



HiL PLC

HOMECHOICE
INTERNATIONAL PLC

**UNAUDITED
CONDENSED
CONSOLIDATED
INTERIM RESULTS**

for the six months ended
30 June 2021 and cash
dividend declaration

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

The group has a FinTech business and an Omni-channel retailer. The group focuses on the urban middle-income mass market in southern Africa, which it has served for more than 30 years and has built up a loyal, primarily female, customer base of more than 918 000 active customers.

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Revenue growth post Covid

1 in every 2 transactions now from digital platforms

Credit extended on digital channels now **58%** of all credit

4.7% reduction in debtor costs

Revenue up **7.4%** to **R1.7 billion**

Trading profit before once-off costs up **15.2%**

Loan disbursements doubled to **R1.6 billion**

Earnings per share up **9.8%** to **114.7 cents**

Retail sales growth of **8.5%**, driven by digital

Diluted headline earnings per share up **18.7%** to **122.6 cents**

Dividend resumed at 47.0 cents per share

COMMENTARY

Introduction

Our FinTech business provides personal lending, value-added services and insurance products to the increasingly mobile-savvy target market.

Our Omni-channel retailer delivers quality own-branded and well-known external homeware brands to the mass market. Omni-channel provides customer convenience and customer digital engagement (mainly mobile phones) continues to grow.

Financial results

		6 months ended 30 Jun 2021	6 months ended 30 Jun 2020	% change	12 months ended 31 Dec 2020 (audited)
Group					
Revenue	(Rm)	1 691	1 574	7.4	3 275
Trading profit*	(Rm)	212	184	15.2	270
Operating profit	(Rm)	176	184	(4.3)	270
Operating profit margin	(%)	10.4	11.7		8.2
Earnings per share (EPS)	(cents)	114.7	104.4	9.8	160.4
Diluted headline EPS (HEPS)	(cents)	122.6	103.3	18.7	162.4
Cash (used in)/generated from operations	(Rm)	(165)	449	>(100.0)	630
Cash conversion	(%)	(73.0)	197.8		177.0
Interim dividend declared/paid	(cents)	47.0	–	>100.0	–
Financial Services					
Loan disbursements	(Rm)	1 600	804	99.0	1 919
Revenue	(Rm)	491	426	15.3	835
Trading profit*	(Rm)	139	74	87.8	165
Operating profit	(Rm)	131	74	77.0	165
Operating profit margin	(%)	26.7	17.4		19.8
Retail					
Revenue	(Rm)	1 200	1 148	4.5	2 440
Retail sales	(Rm)	894	824	8.5	1 792
Gross profit margin	(%)	45.1	51.0		44.9
Trading profit*	(Rm)	61	75	(18.9)	60
Operating profit	(Rm)	32	75	(57.3)	60
Operating profit margin	(%)	2.7	6.5		2.5

* Trading profit – operating profit before once-off costs.

Trading performance

In challenging market and socio-economic conditions, group revenue increased by a creditable 7.4% to R1.7 billion. This was driven by strong loan disbursements growth of 99.0% to R1.6 billion and Retail sales growth of 8.5% to R0.9 billion.

Finance charges and initiation fees earned increased by 3.6% to R546 million. The annualisation of the 300 bps drop in the repo rate during 2020, has been off-set by the higher credit book in Financial Services. Fees from ancillary services and other income grew by 12.6%, driven by the growth from the sale of personal insurance products, up 20% for the period.

A gross retail profit margin of 45.1% was achieved for the period. While it declined by 500 bps from the comparable period in 2020, it has improved from the low 40% in H2 2020 when aggressive price cuts were made to the electronics and appliances category. This improvement was achieved despite global shipping costs doubling due to the worldwide renewed demand post Covid, and higher local fuel prices.

Trading expenses were well controlled. Marketing efficiencies in the Retail division have been off-set with costs for the annualisation of additional showrooms opened in 2020 H2. Increased marketing spend in FinTech was incurred to drive the strategic growth in customers and loan disbursements.

Trading profit (before once-off costs) increased by a healthy 15.2%, with the FinTech division now making up 70% of total group trading profit. The group incurred once-off costs of R36 million mainly due to an impairment of software that was no longer fit for purpose for the future strategy of the group. As a result, operating profit declined by 4.3% to R176 million.

Diluted headline earnings per share increased by 18.7% to 122.6 cents. Based on a dividend cover of 2.4, the Board approved an interim dividend of 47.0 cents per share – within our target range of 2.4 – 2.6 times.



