

# Unaudited results

for the six months ended **30 June 2016**



HomeChoice International PLC

**HiL** PLC



▲ Revenue increased by 15,8% to R1 152 million

▲ EBITDA increased by 15,5% to R310 million

▲ Pan-African sales increased by 27,9% to 11,6% of total sales

▲ Cash generated from operations increased by 18,3% to R145 million

▲ Retail credit extended through digital channels increased by 26,6%

## Group Highlights

# 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 operating subsidiaries, HomeChoice and FinChoice, the group sells innovative homewares, apparel, personal technology and loan products to the rapidly expanding mass middle-income market in southern Africa.

HomeChoice is the largest home-shopping retailer in southern Africa and offers products through online channels, call centres, sales agent networks and mail order catalogues. The group's omni-channel home-shopping retail model and digital Financial Services business provide a strong platform for achieving its ambitions of becoming a pan-African retailer and financial services provider.

## Trading and financial performance

The consumer environment in southern Africa remains challenging for customers in the HomeChoice LSM 4 – 8 market where rising living costs are outpacing wage increases. The volatility of the Rand continues to impact all importers and, together with the drought, is creating inflationary pressures.

The unsecured credit environment also remains constrained. The National Credit Regulator's (NCR) prescribed affordability assessment regulations introduced in September 2015 continue to negatively impact on access to credit, although consumers are benefiting from a reduction in the maximum prescribed interest rates introduced from May 2016. The regulations have required significant changes to business systems and processes across all channels, resulting in higher compliance costs.

The regulations have also introduced an excessive administrative burden on customers to produce documentary proof of income. Formally employed customers find it inconvenient to provide the documentation, whilst informally employed customers often lack practical access to documentation proving their income. To ease this burden, the group has developed multiple channels for customers to submit documentation, and invested in staff training and customer engagement and education to improve her experience.

The affordability regulations have impacted both businesses through increased customer walkaways and lower credit acceptance, resulting in significant lost revenue.

Despite this challenging economic environment, the group has delivered good results for the six-month period:

		30 Jun 2016	30 Jun 2015	% change
<b>Group</b>				
Revenue	(Rm)	<b>1 152</b>	995	15,8
EBITDA	(Rm)	<b>310</b>	268	15,5
Operating profit	(Rm)	<b>280</b>	255	9,8
Operating profit margin	(%)	<b>24,3</b>	25,7	
Headline EPS	(cents)	<b>188,2</b>	169,8	10,8
Cash generated from operations	(Rm)	<b>145</b>	123	18,3
NAV per share	(cents)	<b>1 816</b>	1 571	15,6
<b>Retail</b>				
Revenue	(Rm)	<b>875</b>	762	14,9
Retail sales	(Rm)	<b>579</b>	499	16,2
Gross profit margin	(%)	<b>47,9</b>	48,1	
EBITDA	(Rm)	<b>172</b>	155	11,1
<b>Financial Services</b>				
Loan disbursements	(Rm)	<b>583</b>	542	7,4
Revenue	(Rm)	<b>277</b>	233	18,8
EBITDA	(Rm)	<b>127</b>	103	22,9

Group revenue increased by 15,8% to R1 152,2 million for the six-month period, with strong growth in Retail sales and Financial Services income. Group earnings before interest and tax (EBITDA) increased by a similar percentage to R310,1 million, reflecting the focus on driving operating efficiencies and cost control. This, as well as continual focus on cash collections, has resulted in cash generation from operations improving by 18,3% to R145,0 million.

Operating profit increased by 9,8% to R280,4 million. The decrease in operating margin from 25,7% to 24,3% was driven by a doubling of depreciation and amortisation costs from R13,6 million to R27,8 million. Over the last three years the group made significant investments in its technology platforms which were brought on-stream late in 2015. Furthermore, in December 2015 the estimated useful life of software was revised, which has impacted the amortisation on a comparable basis.

Headline earnings for the period increased by 11,6% to R191,8 million, with headline earnings per share (HEPS) up 10,8% to 188,2 cents.

## Retail performance

Retail revenue increased 14,9% to R875,2 million for the six-month period. Retail sales increased by 16,2% to R579,2 million, reflecting the benefits of product innovation and range development, particularly in the core bedding ranges which have seen strong volume growth. The Retail business has recently introduced branded electronics and appliances to complement its existing own label ranges, which are performing well.

