

Summarised Financial Statements

for the year ended **31 December 2015**



HomeChoice International PLC

HiL PLC



Group Highlights

- ⬆ Revenue up 14% to R2,2 billion
- ⬆ Retail sales up 11% to R1,2 billion
- ⬆ Gross profit margin up from 49,8% to 50,7%
- ⬆ EBITDA up 17% to R632 million
- ⬆ Operating profit up 11% to R580 million
- ⬆ Headline earnings per share up 10% to 389,1 cents
- ⬆ Credit extended via digital channels up to 28% of total group credit

Commentary

Overview

HomeChoice International PLC (HIL) is an investment holding company incorporated in Malta and listed in the General Retailers sector on the JSE Limited. Through its Retail (HomeChoice) and Financial Services (FinChoice) businesses, the group sells innovative homewares merchandise, personal technology and loan products to the rapidly expanding mass middle-income market in southern Africa. As a leading home-shopping retailer, products are offered through online channels, call centres, sales agent networks and mail order catalogues. The omni-channel model and digital Financial Services business provide a strong platform for realising the group's ambitions of becoming a pan-African retailer.

Trading and financial performance

The group has achieved good growth despite the deteriorating economic environment and mass market consumers being under pressure from rising inflation, a weak job market and reduced access to credit. The business delivered the following trading and financial performance for the year:

		31 Dec 2015	31 Dec 2014	% change
Group				
Revenue	(Rm)	2 233	1 959	14
EBITDA	(Rm)	632	542	17
Operating profit margin	(%)	26,0	26,6	
Cash generated from operations	(Rm)	358	234	53
NAV per share	(cents)	1 719	1 560	10
Retail				
Revenue	(Rm)	1 755	1 572	12
Retail sales	(Rm)	1 197	1 082	11
Gross profit margin	(%)	50,7	49,8	
EBITDA	(Rm)	378	338	12
Cash generated from operations	(Rm)	277	165	68
Financial Services				
Loan disbursements	(Rm)	1 131	945	20
Revenue	(Rm)	478	386	24
EBITDA	(Rm)	233	189	23
Cash generated from operations	(Rm)	65	48	34

Group revenue increased by 14% to R2,2 billion, with strong performances from both Retail and Financial Services. The Retail business continues to attract new customers to the group and grew the customer base by 9% to 677 000 while maintaining strict credit-granting criteria.

The gross profit margin improved by 90 basis points to 50,7%. Other trading expenses were also well managed, however exceeded revenue growth due to higher debtor costs and an increase in amortisation expenses arising from the continued investment in IT systems. Group operating profit increased by 11% to R580 million and EBITDA increased strongly by 17% to R632 million.

Digital engagement is a core competency of the group and a strategic growth driver. The strength of our digital performance is reflected in the 20% increase in credit extended by the group via digital channels to R745 million, which now represents 28% of total credit extended.

Retail

2015 has been a year of strong innovation in products and channels. Retail sales grew 11% with pleasing volume growth reflecting changes in product mix and the introduction of new ranges. Customers have responded well to continued innovation in core bedding. During the year we launched footwear and clothing ranges and are pleased with the performance of both categories. Retail sales were, however, negatively impacted by credit policy tightening and disruption during the development of the new call centre building, and the associated higher levels of staff attrition in the call centre. The new call centre was successfully opened in January 2016 and is anticipated to contribute to improvements in tenure and performance.

The impact of deterioration in the Rand on merchandise imports was well managed. Gains in the margin were achieved through selected price increases, effective product management, operating efficiencies in our logistics operations and a focus on costs throughout the supply chain. Efficiency gains are being realised from the new distribution centre completed in 2013. Stock was well managed and stockholding levels at year-end were only 4% higher than the prior year. Stock turn remained at 3,5 times.

Sales via digital channels grew at 30% and remain the fastest growing channel, increasing from 9% to 11% of retail sales.

Financial Services

FinChoice maintained its strategic focus on short-term, low-value personal loans to HomeChoice customers with a good credit record with the Retail business. Loan disbursements increased by 22% to R1,1 billion, with 73% of disbursements made to existing loan customers. The average term in the FinChoice book is 20,2 months (December 2014: 19,2 months) and average balance is

R8 792 (December 2014: R8 206), both well below the market averages.