FinTech achieves outstanding performance

Our FinTech division performed exceptionally well in the six months ending June 2021. Loans disbursements doubled and insurance premiums increased by 40%, with revenue growth of 15.3%. Customer credit performance was well controlled with debtor costs down 6.3%, while operational costs increased by 17.1%. This resulted in trading profit (excluding once-off costs) increasing by an outstanding 87.8% to R139 million.

The digital take-up of the personal loans and insurance products has further accelerated. Digital loan transactions contribute 92% of total loan transactions, while the digital sales mix of our stand-alone insurance products doubled to 22%.

Our credit-backed wallet – FinChoice MobiMoney™ – has grown to 146 000 active accounts, a 62% increase on June 2020. Customers experience a highly engaging credit facility account, which enables them to access money through their mobile phones, anywhere and anytime. Designed for convenience, monthly transactions increased by 56% with regular customer interaction. The wallet is a cornerstone product in our offering and one through which we will provide additional utility, such as QR code payments, merchant point-of-sale integration and the ability to do money transfers.

R1.6 billion of loans were disbursed in the six-month period. Over 80% of disbursements were made to our existing loyal customers – who demonstrate lower bad debts and qualify for higher loan sizes. We have maintained a high retention rate of 87% for our active existing customers, demonstrating strong brand loyalty and great customer experience. Existing customers are digitally engaged via their smartphones, resulting in lower marketing and loan origination costs. In essence, our high existing customer mix, together with their digital engagement translates into lower debtor costs and higher profitability for the division.

Our new customer acquisition doubled from the comparable period in 2020, with an additional 42 000 customers brought onboard. Using API data-driven technology we are able to make personalised loan offers to prospective customers from sources external to the Group – now contributing 64% of new customers. Pleasingly, 65% of new customers are originated end-to-end digitally, further entrenching the FinTech automation benefits.

Our stand-alone insurance product has shown consistent growth, with a 40% increase in gross written premiums. 27 000 new policies were acquired, 22% digitally. The growing momentum in the digital acquisition of insurance policies is very pleasing and we will look to drive this further.

The structural shift to digital has accelerated an already strong momentum achieved by the FinTech division. With a 0.95% market share of the National Credit Regulator's reported debtors' book for short-term and unsecured lending, the Financial Services business is well placed to grow and take market share by capitalising on our FinTech platform.

Stabilised growth in Retail topline post Covid

Our Retail recovery plan is gaining traction. Retail sales grew by 8.5%, driven by digital momentum and the additional showrooms opened in H2 of 2020. Revenue increased by 4.5%, impacted by lower finance income on a smaller credit book and the 2020 repo rate cuts. A gross profit margin of 45.1% was achieved, up from the 40% achieved for H2 2020. Debtor costs were 3.3% lower, and tight management of trading expenses has yielded benefits – 3.0% lower on the prior year. Trading profit excluding once-off costs of R61 million was achieved, 18.9% lower than 2020. Once-off software impairment and restructuring costs, a result of the implementation of the recovery plan, amounted to R29 million.

Our digital momentum has accelerated and we are really pleased with the 23.1% digital sales growth achieved. One in four new customers are digital and there has been a 27% increase in HC App installs, supporting our mobile-first approach to drive digital adoption by our customers. Monetisation of social media has proven effective with sales up 27%. HomeChoice enjoys strong digital engagement with 1 million Facebook followers and Instagram followers of 117 000, up 58%.

We have seen strong growth from our existing customers with their spend up 29% for the

six-month period. Investments in data-driven anti-attrition marketing campaigns are delivering improvements in customer retention. Existing customers now contribute 77% of sales, up from 68% in H1 2020 and 72% in H1 2019. We deliberately curtailed our customer acquisition acquiring only 106 000 new customers, 13% lower than the prior period with stricter credit-granting criteria to reduce risk.

A key element of the recovery plan is resetting the cost base to ensure that it is appropriate for the business going forward. Total trading costs have decreased by 3.0% from R412 million to R399 million. Significant savings have been made in marketing through improving the efficiency of campaigns and greater use of digital platforms and social media. In response to customers' requests, we reintroduced our catalogues to combine the physical experience with a seamless digital mobile customer journey.

Disappointingly, the unrest in KwaZulu-Natal and Gauteng, together with the taxi violence in the Western Cape, has had a negative impact on the Retail division. Physical damage to three showrooms and three ChoiceCollect containers, and absenteeism in the contact centre and collections teams has resulted in negative Retail sales growth for July.