Finance charges and initiation fees increased by 12,2% to R258,3 million and were impacted by the lowering of the interest rate caps in May 2016 and introduction of a revolving credit facility which earns lower interest rates. The business has actively marketed the lower cost of credit to customers and she has responded positively.

The gross profit margin has been well managed considering Rand volatility declining by only 20 basis points from 48,1% to 47,9%. Over 90% of merchandise is imported and US Dollar denominated. After the sharp devaluation of the Rand in December 2015, the currency's performance against the US Dollar has remained volatile. The impact of Rand weakness was limited by selective price increases, enhanced operating efficiencies across the supply chain and continuing to reconfigure product offers to ensure products remain affordable.

Retail operating profit increased by 2,0% to R145,0 million and was impacted by higher debtor costs from customer acquisition and amortisation and depreciation doubling from R12,5 million to R25,0 million. Other trading expenses were well controlled, increasing by 12,3% for the six-month period. Operating profit, excluding the impact of amortisation and depreciation, increased by 9,9% over the period.

Digital remains the fastest-growing sales channel and we continue to see migration from web-based transactions to mobi. Strong customer engagement through digital platforms has resulted in credit extended via digital channels increasing 26,6% for the six-month period, and represents 11,6% of sales. Sales into neighbouring African markets have shown strong growth of 27,9% for the period to 11,6% of total sales. Further expansion into Africa remains a strong growth opportunity over the medium term.

The Retail business continues to build its omni-channel capability and is gaining good learnings from its first "bricks and mortar" showroom which opened in Wynberg, Cape Town at the end of 2015. Our home delivery capability continues to be expanded and has reduced our

reliance on the SA Post Office further. The more appealing home delivery service has also reduced merchandise return rates from customers.

Customers continue to respond well to our product and marketing offers and the customer base has increased by 5,3% over the six-month period to 674 000.

## Financial Services performance

Revenue increased by 18,8% to R277,1 million for the six-month-period. EBITDA grew by 22,9% to R127,0 million, arising from the growing profitability of the insurance business.

Loan disbursements to customers increased by 7,4% to R583,2 million. The slowing disbursement growth is a result of the lower acceptance rates from the new affordability process, in particular first-time loan customers. As a result, loans to existing customers of good standing increased from 73,4% to 79,9% of total disbursements over the period. The transition for customers to adapt to the new affordability and documentation process changes remains challenging; however we continually look to enhance system processes and customer education to ensure the customer experience is as simple as possible.

Within the context of moderate disbursement growth the customer base has increased by 1,5% to 135 000 from December 2015. The average term in the FinChoice book is 20,7 months (December 2015: 20,2 months) and average balance is R9 556 (December 2015: R8 792), both well below the market averages, reflecting Financial Services' strategy of focusing on shorter terms and lower loan values. Sales of personal funeral cover to loan customers are showing encouraging growth. To offset the margin reduction resulting from the interest cap lowering, a credit life product was introduced to short-term loan customers from May.

The KwikServe® platform continues to service 80% of our existing customers via her cell phone, while our mobi platform has grown to serve one-quarter of the customer base as she adopts smartphone technology. Digital self-service accounts for 69% of FinChoice's repeat loan transactions. The proportion of Rands disbursed via digital has reduced marginally from 40,2% to 39,1% due to the introduction of new regulatory processes unfamiliar to the customer. Significant focus has been applied to simplify these new processes for self-service to encourage her digital engagement and continue growing this channel further.

## Managing credit risk

The group continues to trade in a difficult credit environment where economic growth rates are low, unemployment is

increasing and consumers remain constrained in their ability to repay debt. Against this backdrop, the group continues to apply strict credit criteria, sound debtors' management and consistent conservative provisioning policies.