As a digital financial services provider, FinChoice has focused strongly on its mobi platform development and has experienced encouraging take-up and engagement levels on this growing digital channel. FinChoice customers continue to engage through the successful KwikServe mobile platform, with R454 million of disbursements (representing over 55% of all repeat loan transactions) originating via this innovative self-service channel. The number of FinChoice self-service customer transactions were up 25% to 2,5 million.

Credit management

Credit conditions remain challenging and the group continues to apply strict credit criteria and conservative provisioning policies.

	31 Dec 2015	31 Dec 2014	% change
Group			
Gross trade and loans receivable (Rm)	2 156	1 813	19
Debtor costs as a % of revenue (%)	17,8	16,8	
Retail			
Gross trade receivables (Rm)	1 209	1 064	14
Debtor costs as a % of revenue (%)	14,5	14,0	
Provision for impairment as % of gross receivables (%)	18,7	18,6	
Financial Services			
Gross loans receivable (Rm)	948	749	27
Debtor costs as a % of revenue (%)	29,9	28,3	
Provision for impairment as % of gross receivables (%)	16,6	17,0	

Group debtor costs increased by 20% to R397 million (2014: R330 million) compared to revenue growth of 14%. On a comparable basis, group debtor costs have increased by 16%. Debtor costs in 2014 were impacted by the change in accounting treatment of the Financial Services debt review book which is now included in the loan book with a conservative provision of 80%.

Retail debtor costs increased by 15%. The postal strike in the last quarter of 2014 impacted on our ability to deliver parcels to customers and negatively impacted customer payment performance. Higher levels of fraud were also experienced. Credit-granting criteria were tightened and fraud detection systems improved. Early new and

existing customer vintages are showing improvements. The Retail impairment provision was increased to 18,7% (2014: 18,6%).

FinChoice benefits from marketing to creditworthy HomeChoice customers, which lowers credit risk and significantly reduces customer fraud. Debtor costs in FinChoice reduced (on a comparable basis) as a percentage of revenue from 30,0% in 2014 to 29,9%. The FinChoice impairment provision was reduced to 16,6% (2014: 17,0%).

The new affordability assessment regulations introduced by the National Credit Regulator during 2015 were disruptive to the industry as a whole and are particularly challenging for a home-shopping retailer. The new regulations required the group to reprioritise system development and change operational processes significantly. The affordability projects have been well implemented across both businesses.

Cash and capital management

Cash management and collections of the debtors' books remains a key focus and the group generated cash from operations of R358 million, a 53% increase over 2014. The improvement in the cash generated was primarily influenced by lower growth in the Retail debtors' book, net of an increase in the Financial Services loan book, improved collection processes and better management of working capital. Cash conversion (cash generated from operations expressed as a percentage of EBITDA) increased substantially from 43,1% in 2014 to 56,7% in 2015.

The group has continued its capital investment programme despite the tough economic environment and has invested over R500 million on its operations and platform for growth over the last five years. A new 1 000-seat call centre and retail showroom were developed during 2015, and the group continues to invest in its IT and digital platforms.

The financial position of the group remains strong, with net asset value increasing by 10% to 1 719 cents per share. Cash and cash equivalents at year-end increased from R63 million to R87 million. The net debt to equity ratio of 26% remains comfortably within management's targeted range of below 40%.

Dividends

In the 2015 financial year dividends of R228 million were paid to shareholders. This represented the final dividend for 2014 of 161 cents per share and the half-year dividend for 2015 of 64 cents per share. The dividend cover has been increased from 2,2 times to 2,6 times, within the target range of 2,2 – 2,8. The directors intend declaring a

final dividend for 2015 of 84 cents, payable in June 2016. The details of the declaration will be communicated on SENS after the annual general meeting on 12 May 2016.

Outlook

Although the credit health of South African consumers appears to be showing early signs of improvement, customers in the group's target market remain financially constrained and this will continue to impact on demand for the group's products and services. Management continues to focus on cost control, cash generation and on sustaining the quality of the debtors' books. We will maintain a cautious approach to credit.

