7)	247
Non-performing (stage 3)		**196**	1.0	194
Provision for impairment		**(269)**	5.9	(254)
Performing		**(76)**	16.9	(65)
Underperforming		**(66)**	(25.8)	(89)
Non-performing		**(127)**	27	(100)
Net carrying amount		**1 493**	(5.7)	1 583
Performing		**1 309**	(1.7)	1 331
Underperforming		**115**	(27.2)	158
Non-performing		**69**	(26.6)	94
Provision for impairment as a % of gross receivables	(%)	**15.3**		13.8
Performing	(%)	**5.5**		4.7
Underperforming	(%)	**36.5**		36.0
Non-performing	(%)	**64.8**		51.5
Credit impairment costs as a % of revenue	(%)	**38.1**		32.7
Credit impairment costs as a % of gross receivables	(%)	**31.6**		15.5

3. Trade and other receivables (continued)

	2020 Rm	% change	2019 Rm
Movements in the provision for impairment were as follows:			
Retail			
Opening balance	**(366)**	1.9	(359)
Movement between stages[1]	**(72)**	53.2	(47)
New financial assets originated or purchased[2]	**(297)**	46.3	(203)
Change in risk[3]	**1**	<(100.0)	(7)
Debt review portfolio sold	**5**		–
Other[4]	**–**	(100.0)	3
Loans and advances settled in the current year[5]	**51**	0.0	51
Write-offs[6]	**272**	38.8	196
Closing balance	**(406)**	10.9	(366)
Financial Services			
Opening balance	**(254)**	0.8	(252)
Movement between stages[1]	**(27)**	0.0	(27)
New financial assets originated or purchased[2]	**(102)**	(1.9)	(104)
Change in risk[3]	**(57)**	(30.5)	(82)
Write-off point adjustment	**(40)**		–
Debt review portfolio sold	**109**	25.3	87
Other[4]	**7**	(56.3)	16
Loans and advances settled in the current year[5]	**18**	20.0	15
Write-offs[6]	**77**	(17.2)	93
Closing balance	**(269)**	5.9	(254)

The loss allowance reconciliation has been expanded when compared to the 2019 Annual Financial Statements. Consequently, movements have been reallocated from the reconciling items presented in 2019. The 2019 numbers have been restated to ensure consistency of the reconciling item classification between the current and comparative figures. Refer below to the footnotes for the definitions of the reconciling items.

1 *Movement between stages results in increased loss allowances as the movement to the underperforming and non-performing stages carry higher loss allowances.*
2 *Includes credit advanced during the year to customers who were not on book at the beginning of the year.*
3 *Includes transfers to debt review and other extended payment terms.*
4 *Includes movements in the loss allowance resulting from changes in the activity of debtors due to: retrenchments, disabilities, debt administration, death, fraud and cancellations.*
5 *Includes the reversal of opening loss allowances for trade and loans receivable repaid during the year.*
6 *Includes the release of allowances held against all accounts that were written off during the year.*

Trade and loan receivables have repayment terms of between 1 and 36 months and attract interest based on rates as determined by the National Credit Act. Included in trade and loan receivables are amounts approximating R683 million (2019: R972 million) that contractually fall due in excess of one year. These amounts are reflected as current as they form part of the normal operating cycle.

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

4. Retail sales

	2020 Rm	% change	2019 Rm
Disaggregation of retail sales by product type is as follows:			
Homeware	**1 231**	(12.1)	1 400
Appliances and electronics	**437**	8.4	403
Fashion and footwear	**51**	(29.2)	72
Furniture	**73**	(3.9)	76
Total	**1 792**	(8.1)	1 951
Disaggregation of retail sales by channel is as follows:			
Contact centre	**1 117**	(19.1)	1 380
Digital	**462**	57.1	294
Showroom and ChoiceCollect	**161**	(9.0)	177
Sales agents	**52**	(48.0)	100
	1 792	(8.1)	1 951

Retail sales are settled at a point in time.