Credit performance for the period is summarised as follows:

		30 Jun 2016	30 Jun 2015	% change
<b>Group</b>				
Gross trade and loans receivable	(Rm)	<b>2 257</b>	1 924	17,3
Debtor costs as % of revenue	(%)	<b>18,9</b>	18,5	
<b>Retail</b>				
Gross trade receivables	(Rm)	<b>1 231</b>	1 079	14,0
Debtor costs as % of revenue	(%)	<b>15,7</b>	14,5	
Provision for impairment as % of gross receivables	(%)	<b>19,0</b>	18,7	
Non-performing loans (>120 days)	(%)	<b>8,9</b>	9,0	
<b>Financial Services</b>				
Gross loans receivable	(Rm)	<b>1 026</b>	845	21,4
Debtor costs as % of revenue	(%)	<b>29,0</b>	31,7	
Provision for impairment as % of gross receivables	(%)	<b>16,3</b>	16,9	
Non-performing loans (>120 days)	(%)	<b>4,6</b>	4,6	

Group debtor cost growth of 18,1% is higher than revenue growth and has been driven by the increase in new Retail customer acquisition during the past six months and challenges in late stage collections impacted by the high volume of debt activities in the market. The introduction of television as an acquisition channel generated good demand but at higher risk levels than planned. The Retail business has responded by tightening credit acceptance criteria, implementing changes to collection strategies and increasing the use of external debt collection agencies. Provisions have been increased to 19,0% from 18,7% at December 2015 to cover the higher levels of new business.

FinChoice benefits from marketing products to creditworthy Retail customers, which has enabled the business to deliver stable levels of credit performance. Debtor costs in the Financial Services business reduced as a percentage of revenue from 29,9% in 2015 to 29,0% for the six-month period. The impairment provision was reduced marginally to 16,3% at June 2016 (December 2015: 16,6%). Conservative

provisions held on the debt review portfolio should reduce over time as the Group has greater payment history.

### Cash and capital management

The group remains highly cash generative and has increased cash generated from operations by 18,3% to R145,0 million through efficient management of working capital, which increased 11,0% to R163,9 million. Cash conversion (cash generated from operations as a percentage of EBITDA) improved from 45,7% to 46,8% over the period.

Over the last five years the group has made significant investment in property, constructing a centralised distribution centre and developing a new 1 000-seat call centre and Retail showroom. Capital expenditure of R27,7 million for the six months is significantly lower than previous years (June 2015: R79,7 million) and was focused on investments in the group's technology systems.

The net debt to equity ratio has increased from 26,2% at December 2015 to 27,8% but remains comfortably within management's targeted range of below 40,0%. The financial position of the group remains strong, with net asset value increasing by 15,6% to 1 816 cents per share from June 2015.

### Outlook

The trading environment is expected to remain largely unchanged for the remainder of the financial year, with continued financial pressure on consumers and increasing compliance headwinds in the changing regulatory landscape. In this environment tight credit policies will be maintained, with cash collections and cost control remaining key focus areas.

The group will also continue to mitigate the impact of the reduction in maximum interest rates on credit contracts which came into effect from May 2016.

The Retail business has experienced good demand during the subsequent eight weeks of trading, with customers responding well to the new revolving credit facility. The Financial Services business is continuing to streamline the impact of the affordability regulations on customers and introduce further mitigation strategies.

The business and management team are well versed in trading through difficult environments. We take comfort in the group's track record and proven business model, which should continue to ensure sustainable returns to shareholders.