HomeChoice aims to drive customer and revenue growth through its omni-channel retail model and digital customer engagement strategy, supported by the extension of product ranges and new categories. The benefits of the first "bricks and mortar" showroom and the new call centre will start to be realised in the 2016 financial year. FinChoice continues to be a niche financial services provider focused on technology-based customer engagement.

The group remains committed to the mass market consumer segment which is expected to continue to migrate up the LSM spectrum. The group's proven business model, positioning in a growth sector and focused expansion strategies should ensure sustainable returns to shareholders.



Gregoire Lartigue
Chief Executive Officer



Paul Burnett
Financial Director



Shirley Maltz
Chief Executive Officer (South Africa)

Qormi, Malta
14 March 2016

Summarised group statement of financial position

	Notes	2015 R'000	% change	2014 R'000
Assets				
Non-current assets				
Property, plant and equipment		422 243	41,0	299 387
Intangible assets		101 928	11,9	91 125
Loans to employees		207		1 302
Investment in associates		13 248		7 676
Deferred taxation		25 708		18 819
		563 334	34,7	418 309
Current assets				
Inventories	2	170 391	2,4	166 363
Taxation receivable		4 271		12 232
Trade and other receivables	3	1 787 273	18,8	1 504 773
Trade receivables – Retail		982 061	13,5	865 466
Loans receivable – Financial Services		790 575	27,1	621 804
Other receivables		14 637	(16,4)	17 503
Cash and cash equivalents		88 300		63 005
		2 050 235	17,4	1 746 373
Total assets		2 613 569	20,7	2 164 682
Equity and liabilities				
Equity attributable to equity holders of the parent				
Stated and share capital		1 025		1 018
Share premium		2 987 580		2 982 202
Reorganisation reserve		(2 960 639)		(2 960 639)
		27 966		22 581
Treasury shares		(2 666)		(2 666)
Other reserves		4 502		3 030
Retained earnings		1 721 626		1 555 381
Total equity		1 751 428	11,0	1 578 326
Non-current liabilities				
Interest-bearing liabilities		164 324	(38,3)	266 234
Deferred taxation		112 282		92 721
Other payables		5 070		4 340
		281 676	(22,5)	363 295
Current liabilities				
Interest-bearing liabilities		221 102	632,1	30 203
Taxation payable		18		2 882
Trade and other payables		184 550	16,5	158 465
Provisions		12 357		31 078
Bank overdraft		1 780		433
Shareholder loan		160 658		–
		580 465	160,2	223 061
Total liabilities		862 141	47,0	586 356
Total equity and liabilities		2 613 569	20,7	2 164 682

Summarised group statement of comprehensive income

	Notes	2015 R'000	% change	2014 R'000
Revenue		2 232 967	14,0	1 958 575
Retail sales		1 197 131	10,6	1 082 473
Finance charges and initiation fees earned		893 722		745 179
Finance charges earned		652 083	21,2	537 807
Initiation fees earned		241 639	16,5	207 372
Fees from ancillary services		142 114	8,5	130 923
Cost of retail sales		(590 010)	8,6	(543 108)
Other operating costs		(1 064 382)		(892 781)
Debtor costs	6	(397 469)	20,5	(329 902)
Other trading expenses	6	(666 913)	18,5	(562 879)
Other net gains and losses		(1 873)		(3 787)
Other income		3 692		2 633
Operating profit		580 394	11,3	521 532
Interest received		3 375	73,3	1 948
Interest paid		(32 809)	49,9	(21 883)
Share of loss of associates		(1 137)		(2 556)
Profit before taxation		549 823	10,2	499 041
Taxation		(155 264)	8,0	(143 721)
Profit and total comprehensive income for the year		394 559	11,0	355 320
Earnings per share (cents)				
Basic	7	388,9	10,3	352,5
Diluted		382,1	9,5	349,0
Additional information				
Retail gross profit margin (%)		50,7		49,8