Despite the recent disruption we remain focused on driving topline sales, improving gross profit margin while reducing costs and managing our credit risk within new risk appetite levels.

Debtor costs reduces post Covid, conservative provisions held

The group continued to grow a quality credit book with gross trade and loan receivables increasing by 15.6% to R4.1 billion. Group debtor costs, at 25.4% of revenue, improved by 330 bps from June 2020.

Credit performance for the period is summarised below:

		6 months ended 30 Jun 2021	6 months ended 30 Jun 2020	% change (Jun to Jun)	12 months ended 31 Dec 2020 (audited)
Group					
Gross trade and loans receivable	(Rm)	4 091	3 539	15.6	3 685
Debtor costs as a % of revenue*	(%)	25.4	28.7		26.7
Financial Services					
Number of active accounts		276 877	210 692		239 956
Active accounts able to reloan	(%)	82.7	76.6		74.3
Gross trade and loans receivable	(Rm)	2 195	1 621	35.4	1 762
Debtor costs as a % of revenue*	(%)	35.8	44.1		38.1
Provision for impairment	(Rm)	299	251		269
Provision for impairment as a % of gross receivables	(%)	13.6	15.5		15.3**
Stages 2 and 3 loans cover	(%)	74.4	73.4		69.0
Retail					
No of active accounts		527 971	586 739		600 789
Active accounts able to purchase	(%)	65.5	67.1		64.8
Gross trade and loans receivable	(Rm)	1 896	1 918	(1.1)	1 923
Debtor costs as a % of revenue*	(%)	21.2	22.9		22.8
Provision for impairment	(Rm)	397	398		406
Provision for impairment as a % of gross receivables	(%)	20.9	20.8		21.1
Stages 2 and 3 loans cover	(%)	55.2	50.2		56.4

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

** Write-off point extended by two months effective December 2020.

Despite the significant increase in loan disbursements, the quality of our FinTech credit book is improving well. Debtor costs decreased by 6.3% and impairment provisions were reduced to 13.6% from 15.3% at December 2020. The provision's coverage of stages 2 and 3 loans receivables remains conservative at 74.4% (December 2020: 69.0%). Higher acceptance rates of 76.4% have been achieved within strict credit-granting criteria, a targeted focus on stable employers and industry sectors, and the effective use of anti-fraud technology. To further manage credit risk, new customers are granted lower credit limits and short-term products in accordance with our low and grow strategy, maintaining new disbursement mix to between 15% and 25% of total loans disbursed.

Retail debtor costs have also improved by 3.3% to R254 million, on a gross book of R1.9 billion. With a strong focus on existing customers with known credit risk, provisions have been maintained at 20.9%. An increase in debit order collections and changes made to the risk appetite are showing positive signs. Challenges in late-stage collections reflect market conditions, however stages 2 and 3 trade receivables cover remain conservative at 55.2%.

Investing cash to capture FinTech growth opportunity

R165 million of net cash was utilised in operations with the strategic funding of the R1.6 billion in loans disbursed to customers, a 99% increase.

Collections from customers for the six months amounted to R2.6 billion, 14% higher than the comparable period, with digital collections now contributing 78% of total collections. Capital expenditure reduced by 17.8% to R46 million, with robust return on investment requirements providing more rigour on capex going forward.

The group has R236 million of cash on hand at the end of June 2021, with overall cash and funding facilities of R570 million available.

Outlook – accelerate digital momentum in FinTech with Retail recovery focus

The economic outlook for South Africa remains muted. The acceleration of the vaccine roll-out is expected to provide relief to the country and support growth in GDP and there are early indications of improvements in South African consumer credit health.

We will continue to invest in technology to support the FinTech's vision to be our customers' favourite digital financial services provider. The Retail division is focused on the execution of our recovery plans, product innovation and excellence combined with ongoing digital transformation.

The group is positive and focused on further accelerating the digital growth momentum, enabled by data-driven credit decisioning, scalable technology platforms and its strong cash and funding position.

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

S Maltz
Executive chair
17 August 2021

G Lartigue
Chief Executive Officer

DIVIDEND DECLARATION

Notice is hereby given that the board of directors has declared a final gross cash dividend of 47.0000 cents (37.6000 cents net of dividend withholding tax) per ordinary share for the six months ended 30 June 2021. The dividend has been declared from income reserves. HIL is registered in Mauritius and the dividend is a foreign dividend. Withholding tax of 20% will be applicable to all South African shareholders who are not exempt.