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

## Group statement of financial position

	Notes	Unaudited Jun 2016 R'000	Unaudited Jun 2015 R'000	Audited Dec 2015 R'000
<b>Assets</b>				
<b>Non-current assets</b>				
Property, plant and equipment		428 602	344 366	422 243
Intangible assets		95 438	112 247	101 928
Loans to employees		–	367	207
Investment in associates		18 989	11 231	13 248
Deferred taxation		29 216	20 941	25 708
		<b>572 245</b>	489 152	563 334
<b>Current assets</b>				
Inventories		251 078	227 681	170 391
Taxation receivable		14 269	18 812	4 271
Trade and other receivables	2	1 874 735	1 590 779	1 787 273
Trade receivables – Retail		997 038	877 114	982 061
Loans receivable – Financial Services		858 879	702 431	790 575
Other receivables		18 818	11 234	14 637
Cash and cash equivalents		95 119	99 811	88 300
		<b>2 235 201</b>	1 937 083	2 050 235
<b>Total assets</b>		<b>2 807 446</b>	2 426 235	2 613 569
<b>Equity and liabilities</b>				
<b>Equity attributable to equity holders of the parent</b>				
Stated and share capital		1 035	1 022	1 025
Share premium		2 998 296	2 985 262	2 987 580
Reorganisation reserve		(2 960 639)	(2 960 639)	(2 960 639)
		<b>38 692</b>	25 645	27 966
Treasury shares		(2 666)	(2 666)	(2 666)
Other reserves		5 144	3 722	4 502
Retained earnings		1 827 818	1 564 172	1 721 626
		<b>1 868 988</b>	1 590 873	1 751 428
<b>Non-current liabilities</b>				
Interest-bearing liabilities		241 835	272 044	164 324
Deferred taxation		116 913	107 522	112 282
Other payables		4 585	3 855	5 070
		<b>363 333</b>	383 421	281 676
<b>Current liabilities</b>				
Interest-bearing liabilities		138 775	34 159	221 102
Taxation payable		1 074	1 017	18
Trade and other payables		195 678	183 361	184 550
Provisions		6 000	6 334	12 357
Bank overdraft		76 531	67 239	1 780
Shareholder loan		157 067	159 831	160 658
		<b>575 125</b>	451 941	580 465
<b>Total liabilities</b>		<b>938 458</b>	835 362	862 141
<b>Total equity and liabilities</b>		<b>2 807 446</b>	2 426 235	2 613 569

## Group statement of comprehensive income

	Notes	Unaudited six months ended Jun 2016 R'000	% change	Unaudited six months ended Jun 2015 R'000	Audited year ended Dec 2015 R'000
<b>Revenue</b>		<b>1 152 247</b>	15,8	995 179	2 232 967
Retail sales		579 189	16,2	498 635	1 197 131
Finance charges and initiation fees earned		480 939	14,0	421 981	893 722
Finance charges earned		354 753	15,2	308 077	652 083
Initiation fees earned		126 186	10,8	113 904	241 639
Fees from ancillary services		92 119	23,5	74 563	142 114
Cost of retail sales		(296 757)	16,9	(253 903)	(590 010)
Debtor costs	3	(217 857)	18,1	(184 418)	(397 469)
Other trading expenses	3	(359 833)	18,9	(302 715)	(666 913)
Other net gains and losses		1 190		(176)	(1 873)
Other income		1 416		1 410	3 692
<b>Operating profit</b>		<b>280 406</b>	9,8	255 377	580 394
Interest received		1 658		1 033	3 375
Interest paid		(27 590)		(14 825)	(32 809)
Share of profit/(loss) of associates		1 834		(493)	(1 137)
<b>Profit before taxation</b>		<b>256 308</b>		241 092	549 823
Taxation		(64 474)		(69 239)	(155 264)
<b>Profit and total comprehensive income for the period</b>		<b>191 834</b>	11,6	171 853	394 559
Profit for the period		191 834		171 853	394 559
<b>Non-headline items, gross of tax effect</b>					
Gain on disposal of property, plant and equipment and intangible assets		–		–	404
Tax effect		–		–	(113)
<b>Headline earnings for the period</b>		<b>191 834</b>	11,6	171 853	394 850
<b>Earnings per share (cents)</b>	4				
Basic		188,2		169,8	388,9
Diluted		186,3		168,8	382,1
<b>Additional information</b>					
Retail gross profit margin (%)		48,8		49,1	50,7

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

## Group statement of changes in equity

	Unaudited six months ended Jun 2016 R'000	Unaudited six months ended Jun 2015 R'000	Audited year ended Dec 2015 R'000
Equity at the beginning of the period	1 751 428	1 578 326	1 578 326
Profit and total comprehensive income for the period	191 834	171 853	394 559
Dividends paid	(85 643)	(163 062)	(228 314)
Shares issued under share option scheme: share capital and share premium	10 727	3 064	5 385
Share option scheme	642	692	1 472
<b>Equity at the end of the period</b>	<b>1 868 988</b>	<b>1 590 873</b>	<b>1 751 428</b>