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

Summarised group statement of changes in equity

	Stated and share capital R'000	Share premium R'000	Treasury shares R'000	Reorgan- isation reserve R'000	Other reserves R'000	Retained earnings R'000	Equity attributable to owners of the parent R'000
Balance at 1 January 2014	30 980	–	(13 733)	–	1 902	1 266 575	1 285 724
Changes in equity							
Profit and total comprehensive income for the year	–	–	–	–	–	355 320	355 320
Treasury shares cancelled	(11 067)	–	11 067	–	–	–	–
Shares issued on incorporation of HomeChoice International PLC	183	–	–	–	–	–	183
Shares repurchased	(183)	–	–	–	–	–	(183)
Shares issued in exchange for shareholding in HomeChoice Holdings Limited	1 014	2 979 539	(2 666)	–	–	–	2 977 887
Net assets acquired	(19 913)	–	2 666	(2 960 639)	–	–	(2 977 886)
Shares issued	4	2 663	–	–	–	–	2 667
Dividends paid	–	–	–	–	–	(66 514)	(66 514)
Share option scheme	–	–	–	–	1 128	–	1 128
Total changes	(29 962)	2 982 202	11 067	(2 960 639)	1 128	288 806	292 602
Balance at 1 January 2015	1 018	2 982 202	(2 666)	(2 960 639)	3 030	1 555 381	1 578 326
Changes in equity							
Profit and total comprehensive income for the year	–	–	–	–	–	394 559	394 559
Shares issued	7	5 378	–	–	–	–	5 385
Dividends paid	–	–	–	–	–	(228 314)	(228 314)
Share option scheme	–	–	–	–	1 472	–	1 472
Total changes	7	5 378	–	–	1 472	166 245	173 102
Balance at 31 December 2015	1 025	2 987 580	(2 666)	(2 960 639)	4 502	1 721 626	1 751 428

Summarised group statement of cash flows

	Notes	2015 R'000	% change	2014 R'000
Cash flows from operating activities				
Operating cash flows before working capital changes		636 923	16,6	546 177
Movements in working capital		(278 434)	(10,9)	(312 612)
Cash generated from operations	8	358 489	53,5	233 565
Interest received		3 375		1 948
Interest paid		(31 483)		(21 883)
Taxation paid		(137 495)		(137 927)
Net cash inflow from operating activities		192 886	154,8	75 703
Cash flows from investing activities				
Purchase of property, plant and equipment		(140 434)		(18 004)
Proceeds on disposal of property, plant and equipment		377		492
Purchase of intangible assets		(46 819)		(38 906)
Loans repaid by employees		1 095		6 830
Loans granted to employees		–		(1 302)
Investment in associates		(6 709)		(3 696)
Net cash outflow from investing activities		(192 490)	252,6	(54 586)
Cash flows from financing activities				
Proceeds from the issuance of shares		5 385		2 667
Proceeds from interest-bearing liabilities		279 464		111 671
Repayments of interest-bearing liabilities		(30 342)		(24 964)
Finance-raising costs paid		(2 641)		(500)
Dividends paid		(228 314)		(66 514)
Net cash inflow from financing activities		23 552	5,3	22 360
Net increase in cash and cash equivalents and bank overdrafts				
Cash, cash equivalents and bank overdrafts at the beginning of the year		62 572		19 095
Cash, cash equivalents and bank overdrafts at the end of the year		86 520	38,3	62 572