The issued share capital at the declaration date is 106 730 376 ordinary shares.

The salient dates for the dividend will be as follows:

Last day of trade to receive a dividend	Tuesday, 31 August 2021
Shares commence trading "ex" dividend	Wednesday, 1 September 2021
Record date	Friday, 3 September 2021
Payment date	Monday, 6 September 2021

Share certificates may not be dematerialised or rematerialised between Wednesday, 1 September 2021 and Friday, 3 September 2021, both days inclusive.

Sanlam Trustees International
Company Secretary

A woman with short dreadlocks, wearing a red sweater and hoop earrings, is smiling as she cooks. She is using a black spatula to stir a bright orange sauce in a stainless steel pot on a gas stove. In the background, there is a large stainless steel stock pot with a lid and a wooden knife block with various kitchen tools. The scene is set in a kitchen with a light-colored tiled backsplash.

**UNAUDITED
CONDENSED
CONSOLIDATED
GROUP FINANCIAL
STATEMENTS**

Condensed group statement of financial position

	Notes	Unaudited Jun 2021 Rm	Unaudited Jun 2020 Rm	Audited Dec 2020 Rm
Assets				
Non-current assets				
Property, plant and equipment		465	472	476
Intangible assets		233	191	210
Goodwill	11	33	–	–
Right-of-use assets		65	61	60
Financial assets at fair value through profit or loss		39	29	34
Deferred taxation		52	12	45
		887	765	825
Current assets				
Inventories	2	307	393	315
Taxation receivable		19	8	13
Trade and other receivables	3	3 417	2 930	3 024
Trade receivables – Retail		1 499	1 520	1 517
Loans receivable – Financial Services		1 896	1 370	1 493
Other receivables		22	40	14
Cash and cash equivalents		236	386	415
		3 979	3 717	3 767
Total assets		4 866	4 482	4 592
Equity and liabilities				
Capital and reserves				
Stated and share capital		1	1	1
Share premium		3 039	3 010	3 014
Reorganisation reserve		(2 961)	(2 961)	(2 961)
Treasury shares		(33)	(18)	(33)
Other reserves		56	42	47
Retained earnings		3 169	2 990	3 048
Equity attributable to equity holders of the parent		3 271	3 064	3 116
Non-controlling interest		1	–	–
Total equity		3 272	3 064	3 116
Non-current liabilities				
Interest-bearing liabilities		1 079	943	933
Lease liabilities		49	50	48
Deferred taxation		62	65	69
Other payables		4	4	4
		1 194	1 062	1 054
Current liabilities				
Interest-bearing liabilities		43	35	39
Lease liabilities		26	21	22
Taxation payable		6	6	12
Trade and other payables		325	287	349
Bank overdraft		–	7	–
		400	356	422
Total liabilities		1 594	1 418	1 476
Total equity and liabilities		4 866	4 482	4 592

Condensed group statement of profit or loss and other comprehensive income

	Notes	Unaudited Jun 2021 Rm	% change	Unaudited Jun 2020 Rm	Audited Dec 2020 Rm
Revenue		1 691	7.4	1 574	3 275
Retail sales	4	894	8.5	824	1 792
Finance income		546	3.6	527	1 038
Fees from ancillary services	5	251	12.6	223	445
Cost of Retail sales		(491)	21.5	(404)	(987)
Other operating costs		(1 000)	0.7	(993)	(2 020)
Credit impairment losses	6	(430)	(4.7)	(451)	(874)
Other trading expenses	7	(570)	5.2	(542)	(1 146)
Other net gains and losses		(29)	<(100.0)	4	(8)
Other income		5	66.7	3	10
Operating profit		176	(4.3)	184	270
Interest income		3	>100.0	1	5
Interest expense		(41)	(21.2)	(52)	(93)
Profit before taxation		138	3.8	133	182
Taxation		(18)	(25.0)	(24)	(15)
Profit and total comprehensive income for the period		120	10.1	109	167
Profit and total comprehensive income for the period attributable to:					
Owners of the parent		121	11.0	109	167
Non-controlling interest		(1)		-	-
		120	10.1	109	167
Earnings per share (cents)					
Basic	9	114.7	9.8	104.4	160.4
Diluted		113.2	9.6	103.3	158.6
Headline earnings per share (cents)					
Basic	9	124.2	19.0	104.4	164.2
Diluted		122.6	18.7	103.3	162.4