## Group statement of cash flows

	Notes	Unaudited six months ended Jun 2016 R'000	% change	Unaudited six months ended Jun 2015 R'000	Audited year ended Dec 2015 R'000
<b>Cash flows from operating activities</b>					
Operating cash flows before working capital changes		308 886	14,3	270 225	636 923
Movement in working capital		(163 863)		(147 650)	(278 434)
<b>Cash generated from operations</b>	5	<b>145 023</b>	<b>18,3</b>	<b>122 575</b>	<b>358 489</b>
Interest received		1 658		1 033	3 375
Interest paid		(27 496)		(14 825)	(31 483)
Taxation paid		(72 293)		(65 006)	(137 495)
<b>Net cash inflow from operating activities</b>		<b>46 892</b>	<b>7,1</b>	<b>43 777</b>	<b>192 886</b>
<b>Cash flows from investing activities</b>					
Purchase of property, plant and equipment		(17 285)		(52 976)	(140 434)
Proceeds from disposal of property, plant and equipment		–		–	377
Purchase of intangible assets		(10 405)		(26 725)	(46 819)
Loans repaid by employees		207		936	1 095
Investment in associates		(3 927)		(4 096)	(6 709)
<b>Net cash outflow from investing activities</b>		<b>(31 410)</b>	<b>62,1</b>	<b>(82 861)</b>	<b>(192 490)</b>
<b>Cash flows from financing activities</b>					
Proceeds from issuance of shares		10 727		3 064	5 385
Proceeds from interest-bearing liabilities		14 636		187 322	279 464
Repayments of interest-bearing liabilities		(23 134)		(18 240)	(32 983)
Dividends paid		(85 643)		(163 062)	(228 314)
<b>Net cash (outflow)/inflow from financing activities</b>		<b>(83 414)</b>	<b>(1 018,3)</b>	<b>9 084</b>	<b>23 552</b>
<b>Net (decrease)/increase in cash, cash equivalents and bank overdrafts</b>		<b>(67 932)</b>		<b>(30 000)</b>	<b>23 948</b>
Cash, cash equivalents and bank overdrafts at the beginning of the period		86 520		62 572	62 572
<b>Cash, cash equivalents and bank overdrafts at the end of the period</b>		<b>18 588</b>	<b>(42,9)</b>	<b>32 572</b>	<b>86 520</b>



## Group segmental analysis

	Retail R'000	Financial Services R'000	Property R'000	Other R'000	Elimin- ations R'000	Total R'000
<b>Six months ended 30 June 2016 – Unaudited</b>						
<b>Segmental revenue</b>	<b>875 156</b>	<b>277 091</b>	<b>26 011</b>	<b>–</b>	<b>–</b>	<b>1 178 258</b>
Retail sales	579 189	–	–	–	–	579 189
Finance charges and initiation fees earned	258 261	222 678	–	–	–	480 939
Fees from ancillary services	37 706	54 413	26 011	–	–	118 130
Intersegment revenue	–	–	(26 011)	–	–	(26 011)
Revenue from external customers	<b>875 156</b>	<b>277 091</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>1 152 247</b>
<b>Segmental results*</b>	<b>145 002</b>	<b>108 270</b>	<b>14 992</b>	<b>176</b>	<b>–</b>	<b>268 440</b>
Segmental results margin (%)	16,6	39,1	–	–	–	22,8
Growth in segmental results (%)	2,0	23,9	3,3	–	–	6,8
<b>Segmental assets**</b>	<b>1 548 386</b>	<b>933 891</b>	<b>340 151</b>	<b>19 935</b>	<b>(34 917)</b>	<b>2 807 446</b>
<b>Segmental liabilities**</b>	<b>413 437</b>	<b>41 318</b>	<b>251 979</b>	<b>264 311</b>	<b>(32 587)</b>	<b>938 458</b>
Operating cash flows before working capital changes	170 584	126 329	15 629	(3 656)	–	308 886
Movement in working capital	(106 058)	(61 516)	(824)	4 535	–	(163 863)
Cash generated from operations	<b>64 526</b>	<b>64 813</b>	<b>14 805</b>	<b>879</b>	<b>–</b>	<b>145 023</b>
Gross profit margin (%)	<b>47,9</b>					<b>48,8</b>
<b>Six months ended 30 June 2015 – Unaudited</b>						
<b>Segmental revenue</b>	761 993	233 186	15 450	–	–	1 010 629
Retail sales	498 635	–	–	–	–	498 635
Finance charges and initiation fees earned	230 179	191 802	–	–	–	421 981
Fees from ancillary services	33 179	41 384	15 450	–	–	90 013
Intersegment revenue	–	–	(15 450)	–	–	(15 450)
Revenue from external customers	761 993	233 186	–	–	–	995 179
<b>Segmental results*</b>	142 212	87 391	14 519	8 908	(1 633)	251 397
Segmental results margin (%)	18,7	37,5	–	–	–	24,9
Growth in segmental results (%)	8,3	19,7	14,7	–	–	9,1
<b>Segmental assets**</b>	<b>1 370 081</b>	<b>776 447</b>	<b>274 899</b>	<b>17 286</b>	<b>(12 478)</b>	<b>2 426 235</b>
<b>Segmental liabilities**</b>	<b>362 757</b>	<b>35 985</b>	<b>171 418</b>	<b>268 202</b>	<b>(3 000)</b>	<b>835 362</b>
Operating cash flows before working capital changes	155 312	103 582	15 155	(2 745)	(1 079)	270 225
Movement in working capital	(65 937)	(72 353)	(6 265)	(3 146)	51	(147 650)
Cash generated/(utilised) from operations	89 375	31 229	8 890	(5 891)	(1 028)	122 575
Gross profit margin (%)	48,1					49,1