5. Fees from ancillary services

	2020 Rm	% change	2019 Rm
Retail	**180**	–	180
Service fees	**170**	6.3	160
Insurance fees	**7**	16.7	6
Other	**3**	(78.6)	14
Financial Services	**265**	1.9	260
Service fees	**100**	(2.0)	102
Insurance fees	**162**	9.5	148
Other	**3**	(70.0)	10
	445	1.1	440

6. Credit impairment losses

	2020 Rm	% change	2019 Rm
Trade receivables – Retail	**556**	28.7	432
Loans receivable – Financial Services	**318**	11.6	285
Total credit impairment losses	**874**	21.9	717

There were no significant recoveries in the current year or in the prior year.

7. Other trading expenses

	2020 Rm	% change	2019 Rm
Expenses by nature			
Auditor's remuneration	6	20.0	5
Audit-related services	5	0.0	5
Other non-audit services	1		–
Amortisation of intangible assets	25	31.6	19
Depreciation of property, plant and equipment and right-of-use assets	61	13.0	54
Marketing costs	253	0.0	253
Staff costs: short-term employee benefits	448	3.2	434
Total staff costs	523	2.8	509
Less: disclosed under cost of Retail sales	(34)	(2.9)	(35)
Less: staff costs capitalised to intangibles	(41)	2.5	(40)
Other costs	353	16.5	303
Total other costs	476	3.0	462
Less: disclosed under cost of retail sales	(123)	(22.6)	(159)
Total other trading expenses	**1 146**	7.3	1 068

8. 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:

	2020 Rm	% change	2019 Rm
Profit for the period	167	(63.3)	455
Adjusted for the effect of:			
Impairment of intangible assets	5		–
Taxation effect	(1)		–
Headline earnings for the period	**171**	(62.5)	455
Weighted average number of ordinary shares in issue ('000)	104 128		104 364
Weighted average number of diluted shares in issue ('000)	105 291		106 125
Earnings per share (cents)			
Basic	160.4	(63.2)	436.0
Headline	164.2	(62.3)	436.0
Basic – diluted	158.6	(63.0)	428.7
Headline – diluted	162.4	(62.1)	428.7

9. Reconciliation of cash generated from operations

	2020 Rm	% change	2019 Rm
Profit before taxation	**182**	(68.7)	582
Deduct finance income earned	**(1 038)**	(5.0)	(1 093)
Add back finance income received	**987**	(6.4)	1 055
Profit from insurance cells	**(10)**	(9.1)	(11)
Depreciation and amortisation	**86**	17.8	73
Impairment of intangible assets	**5**		–
Share-based employee share expense	**15**	–	15
Interest expense	**93**	(7.9)	101
Interest income	**(5)**	25.0	(4)
Operating cash flows before working capital changes	**315**	(56.1)	718
Movements in working capital	**315**	<(100.0)	(281)
Decrease/(increase) in inventories	**34**	<(100.0)	(45)
Decrease/(increase) in trade receivables – Retail	**101**	<(100.0)	(47)
Decrease/(increase) in loans receivable – Financial Services	**104**	<(100.0)	(226)
Decrease in other receivables	**10**	(61.5)	26
Increase in trade and other payables	**66**	>100.0	14
Decrease in provisions	**–**	(100.0)	(3)
	630	44.2	437

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

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

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 2020, took place during the period and related party balances exist at the reporting date. Related party transactions include key management personnel compensation and intragroup transactions which have been eliminated on consolidation.

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

	2020 Rm	% change	2019 Rm
Approved by the directors	**18**	>100.0	6

13. Fair value of financial instruments

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

A comparison by category of carrying amounts and fair values of the group's financial instruments carried at fair value is set out below:

		Carrying amount		Fair value	
	Fair value hierarchy	**2020 Rm**	2019 Rm	**2020 Rm**	2019 Rm
Financial assets at fair value through profit or loss					
The investments comprise shares in Guardrisk Insurance Company Limited and Guardrisk Life Limited. The investments are valued at the net asset values of the investees at the reporting date	Level 3	**34**	24	**34**	24

The gain from the investment for the year amounts to R10 million (2019: R11 million) and is recognised in profit or loss.