Condensed 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	Non- controlling interest Rm	Total Rm
Balance at 1 January 2020 – audited	1	3 010	(18)	(2 961)	33	2 881	–	2 946
Changes in equity								
Profit and total comprehensive income for the period	–	–	–	–	–	109	–	109
Share incentive schemes	–	–	–	–	9	–	–	9
Total changes	–	–	–	–	9	109	–	118
Balance at 30 June 2020 – unaudited	1	3 010	(18)	(2 961)	42	2 990	–	3 064
Changes in equity								
Profit and total comprehensive income for the period	–	–	–	–	–	58	–	58
Shares issued	–	4	–	–	–	–	–	4
Dividends paid	–	–	–	–	–	–	–	–
Share incentive schemes	–	–	–	–	6	–	–	6
Shares purchased	–	–	(16)	–	–	–	–	(16)
Forfeitable shares vested	–	–	1	–	(1)	–	–	–
Total changes	–	4	(15)	–	5	58	–	52
Balance at 1 January 2021 – audited	1	3 014	(33)	(2 961)	47	3 048	–	3 116
Changes in equity								
Acquisition of subsidiary	–	–	–	–	–	–	2	2
Profit and total comprehensive income for the period	–	–	–	–	–	121	(1)	120
Shares issued	–	25	–	–	–	–	–	25
Share incentive schemes	–	–	–	–	9	–	–	9
Total changes	–	25	–	–	9	121	1	156
Balance at 30 June 2021 – unaudited	1	3 039	(33)	(2 961)	56	3 169	1	3 272

Condensed group statement of cash flows

	Notes	Unaudited Jun 2021 Rm	Unaudited Jun 2020 Rm	Audited Dec 2020 Rm
Cash flows from operating activities				
Operating cash flows before working capital changes		224	207	315
Movements in working capital		(389)	242	315
Cash (used in)/generated from operations	10	(165)	449	630
Interest received		3	1	5
Interest paid		(40)	(52)	(93)
Taxation paid		(44)	(37)	(56)
Net cash (outflow)/inflow from operating activities		(246)	361	486
Cash flows from investing activities				
Additions of property, plant and equipment		(14)	(22)	(46)
Additions of intangible assets		(32)	(34)	(71)
Acquisition of subsidiary, less cash acquired	11	(23)		–
Net cash outflow from investing activities		(69)	(56)	(117)
Cash flows from financing activities				
Proceeds from the issuance of shares		–	–	4
Purchase of shares to settle forfeiture share scheme obligations		–	–	(16)
Proceeds from interest-bearing liabilities		240	725	781
Repayments of interest-bearing liabilities		(92)	(675)	(737)
Principal elements of lease payments		(12)	(8)	(18)
Net cash inflow from financing activities		136	42	14
Net (decrease)/increase in cash and cash equivalents and bank overdrafts				
Cash and cash equivalents and bank overdrafts at the beginning of the period		415	32	32
Cash and cash equivalents and bank overdrafts at the end of the period		236	379	415

Group segmental information

	Unaudited six months ended June 2021					
	Total Rm	Retail Rm	Financial Services Rm	Property Rm	Other Rm	Intra-group Rm
Segmental revenue	1 691	1 200	491	20	–	(20)
Retail sales	894	894	–	–	–	–
Finance income	546	214	332	–	–	–
Fees from ancillary services	251	92	159	20	–	(20)
EBITDA	226	89	167	7	(17)	(20)
Depreciation and amortisation	(50)	(57)	(8)	–	–	15
Interest income	–	–	–	–	26	(26)
Interest expense	(30)	–	(28)	–	(28)	26
Segmental operating profit/(loss)*	146	32	131	7	(19)	(5)
Interest income	3	3	–	–	–	–
Interest expense	(11)	(13)	–	(5)	–	7
Profit/(loss) before taxation	138	22	131	2	(19)	2
Taxation	(18)	(4)	(14)	(1)	2	(1)
Profit/(loss) after taxation	120	18	117	1	(17)	1
Segmental assets	4 866	2 520	2 140	345	1 757	(1 896)
Segmental liabilities	1 594	1 295	1 150	260	804	(1 915)
Gross profit margin (%)	45.1	45.1				
Segmental results margin (%)	8.6	2.7	26.7	35.0		
Operating cash flows before working capital changes	224	92	161	7	(16)	(20)
Movements in working capital	(389)	8	(403)	5	1	–
Cash generated/(utilised) by operations	(165)	100	(242)	12	(15)	(20)
Capital expenditure						
Property, plant and equipment	14	12	1	–	1	
Intangible assets	32	15	17	–	–	

* Refer to note 12 for further details on segments and segmental results.