\* 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.

\*\* Excluding group loans.

	Unaudited Jun 2016 R'000	Unaudited Jun 2015 R'000
<b>Reconciliation of segmental results</b>		
Segmental results as reported above	<b>268 440</b>	251 397
Interest received	<b>957</b>	414
Interest paid	<b>(14 923)</b>	(10 226)
Share of profit/(loss) of associates	<b>1 834</b>	(493)
Profit before tax	<b>256 308</b>	241 092

# Notes to the interim financial statements

## 1. Basis of presentation and accounting policies

The condensed consolidated interim financial statements are prepared in accordance with International Financial Reporting Standard, IAS 34, *Interim Financial Reporting*, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council and the requirements of the Maltese Companies Act. The accounting policies applied in the preparation of these interim financial statements are in terms of International Financial Reporting Standards and are consistent with those applied in the previous consolidated annual financial statements.

## 2. Trade and other receivables

	Unaudited six months ended Jun 2016 R'000	Unaudited six months ended Jun 2015 R'000	Audited year ended Dec 2015 R'000
Trade receivables – Retail	1 230 533	1 079 083	1 208 631
Provision for impairment	(233 495)	(201 969)	(226 570)
	<b>997 038</b>	877 114	982 061
Loans receivable – Financial Services	1 026 101	845 340	947 586
Provision for impairment	(167 222)	(142 909)	(157 011)
	<b>858 879</b>	702 431	790 575
Other receivables	18 818	11 234	14 637
<b>Trade and other receivables</b>	<b>1 874 735</b>	1 590 779	1 787 273
Trade and loan receivables	2 256 634	1 924 423	2 156 217
Provision for impairment	(400 717)	(344 878)	(383 581)
Other receivables	18 818	11 234	14 637
<b>Movements in the provision for impairment were as follows:</b>			
<b>Retail</b>			
Opening balance	(226 570)	(198 179)	(198 179)
Movement in provision	(6 925)	(3 790)	(28 391)
Debtor costs charged to profit and loss	(137 458)	(110 414)	(254 374)
Debts written off during the year, net of recoveries	130 533	106 624	225 983
Closing balance	(233 495)	(201 969)	(226 570)
<b>Financial Services</b>			
Opening balance	(157 011)	(127 103)	(127 103)
Movement in provision	(10 211)	(15 806)	(29 908)
Debtor costs charged to profit and loss	(80 399)	(74 004)	(143 095)
Debts written off during the year, net of recoveries	70 188	58 198	113 187
Closing balance	(167 222)	(142 909)	(157 011)
<b>Retail</b>			
Debtor costs as a % of revenue	(%) 15,7	14,5	14,5
Debtor costs as a % of gross receivables (annualised)	(%) 22,3	20,5	21,0
Provision for impairment as a % of gross receivables	(%) 19,0	18,7	18,7