14. Contingent liabilities

The group had no contingent liabilities at the reporting date.

15. Financial impact of Covid-19 and going concern

Covid-19 has had a negative impact on the financial performance of the group during the 2020 financial year. Loan disbursements were curtailed by R700 million, lost Retail sales amounted to R264 million and debtor costs were R124 million higher due to higher bad debts and increased provisions. Group debtor costs increased by 21.9% to R874 million. As a result, operating profit was R270 million, 60.2% lower than the 2019 financial year. Management applied additional overlays to the provisions of R16 million to account for the short-term economic outlook.

At the onset of Covid-19 the group took immediate decisive action – conserving cash, curtailing credit and accelerating activity on digital platforms. Loan disbursements were significantly reduced, credit limits were lowered for existing customers and loans to new customers were stopped, resulting in a reduction in disbursements. Credit-granting criteria for retail customers were tightly managed and lower credit limits allocated. A strong focus on collections and incentivising customers to make use of digital payment options, resulted in an increase of group digital payments. As a result of the strong focus on cash management, the group increased its cash conversion rate to 177.0% (2019: 58.2%) and achieved a very healthy cash balance of R415 million (2019: R32 million).

The group incurred additional Covid-19-related capital and operating expenditure of R22 million to enable the business to operate during lockdown. This included personal protective equipment, hygiene and deep-cleaning costs, additional computer equipment and data to enable staff to work from home. The group also negotiated rental relief from landlords as a result of stores being closed during the lockdown period.

During lockdown the group successfully refinanced and upsized the banking facilities to R1 050 million with unutilised facilities amounting to R655 million excluding cash, at year-end. Despite the negative impact of Covid-19 on operations, the group's healthy cash on hand and borrowing capacity have remained available to sustain and grow operations. There is sufficient liquidity for the group to meet its obligations. The directors confirm that the group did not breach any bank covenants during the 2020 financial year.

The group assessed the going concern assumption at year-end as a result of the current economic, trading and operational conditions on the group consolidated annual financial statements, as well as the financial statements of each statutory entity. The directors are comfortable, based on the forecast evaluation and current financial position, that the group will continue to operate as a going concern for the 12 months after year-end.

The group has performed a line-by-line assessment on the annual financial statements for the year ended 31 December 2020 for the impact of the Covid-19 pandemic on the business and its financial and operating performance. The following material financial statement line items were considered and appropriate disclosures have been made.

15. Financial impact of Covid-19 and going concern (continued)

Impairment of trade and other receivables

Management actively managed the risk scorecard and customer payments and therefore the criteria used to assess significant increase in credit risk (SICR) was not amended for Covid-19. Customers experiencing negative impacts resulting from Covid-19 were permitted to apply for payment relief. No blanket payment holidays were offered.

It is one of the fundamental principles of IFRS 9 that the expected credit loss (ECL) allowance for potential future losses takes into account changes in the economic environment in the future.

Because the current economic stress is so severe, the impact of historical macroeconomic relationships on the group's trade and loan receivables is not expected to be linear. For example, higher inflation and higher interest rates equated to higher impairments pre-Covid-19. During 2020 the SARB dropped interest rates by 3.0% but this cannot lead to a drop in the aggregate ECL even though it may reduce the severity of the increase in the ECL. Management therefore tested this statistical relevance and concluded that a statistical model based on macroeconomic variables cannot be used to determine the impact of forward-looking information based on the ECL model.

The group expects similar customer challenges in 2021 to the 2020 financial year because of the likely time required to roll out the vaccine and achieve herd immunity. In order to allow for a distressed macroeconomic environment similar to 2020, the model was calibrated using 2020 data. The model estimates are set based on 2020 data and therefore represent the stress experienced in 2020.