Unaudited six months ended June 2020

Total Rm	Retail Rm	Financial Services Rm	Property Rm	Other Rm	Intra-group Rm
1 574	1 148	426	32	–	(32)
824	824	–	–	–	–
527	234	293	–	–	–
223	90	133	32	–	(32)
227	137	117	20	(15)	(32)
(43)	(62)	(6)	–	–	25
–	–	–	–	39	(39)
(37)	–	(37)	–	(39)	39
147	75	74	20	(15)	(7)
1	1	–	–	–	–
(15)	(21)	–	(9)	–	15
133	55	74	11	(15)	8
(24)	(11)	(13)	(3)	3	–
109	44	61	8	(12)	8
4 482	2 731	1 607	343	1 112	(1 311)
1 418	1 383	711	249	386	(1 311)
51.0	51.0				
9.3	6.5	17.4	62.5		
207	121	113	20	(15)	(32)
242	30	226	–	(14)	–
449	151	339	20	(29)	(32)
22	19	1	2	–	–
34	23	1	10	–	–

Notes to the condensed group financial statements

1. Basis of presentation and accounting policies

1.1 Basis of presentation

The interim financial statements for the six months ended 30 June 2021 have been prepared by the group's finance department, acting under the supervision of P Burnett, CA(SA), the finance director of the group.

These interim financial statements are prepared in accordance with and contain the information required by IAS 34, *Interim Financial Reporting*, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, the Financial Pronouncements as issued by the Financial Reporting Standards Council, the requirements of the Companies Act of Mauritius and the JSE Limited Listings Requirements for interim reports.

The accounting policies applied in the preparation of the condensed consolidated interim financial statements are in terms of International Financial Reporting Standards and are consistent with those applied in the preparation of the previous audited group annual financial statements.

2. Inventories

	Unaudited Jun 2021 Rm	Unaudited Jun 2020 Rm	Audited Dec 2020 Rm
Merchandise for resale	295	309	293
Provision for inventory obsolescence	(27)	(18)	(29)
Goods in transit	39	102	51
	307	393	315

The total amount of inventories expensed to cost of Retail sales during the six months ended 30 June 2021 was R407 million (six months ended 30 June 2020: R322 million, year ended 31 December 2020: R807 million). Inventory sold at less than cost during the six months ended 30 June 2021 amounted to R23 million (six months ended 30 June 2020: R10 million, year ended 31 December 2020: R24 million) and inventory write-downs recognised as an expense during the six months ended 30 June 2021 amounted to RNil (six months ended 30 June 2020: RNil, year ended 31 December 2020: R11 million).

3. Trade and other receivables

		Unaudited Jun 2021 Rm	Unaudited Jun 2020 Rm	Audited Dec 2020 Rm
Group				
Trade and loan receivables		4 091	3 539	3 685
Provision for impairment		(696)	(649)	(675)
Other receivables		22	40	14
		3 417	2 930	3 024
Provision for impairment as a % of gross receivables	(%)	17.0	18.3	18.3
Credit impairment costs as a % of revenue	(%)	25.4	28.7	26.7
Credit impairment costs as a % of gross receivables	(%)	21.0	25.5	23.7
Retail				
Gross carrying amount		1 896	1 918	1 923
Performing (stage 1)		1 177	1 087	1 203
Underperforming (stage 2)		361	414	359
Non-performing (stage 3)		358	417	361
Provision for impairment		(397)	(398)	(406)
Performing		(122)	(109)	(128)
Underperforming		(124)	(123)	(125)
Non-performing		(151)	(166)	(153)
Net carrying amount		1 499	1 520	1 517
Performing		1 055	978	1 075
Underperforming		237	291	234
Non-performing		207	251	208
Provision for impairment as a % of gross receivables	(%)	20.9	20.8	21.1
Performing	(%)	10.4	10.0	10.7
Underperforming	(%)	34.2	29.7	34.8
Non-performing	(%)	42.2	39.9	42.3
Credit impairment costs as a % of revenue	(%)	21.2	22.9	22.8
Credit impairment costs as a % of gross receivables	(%)	26.8	27.4	28.9
Stages 2 and 3 loans cover	(%)	55.2	50.2	56.4