Summarised group segmental analysis

	Retail			Financial Services		
	2015 R'000	% change	2014 R'000	2015 R'000	% change	2014 R'000
Segmental revenue	1 754 999		1 571 846	477 968		385 988
Retail sales	1 197 131	10,6	1 082 473	–		–
Finance charges and initiation fees earned	492 296	14,4	430 496	401 426	27,6	314 683
Fees from ancillary services	65 572	11,4	58 877	76 542	7,3	71 305
Dividends received	–		–	–		–
Intersegment revenue	–		–	–		–
Revenue from external customers	1 754 999	11,7	1 571 846	477 968	23,8	385 988
EBITDA***	377 702	11,8	337 946	233 358	23,4	189 064
Depreciation and amortisation	(50 467)		(20 889)	(974)		(616)
Interest received	–		–	553		209
Interest paid	–		–	(32 034)		(28 348)
Segmental results*	327 235		317 057	200 903		160 309
Interest received	2 255		1 595	–		–
Interest paid	(5 198)		(5 070)	–		–
Profit before taxation	324 292	3,4	313 582	200 903	25,3	160 309
Taxation	(90 762)		(89 074)	(55 478)		(43 614)
Profit for the year	233 530	4,0	224 508	145 425	24,6	116 695
Segmental assets**	1 412 344		1 244 768	848 456		671 802
Segmental liabilities**	317 029		285 109	35 217		31 951
Operating cash flows before working capital changes	376 886	11,1	339 252	233 736	23,5	189 223
Movements in working capital	(100 351)		(174 643)	(169 147)		(140 920)
Cash generated/(utilised) by operations	276 535	68,0	164 609	64 589	33,7	48 303
Gross profit margin (%)	50,7		49,8			
Segmental results margin (%)	18,6		20,2	42,0		41,5
Capital expenditure						
Property, plant and equipment	33 834		14 519	955		825
Intangible assets	44 505		38 463	13		307
Items included in segmental results:						
Interest received – Other and Financial Services	–		–	553		209
Interest paid – Other and Financial Services	–		–	(32 034)		(28 348)
Share of loss of associates						
Marketing costs	161 547	8,5	148 906	19 308	11,4	17 338
Staff costs	211 815	14,3	185 315	50 766	13,9	44 567
Depreciation and amortisation	50 467	141,6	20 889	974	58,2	616
Other costs	150 509	19,1	126 339	31 577	22,0	25 892
Other trading expenses	574 338	19,3	481 449	102 626	16,1	88 413
Debtor costs	254 374	15,2	220 725	143 095	31,1	109 177
Total trading expenses (refer to note 6)	828 712	18,0	702 174	245 721	24,4	197 590

* Refer to note 9 for further details on segments and segmental results.

** Excluding group loans, including loans to share trust.

*** Comparative figures for Other and Eliminations have been restated to provide a more accurate reflection of other segment EBITDA. This restatement amounts to R14,973 million and relates to a once-off realisation of profit on donation of treasury shares between subsidiaries.

Property			Other			Eliminations			Total		
2015 R'000	% change	2014 R'000	2015 R'000	% change	2014 R'000	2015 R'000	% change	2014 R'000	2015 R'000	% change	2014 R'000
31 075		28 556	-		-	-		-	2 264 042		1 986 390
-		-	-		-	-		-	1 197 131	10,6	1 082 473
-		-	-		-	-		-	893 722	19,9	745 179
31 075		28 556	-		-	-		-	173 189	9,1	158 738
-		-	-		-	-		-	-		-
(31 075)		(27 815)	-		-	-		-	(31 075)		(27 815)
-	(100,0)	741	-		-	-		-	2 232 967	14,0	1 958 575
30 259	9,3	27 681	(12 032)	(7,0)	(12 941)	2 900		-	632 187	16,7	541 749
(1 272)		(1 269)	(224)		-	7		-	(52 930)		(22 774)
-		-	39 016		35 622	(38 504)		(35 504)	1 065		327
-		-	(20 105)		(9 553)	37 232		28 344	(14 907)		(9 557)
28 987		26 412	6 655		13 128	1 635		(7 160)	565 416		509 745
55		26	-		-	-		-	2 310	42,5	1 621
(13 975)		(14 415)	-		-	1 271		7 160	(17 902)	45,2	(12 325)
15 067	25,3	12 023	6 655	(49,3)	13 128	2 907		-	549 824	10,2	499 041
(4 218)		(3 366)	(4 806)		(7 667)	-		-	(155 264)		(143 721)
10 849	25,3	8 657	1 849	(66,1)	5 461	2 907		-	394 560	11,0	355 320
337 355		233 779	27 445		17 833	(12 031)		(3 500)	2 613 569		2 164 682
253 479		162 629	268 493		110 167	(12 077)		(3 500)	862 141		586 356
30 505	10,2	27 681	(7 104)	(28,7)	(9 966)	2 900	(2,2407,7)	(13)	636 923	16,6	546 177
(1 012)		(313)	(4 894)		3 261	(3 030)		3	(278 434)		(312 612)
29 493	7,8	27 368	(11 998)	78,9	(6 705)	(130)	1 200,0	(10)	358 489	53,5	233 565
93,3		92,5	-		-	-		-	50,7		49,8
									25,3		26,0
105 067		5 845	578		-	-		-	140 434		21 188
-		-	2 423		136	(122)		-	46 819		38 906
-		-	39 016		35 622	(38 504)		(35 504)	1 065		327
-		-	(20 105)		(9 553)	37 232		28 344	(14 907)		(9 557)
-		-	(1 137)		(2 556)	-		-	(1 137)		(2 556)
-		-	-		-	-		-	180 855	8,8	166 244
-		-	1 534	(10,7)	1 718	-		-	264 115	14,0	231 600
1 272	0,3	1 269	224		-	(7)		-	52 930	132,4	22 774
1 093	21,4	900	14 107	11,6	12 636	(28 273)	20,3	(23 506)	169 013	18,8	142 261
2 365	9,0	2 169	15 865	10,5	14 354	(28 280)	20,3	(23 506)	666 913	18,5	562 879
-		-	-		-	-		-	397 469	20,5	329 902
2 365	9,0	2 169	15 865	10,5	14 354	(28 280)	20,3	(23 506)	1 064 382	19,2	892 781