## 2. Trade and other receivables (continued)

		Unaudited six months ended Jun 2016 R'000	Unaudited six months ended Jun 2015 R'000	Audited year ended Dec 2015 R'000
<b>Financial Services</b>				
Debtor costs as % of revenue	(%)	29,0	31,7	29,9
Debtor costs as a % of gross receivables (annualised)	(%)	15,7	17,5	15,1
Provision for impairment as a % of gross receivables	(%)	16,3	16,9	16,6
<b>Group</b>				
Debtor costs as % of revenue	(%)	18,9	18,5	17,8
Debtor costs as a % of gross receivables (annualised)	(%)	19,3	19,2	18,4
Provision for impairment as a % of gross receivables	(%)	17,8	17,9	17,8
Non-performing trade and loan receivables, being accounts 120 days or more in arrears, as a percentage of the trade and loan receivable books were as follows at the reporting dates:				
Retail	(%)	8,9	9,0	9,5
Financial Services	(%)	4,6	4,6	4,6

## 3. Debtors cost and other trading expenses

		Unaudited six months ended Jun 2016 R'000	Unaudited six months ended Jun 2015 R'000	Audited year ended Dec 2015 R'000
<b>Expenses by nature</b>				
<b>Debtor costs</b>				
Trade receivables – Retail		137 458	110 414	254 374
Loans receivable – Financial Services		80 399	74 004	143 095
<b>Total debtor costs</b>		<b>217 857</b>	<b>184 418</b>	<b>397 469</b>
Amortisation of intangible assets		16 895	5 603	34 583
Depreciation of property, plant and equipment		10 926	7 997	18 347
Operating lease charges for immovable property		665	996	2 091
Total operating lease charges		2 105	2 146	4 424
Less: disclosed under cost of Retail sales		(1 440)	(1 150)	(2 333)
Marketing costs		92 320	82 751	180 855
Staff costs		142 189	120 319	264 115
Total staff costs		158 740	138 203	300 380
Less: disclosed under cost of Retail sales		(10 243)	(9 471)	(17 950)
Less: staff costs capitalised to intangible assets		(6 308)	(8 413)	(18 315)
Other costs		96 838	85 049	166 922
<b>Total other trading expenses</b>		<b>359 833</b>	<b>302 715</b>	<b>666 913</b>
		<b>577 690</b>	<b>487 133</b>	<b>1 064 382</b>

## Notes to the interim financial statements (continued)

### 4. Basic and headline earnings

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:

	Unaudited six months ended Jun 2016 R'000	Unaudited six months ended Jun 2015 R'000	Audited year ended Dec 2015 R'000
Profit for the period	191 834	171 853	394 559
Adjusted for the after-tax effect of:			
Loss on disposal of property, plant and equipment and intangible assets	–	–	288
Impairment of disposal of property, plant and equipment	–	–	116
Tax effect	–	–	(113)
<b>Headline earnings for the period</b>	<b>191 834</b>	<b>171 853</b>	<b>394 850</b>

### 5. Reconciliation of cash generated from operations

	Unaudited six months ended Jun 2016 R'000	Unaudited six months ended Jun 2015 R'000	Audited year ended Dec 2015 R'000
Profit before taxation	256 308	241 092	549 823
Share of (profit)/loss of associates	(1 834)	493	1 137
Loss on disposal of property, plant and equipment and intangible assets	–	–	288
Depreciation and amortisation	27 821	13 600	52 930
Share-based employee service expense	659	732	1 472
Interest paid	26 212	14 825	32 809
Interest received	(1 658)	(1 033)	(3 375)
Capitalised bond costs – amortised cost adjustment	1 378	516	1 839
<b>Operating cash flows before working capital changes</b>	<b>308 886</b>	<b>270 225</b>	<b>636 923</b>
Movements in working capital	(163 863)	(147 650)	(278 434)
Increase in inventories	(80 687)	(61 318)	(4 028)
Increase in trade receivables – Retail	(14 977)	(11 648)	(116 595)
Increase in loans receivable – Financial Services	(68 304)	(80 627)	(168 771)
(Increase)/decrease in other receivables	(4 181)	6 269	2 866
Increase in trade and other payables	10 643	24 418	26 815
Decrease in provisions	(6 357)	(24 744)	(18 721)
	<b>145 023</b>	<b>122 575</b>	<b>358 489</b>

### 6. Purchase of property, plant and equipment and intangible assets

Included in the prior reporting periods' purchase of property, plant and equipment and intangible assets is the capitalisation of R19,1 million of costs relating to the ERP system implementation, as well as R41,3 million relating to the construction of the new call centre and showroom.