NOTES TO THE CONDENSED GROUP FINANCIAL STATEMENTS
CONTINUED

3. Trade and other receivables (continued)

		Unaudited Jun 2021 Rm	Unaudited Jun 2020 Rm	Audited Dec 2020 Rm
Financial Services				
Gross carrying amount		2 195	1 621	1 762
Performing (stage 1)		1 793	1 279	1 372
Underperforming (stage 2)		156	165	185
Non-performing (stage 3)		246	177	205
Provision for impairment		(299)	(251)	(269)
Performing		(89)	(71)	(79)
Underperforming		(58)	(72)	(66)
Non-performing		(152)	(108)	(124)
Net carrying amount		1 896	1 370	1 493
Performing		1 704	1 208	1 293
Underperforming		98	93	119
Non-performing		94	69	81
Provision for impairment as a % of gross receivables	(%)	13.6	15.5	15.3
Performing	(%)	5.0	5.6	5.8
Underperforming	(%)	37.2	43.6	35.5
Non-performing	(%)	61.8	61.0	60.6
Credit impairment costs as a % of revenue	(%)	35.8	44.1	38.1
Credit impairment costs as a % of gross receivables	(%)	23.1	23.2	31.6
Stages 2 and 3 loans cover	(%)	74.4	73.4	69.0

3. Trade and other receivables (continued)

	Unaudited Jun 2021 Rm	Unaudited Jun 2020 Rm	Audited Dec 2020 Rm
Movements in the provision for impairment were as follows:			
Retail			
Opening balance	(406)	(366)	(366)
Movement between stages ¹	(55)	(68)	(50)
New financial assets originated or purchased ²	(100)	(123)	(273)
Change in risk ³	(26)	(3)	(12)
Debt review portfolio sold	28	–	5
Other ⁴	–	1	–
Loans and advances settled in the current year ⁵	34	26	51
Write-offs ⁶	128	135	239
Closing balance	(397)	(398)	(406)
Financial Services			
Opening balance	(269)	(254)	(254)
Movement between stages ¹	(14)	(37)	(16)
New financial assets originated or purchased ²	(167)	(123)	(93)
Change in risk ³	6	(13)	(39)
Write-off point adjustment	(2)	–	(40)
Debt review portfolio sold	45	70	108
Other ⁴	22	17	(18)
Loans and advances settled in the current year ⁵	11	9	15
Write-offs ⁶	69	80	68
Closing balance	(299)	(251)	(269)

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 period to customers who were not on book at the beginning of the period.

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 period.

⁶ Includes the release of allowances held against all accounts that were written off during the period. These write-offs were included based on the stage of the receivable at the beginning of the period.

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 R952 million (30 June 2020: R1 071 million, 31 December 2020: R683 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 30 June 2021 is a refund liability for expected returns of R9 million (30 June 2020: R6 million, 31 December 2020: R10 million).

NOTES TO THE CONDENSED GROUP FINANCIAL STATEMENTS

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4. Retail sales

	Unaudited Jun 2021 Rm	Unaudited Jun 2020 Rm	Audited Dec 2020 Rm
Disaggregation of Retail sales by product type is as follows:			
Homeware	582	618	1 231
Appliances and electronics	248	162	437
Fashion and footwear	28	24	51
Furniture	36	20	73
Total	894	824	1 792
Disaggregation of Retail sales by channel is as follows:			
Contact centre	534	541	1 117
Digital	234	199	462
Showroom and ChoiceCollect	107	58	161
Sales agents	19	26	52
	894	824	1 792

Retail sales are settled at a point in time.

5. Fees from ancillary services

	Unaudited Jun 2021 Rm	Unaudited Jun 2020 Rm	Audited Dec 2020 Rm
Retail	93	89	180
Service fees	40	82	170
Insurance fees	49	4	7
Other	4	3	3
Financial Services	158	134	265
Service fees	56	52	100
Insurance fees	96	80	162
Other	6	2	3
	251	223	445

6. Credit impairment losses

	Unaudited Jun 2021 Rm	Unaudited Jun 2020 Rm	Audited Dec 2020 Rm
Trade receivables – Retail	254	263	556
Loans receivable – Financial Services	176	188	318
Total credit impairment losses	430	451	874

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

7. Other trading expenses

	Unaudited Jun 2021 Rm	Unaudited Jun 2020 Rm	Audited Dec 2020 Rm
Expenses by nature			
Amortisation of intangible assets	13	12	25
Depreciation of property, plant and equipment	37	31	61
Marketing costs	113	127	253
Staff costs: short-term employee benefits	236	207	448
Total staff costs	278	241	523
Less: disclosed under cost of Retail sales	(18)	(15)	(34)
Less: staff costs capitalised to intangibles	(24)	(19)	(41)
Other costs	171	165	359
Total other costs	230	221	482
Less: disclosed under cost of retail sales	(59)	(56)	(123)
Total other trading expenses	570	542	1 146