Notes to the summarised group annual financial statements

1. Basis of presentation and accounting policies

The group annual financial statements for the year ended 31 December 2015 and these summarised consolidated financial statements have been prepared by the group's finance department, acting under the supervision of P Burnett, CA(SA) and financial director of the group.

The summarised consolidated financial statements are prepared in accordance with the requirements of the JSE Limited (JSE) for summarised financial statements. The JSE requires summarised financial statements to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS) and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council and to also, as a minimum, contain the information required by *IAS 34, Interim Financial Reporting*. The accounting policies applied in the preparation of the group annual financial statements from which the summarised consolidated financial statements were derived are in terms of International Financial Reporting Standards and are consistent with those accounting policies applied in the preparation of the previous group annual financial statements.

No new standards, amendments or interpretations to existing standards, relevant to the group's operations, became effective for the year ended 31 December 2015.

2. Inventories

	2015 R'000	2014 R'000
Merchandise for resale	129 362	124 966
Provision for inventory obsolescence	(11 456)	(11 500)
Goods in transit	52 485	52 897
	170 391	166 363

Inventory sold at less than cost during the current year amounted to R11,966 million (2014: R15,558 million).

3. Trade and other receivables

	2015 R'000	% change	2014 R'000
Trade receivables – Retail	1 208 631	13,6	1 063 645
Provision for impairment	(226 570)	14,3	(198 179)
	982 061	13,5	865 466
Loans receivable – Financial Services	947 586	26,5	748 907
Provision for impairment	(157 011)	23,5	(127 103)
	790 575	27,1	621 804
Other receivables	14 637	(16,4)	17 503
Total trade and other receivables	1 787 273	18,8	1 504 773
Trade and loan receivables	2 156 217	19,0	1 812 552
Provision for impairment	(383 581)	17,9	(325 282)
Other receivables	14 637	(16,4)	17 503

3. Trade and other receivables (continued)

	2015 R'000	% change	2014 R'000
Movements in the provision for impairment were as follows:			
Retail			
Opening balance	(198 179)	24,4	(159 355)
Movement in provision	(28 391)	(26,9)	(38 824)
Debtor costs charged to profit and loss	(254 374)	15,2	(220 725)
Debts written off during the year, net of recoveries	225 983	24,2	181 901
Closing balance	(226 570)	14,3	(198 179)
Financial Services			
Opening balance	(127 103)	101,6	(63 036)
Movement in provision	(29 908)	(53,3)	(64 067)
Debtor costs charged to profit and loss	(143 095)	31,1	(109 177)
Debts written off during the year, net of recoveries	113 187	150,9	45 110
Closing balance	(157 011)	23,5	(127 103)
Retail			
Debtor costs as a % of revenue	(%)	14,5	14,0
Debtor costs as a % of gross receivables	(%)	21,0	20,8
Provision for impairment as a % of gross receivables	(%)	18,7	18,6
Financial Services			
Debtor costs as a % of revenue	(%)	29,9	28,3
Debtor costs as a % of gross receivables	(%)	15,1	14,6
Provision for impairment as a % of gross receivables	(%)	16,6	17,0
Group			
Debtor costs as a % of revenue	(%)	17,8	16,8
Debtor costs as a % of gross trade receivables	(%)	18,4	18,2
Provision for impairment as a % of gross receivables	(%)	17,8	17,9

* Defined as accounts 120 days or more in arrears as a percentage of the trade and loan receivable book.