### 7. Contingent liabilities

The group had no contingent liabilities at the reporting date.

## 8. 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 2015 took place during the period and related party balances are existing at the reporting date. Related party transactions include key management personnel compensation, loan to directors and intragroup transactions which have been eliminated on consolidation.

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

## 9. Events after the reporting date

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

## 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. Seasonality

Due to its seasonal nature, the Retail business has a history of generating higher revenues during the second half of the year. In the financial year ended 31 December 2015, 42% of retail sales accumulated in the first half of the year, with 58% accumulating in the second half.

## 12. Preparation and review of interim financial statements

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

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

## 13. Estimates

In preparing these condensed interim financial statements, the significant judgements made by management in applying the group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2015.

## 14. 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 stand-alone 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.

## 15. Capital commitments for property, plant and equipment and intangible assets

	Unaudited six months ended Jun 2016 R'000	Unaudited six months ended Jun 2015 R'000	Audited year ended Dec 2015 R'000
Approved by the directors	16 474	44 232	50 568
Approved by the directors and contracted for	–	36 250	–
	16 474	80 482	50 568

## Statistics

		Jun 2016	Jun 2015	Dec 2015
<b>Profitability</b>				
Growth in revenue	(%)	<b>15,8</b>	15,6	14,0
Retail gross profit margin	(%)	<b>48,8</b>	49,1	50,7
Operating profit margin	(%)	<b>24,3</b>	25,7	26,0
Earnings before interest, tax, depreciation and amortisation (EBITDA)	('000)	<b>310 062</b>	268 485	632 187
Growth in EBITDA	(%)	<b>15,5</b>	12,0	16,7
EBITDA margin	(%)	<b>26,9</b>	27,0	28,3
<b>Solvency and liquidity</b>				
Net asset value per share	(cents)	<b>1 816,3</b>	1 571,4	1 719,3
Growth in net asset value	(%)	<b>5,6</b>	0,7	10,2
Inventory turn	(times)	<b>2,8</b>	2,6	3,7
Net debt/equity ratio	(%)	<b>27,8</b>	27,2	26,2
<b>Performance</b>				
Growth in trade receivables – Retail	(%)	<b>1,5</b>	1,3	13,5
Growth in loans receivable – Financial Services	(%)	<b>8,6</b>	13,0	27,1
Growth in cash generated from operations	(%)	<b>18,3</b>	26,6	53,5
Cash conversion	(%)	<b>46,8</b>	45,7	56,7
Return on equity – annualised	(%)	<b>21,2</b>	21,7	23,7
<b>Shareholding</b>				
Number of shares	('000)			
– In issue, net of treasury shares		<b>102 900</b>	101 601	101 866
– Weighted shares in issue, net of treasury shares		<b>101 931</b>	101 236	101 468
– Diluted weighted average		<b>102 954</b>	101 812	103 263
<b>Earnings per share (cents)</b>				
– basic		<b>188,2</b>	169,8	388,9
– diluted		<b>186,3</b>	168,8	382,1
– headline earnings (HEPS)		<b>188,2</b>	169,8	389,1
– diluted HEPS		<b>186,3</b>	168,8	382,4

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

In June 2015 the interim and final dividends for the 2014 financial year of R163,1 million (161 cents per share) were paid to shareholders.

## Administration

**Country of incorporation**

Republic of Malta

**Date of incorporation**

22 July 2014

**Company registration number**

C66099

**Registered office**

93 Mill Street  
Qormi  
QRM3012  
Republic of Malta

**Company secretary**

George Said

**Auditors**

PricewaterhouseCoopers  
Republic of Malta

**Corporate bank**

Deutsche Bank International  
Limited  
Channel Islands

**JSE listing details**

Share code: HIL  
ISIN: MT0000850108

**Sponsor**

Rand Merchant Bank, a division of  
FirstRand Bank Limited

**Transfer secretaries**

Computershare Investor Services  
(Proprietary) Limited

HomeChoice International PLC