8. Other net gains and losses

	Unaudited Jun 2021 Rm	Unaudited Jun 2020 Rm	Audited Dec 2020 Rm
Impairment of intangible assets	(14)	–	(5)
Loss on cancellation of intangible assets development contract	(17)	–	–
Foreign exchange gain/(loss)	2	4	(3)
	(29)	4	(8)

During the period under review the group cancelled a software development contract and impaired the related intangible assets that had been capitalised. Operating profit for the reporting period excluding this impairment and loss on contract cancellation would have been R207 million (six months ended 30 June 2020: R184 million).

NOTES TO THE CONDENSED GROUP FINANCIAL STATEMENTS

CONTINUED

9. Basic and headline earnings per share

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

	Unaudited Jun 2021 Rm	Unaudited Jun 2020 Rm	Audited Dec 2020 Rm
Profit for the period	120	109	167
Adjusted for the effect of:			
Impairment of intangible assets	14	–	5
Taxation effect	(4)	–	(1)
Headline earnings for the period	130	109	171
Weighted average number of ordinary shares in issue ('000)	104 661	104 401	104 128
Weighted average number of diluted shares in issue ('000)	105 997	105 540	105 291
Earnings per share (cents)			
Basic	114.7	104.4	160.4
Headline	124.2	104.4	164.2
Basic – diluted	113.2	103.3	158.6
Headline – diluted	122.6	103.3	162.4

10. Reconciliation of cash generated from operations

	Unaudited Jun 2021 Rm	Unaudited Jun 2020 Rm	Audited Dec 2020 Rm
Profit before taxation	138	133	182
Deduct finance income earned	(546)	(527)	(1 038)
Add back finance income received	526	503	987
Profit from insurance cells	(5)	(5)	(10)
Depreciation and amortisation	50	43	86
Impairment of intangible assets	14	–	5
Share-based employee share expense	9	9	15
Interest expense	41	52	93
Interest income	(3)	(1)	(5)
Operating cash flows before working capital changes	224	207	315
Movements in working capital	(389)	242	315
Decrease/(increase) in inventories	8	(44)	34
Decrease in trade receivables – Retail	33	79	101
(Increase)/decrease in loans receivable – Financial Services	(393)	219	104
(Increase)/decrease in other receivables	(8)	(16)	10
(Decrease)/increase in trade and other payables	(29)	4	66
	(165)	449	630

11. Acquisition of subsidiary, less cash acquired

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.

	Unaudited Jun 2021 Rm
The provisionally determined fair value of assets and liabilities assumed at date of acquisition:	
Assets	
Intangible assets	18
Trade and other receivables	5
Cash and cash equivalents	7
	30
Liabilities	
Interest-bearing liabilities	(2)
Intercompany loans payable	(10)
Trade and other payables	(4)
	(16)
Total assets and liabilities acquired	14
Recognition of non-controlling interest	(2)
Goodwill attributable to the acquisition	33
Total consideration	45
Cash on hand at date of acquisition	(7)
Intercompany loans acquired	10
Issuance of shares	(25)
Net cash outflow on acquisition of subsidiaries	23

12. 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.

NOTES TO THE CONDENSED GROUP FINANCIAL STATEMENTS
CONTINUED

13. 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.

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

	Unaudited Jun 2021 Rm	Unaudited Jun 2020 Rm	Audited Dec 2020 Rm
Approved by the directors	14	20	18

15. 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.

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 using valuation techniques that are not based on observable market data (level 3 in the fair value hierarchy). The net asset values of the investees at the reporting date are used to value the investments.

The gain from the investment for the six months ended 30 June 2021 amounts to R5 million (six months ended 30 June 2020: R5 million, year ended 31 December 2020: R10 million) and is recognised in profit or loss.

16. Contingent liabilities

The group had no contingent liabilities at the reporting date.

17. Financial impact of Covid-19 and going concern

The group assessed the going concern assumption at 30 June 2021 as a result of the current economic, trading and operational conditions on the group consolidated interim 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 30 June 2021.

18. Events after the reporting date

No event material to the understanding of these condensed group financial statements has occurred between the end of the six-month period ended 30 June 2021 and the date of approval.

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