4. Contingent liabilities

The group had no contingent liabilities at the current or prior reporting dates.

5. Events after the reporting date

No event material to the understanding of these summarised consolidated financial statements has occurred between the end of the financial year and the date of approval.

Notes to the summarised group annual financial statements (continued)

6. Total trading expenses

	2015 R'000	% change	2014 R'000
Expenses by nature			
Debtor costs			
Trade receivables – Retail	254 374	15,2	220 725
Loans receivable – Financial Services	143 095	31,1	109 177
Total debtor costs	397 469	20,5	329 902
Amortisation of intangible assets	34 583	283,5	9 018
Depreciation of property, plant and equipment	18 347	33,4	13 756
Restructuring and listing costs	–		10 225
Legal fees	–		2 924
Consulting fees	–		5 729
Audit fees	–		606
Listing	–		507
Advertising	–		116
Other	–		343
Operating lease charges for immovable property	2 091	127,4	920
Total operating lease charges	4 424	4,2	4 247
Less: disclosed under cost of retail sales	(2 333)	(29,9)	(3 327)
Marketing costs	180 855	8,8	166 244
Staff costs	264 115	14,0	231 600
Total staff costs	300 380	12,1	268 077
Less: disclosed under cost of retail sales	(17 950)	(8,6)	(19 630)
Less: staff costs capitalised to intangibles	(18 315)	8,7	(16 847)
Other costs	166 922	27,3	131 116
Total other trading expenses	666 913	18,5	562 879
	1 064 382	19,2	892 781

7. Basic and headline earnings per share

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

	2015		2014	
	Gross R'000	Net R'000	Gross R'000	Net R'000
Profit for the year		394 559		355 320
Adjusted for the after-tax effect of:				
Losses on disposal of property, plant and equipment and intangible assets	288	207	338	243
Impairment of property, plant and equipment	116	84	–	–
Headline earnings		394 850		355 563
Weighted average number of ordinary shares in issue ('000)		101 468		100 795
Earnings per share (cents)				
Basic		388,9		352,5
Headline		389,1		352,8
Basic – diluted		382,1		349,0
Headline – diluted		382,4		349,2

8. Reconciliation of cash generated from operations

	2015 R'000	% change	2014 R'000
Profit before taxation	549 823	10,2	499 041
Share of loss of associates	1 137	(55,5)	2 556
Losses on disposal of property, plant and equipment and intangible assets	288	(14,8)	338
Loans to employees – amortised cost adjustment	–	(100,0)	(147)
Notional interest on loans to employees	–	(100,0)	(321)
Depreciation and amortisation	52 930	132,4	22 774
Share-based employee service expense	1 472	30,5	1 128
Interest paid	32 809	49,9	21 883
Interest received	(3 375)	73,3	(1 948)
Capitalised bond costs – amortised cost adjustment	1 839	110,5	873
Operating cash flows before working capital changes	636 923	16,6	546 177
Movements in working capital	(278 434)	(10,9)	(312 612)
Increase in inventories	(4 028)	(81,2)	(21 399)
Increase in trade receivables – Retail	(116 595)	(34,9)	(179 091)
Increase in loans receivable – Financial Services	(168 771)	5,7	(159 724)
Decrease in other receivables	2 866	(27,7)	3 963
Increase in trade and other payables	26 815	24,4	21 561
(Decrease)/increase in provisions	(18 721)	(184,8)	22 078
	358 489	53,5	233 565

Notes to the summarised group annual financial statements (continued)

9. Group segmental analysis

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

Retail consists mainly of the group's HomeChoice and FoneChoice operations, whereas Financial Services represents the group's FinChoice operations. The group's property companies, which own commercial properties utilised mainly within the group, are included in the Property segment. The Other segment relates mainly to the holding company's standalone results, as well as those of its associates.

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

10. 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.

11. Commitments

Leases are contracted for periods not exceeding five years and contain escalation clauses of between 8% and 9% and renewal options. The lease expenditure charged to profit and loss during the year is disclosed in note 6.