Trade and loan receivables written off

Management introduced new credit-granting criteria using employer and industry-based data to determine more acceptable levels of risk for new customers. In addition, the increase in percentage of collections using debit orders provides more certainty that customers will be able to pay their accounts. Bad debts written off increased by 15.7% during the year ended 31 December 2020.

Net realisable value of inventory

Annually, the group assesses all inventory categories for possible write-down to net realisable value, should this be lower than cost.

As a result of the ongoing Covid-19, the group, in its assessment of the net realisable value of inventory, considered future sales patterns and resultant impact on the net realisable value of inventory. This resulted in higher-than-normal (82%) stock levels transferred to obsolete status, which attracts a higher obsolete stock provision rate.

The additional provision for obsolete stock as at 31 December 2020 amounts to R11 million.

Leases

Refer to note 1.2.1.

Share-based payments

The group has taken into account the effect that Covid-19 has had on the economic environment in determining the number of shares likely to vest and, consequently, the number of share options which are likely to be exercised. The fair value of shares and options are determined at grant date using economic indicators applicable at the date of the grant.

15. Financial impact of Covid-19 and going concern (continued)

Impairment of non-financial assets

The group has assessed the impact of Covid-19 on the assumptions and significant judgements made in the valuation of non-financial assets. HomeChoice has a Covid-19 response plan in place to mitigate the pandemic's effects on its people and businesses as far as is practically possible to do so. In this context, management does not anticipate that the effects of Covid-19 will have a lasting impact on the productivity of the group's property, plant and equipment, intangible assets and right-of-use assets. In assessing the potential future impact of Covid-19 on the value of these non-financial assets, the following factors were considered:

- that the group's Retail and Financial Services segments will be permitted to operate during all levels of potential future lockdowns. While the retail business was impacted by operational challenges in the harshest lockdown level 5, it remained profitable during 2020. Given the anticipated benefits of new initiatives and the expected return to normal trading in the short and medium term, no adverse effects on the present value of future cash flows of the non-financial assets are foreseen;
- the group is a going concern and plans to continue using its property, plant and equipment, intangible assets and right-of-use assets to support its revenue-generating activities. Consequently, there is no significant negative impact on the planned productivity of the non-financial assets. Management expects that any changes in the carrying amounts of non-financial assets will be immaterial in the medium term; and
- the group has forecast positive cash flows for the Retail and Financial Services segments, in line with an improvement of the GDP growth rate over the short to medium term.

16. Events after the reporting date

HomeChoice International plc acquired an 85% interest in the issued share capital of a financial services company for consideration of R45 million on 1 March 2021. No other event material to the understanding of these financial statements has occurred between the end of the year ended 31 December 2020 and the date of approval.

17. Audit opinion

This summarised report is extracted from audited information, but is not itself audited. The group annual financial statements were audited by PricewaterhouseCoopers, who expressed an unmodified opinion thereon. The audited group annual financial statements and the auditor's report thereon are available for inspection at the company's registered office.

The directors take full responsibility for the preparation of these summary group financial statements and that the financial information has been correctly extracted from the underlying group annual financial statements.

Administration

Country of incorporation
Republic of Mauritius

Date of incorporation
9 April 2020

Company registration number
C171926

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

Company secretary
Sanlam Trustees International (Mauritius)

Auditors
PricewaterhouseCoopers
Republic of Mauritius

Corporate bank
Butterfield Bank (Jersey) Limited

JSE listing details
Share code: HIL
ISIN: MT0000850108

Sponsor
Rand Merchant Bank, a division of FirstRand Bank Limited

Transfer secretaries
Computershare Investor Services Proprietary Limited

Directorate

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

Non-executive directors
A Chorn, A Ogunsanya* (alternate), E Gutierrez-Garcia*, R Hain, M Harris, P Joubert (Lead Independent Director)

* Non-independent

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