At 31 December the future minimum operating lease commitments amounted to the following:

	2015 R'000	2014 R'000
Properties		
Payable within one year	2 453	2 272
Payable between two and five years	206	2 659
	2 659	4 931
Suspensive sale agreements		
Payable within one year	24 594	19 497
Payable between two and five years	28 023	31 949
	52 617	51 446
Future finance charges on suspensive sale agreements	(5 409)	(4 504)
	47 208	46 942
The present value of suspensive sale agreement payments is as follows:		
Payable within one year	21 957	16 846
Payable between two and five years	25 251	30 096
	47 208	46 942
Capital commitments for property, plant and equipment and intangible assets:		
Approved by the directors	50 568	83 876
Approved by the directors and contracted for	–	84 846
	50 568	168 722

12. Stated capital, share capital and share premium

On 28 November 2014 a new entity, HomeChoice International PLC, was placed on top of the existing group, HomeChoice Holdings Limited, by issuing shares to the existing group shareholders. This transaction was not a business combination and has been accounted for as a reorganisation of an existing group that has not changed the substance of the reporting entity. No capital was raised as part of the reorganisation. At the time of the reorganisation the shareholders of HomeChoice Holdings became the new shareholders in HomeChoice International PLC.

At the time of the reorganisation the consolidated financial statements of the new entity, HomeChoice International PLC, were presented using the values from the group annual financial statements of the previous group holding company. The equity structure – that is, the issued share capital, share premium and treasury shares – reflected that of the new company, with other amounts in equity (such as retained earnings and other reserves) being those from the group annual financial statements of the previous group holding company. The resulting difference that arose has been recognised as a component of equity, called reorganisation reserve.

Share capital, share premium and treasury shares have been adjusted to include the effects of:

- the issue of 101 379 351 shares to the HomeChoice Holdings shareholders in terms of the reorganisation, issued at a price of R29,40 and a par value of R0,01; and
- the HomeChoice Development Trust held 600 000 shares before and after the reorganisation. The movement in Treasury shares represents the adjustments from applying the accounting for capital reorganisations. Treasury shares are reflected at R2,666 million, being 600 000 shares at R4,44 per share.

The effect of the transaction is to reflect the share capital, share premium and treasury shares of the new holding company, HIL, and to eliminate HomeChoice Holdings' share capital and treasury shares and to create a reorganisation reserve with a debit balance of R2 960 639 million.

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 2014 took place during the period and related party balances are existing at the reporting date. Related party transactions include key management personnel compensation and intragroup transactions which have been eliminated on consolidation.

The group entered into a loan agreement with its shareholder, GFM Limited, in May 2015. The loan carries interest at the South African prime interest rate and it has a term of one year.

14. Purchase of intangibles

Included in the reporting period's purchase of intangible assets is the capitalisation of R30,1 million (2014: R25,8 million) of costs relating to the ERP system implementation.

15. Change in accounting estimate

During the year the group reviewed the current condition of certain existing software and licences and assessed the impact of the continuous evolution in technology on that software and licences. As a result the estimated useful life of the ERP system included in intangible assets was revised from ten years to five years. The change in accounting estimate is accounted for prospectively from 1 January 2015. The net effect of the changes in the current financial year was an increase in amortisation expense of R9,772 million. Assuming the assets are held until the end of their estimated useful lives, amortisation in future years in relation to these assets will be increased by the following amounts:

	R'000
Year ending 31 December	
2016	5 677
2017	5 677
2018	3 921

Notes to the summarised group annual financial statements (continued)

16. 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 this report and that the financial information has been correctly extracted from the underlying group annual financial statements.



homechoice
bedroom
COLLECTION



Group profile

HomeChoice International is a credit-based home shopping retailer selling homeware merchandise and financial services products to the rapidly expanding urban middle-income mass market in southern Africa. Operations are segmented into Retail and Financial Services.

Administration

Country of incorporation

Republic of Malta

Date of incorporation

22 July 2014

Company registration number

C66099

Registered office

93 Mill Street
Qormi
QRM3012
Republic of Malta

Company secretary

George Said

Auditors

PricewaterhouseCoopers
Republic of Malta

Corporate bank

Deutsche Bank International
Limited
Channel Islands

JSE listing details

Share code: HIL
ISIN: MT0000850108

Sponsor

Rand Merchant Bank, a division of
FirstRand Bank Limited

Transfer secretaries

Computershare Investor Services
(Proprietary) Limited