



HomeChoice HOLDINGS LIMITED

GROUP **ANNUAL FINANCIAL STATEMENTS** 2012

A photograph of a bedroom with a bed, a window, and a lamp. The bed has a patterned duvet and pillows. A window with sheer curtains is visible on the left, and a lamp is on a bedside table. The room is brightly lit, suggesting daytime.

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DIRECTORS' APPROVAL

DIRECTORS' RESPONSIBILITY FOR AND APPROVAL OF THE GROUP ANNUAL FINANCIAL STATEMENTS

The directors are required in terms of the Companies Act of South Africa to maintain adequate accounting records and are responsible for the content and integrity of the financial statements and related financial information included in this report. It is their responsibility to ensure that the financial statements fairly present the state of affairs of the group as at the end of the financial 12 months and the results of its operations and cash flows for the period then ended, in conformity with International Financial Reporting Standards and the Companies Act of South Africa 2008, as amended.

The external auditors are engaged to express an independent opinion on the financial statements. The financial statements are prepared in accordance with International Financial Reporting Standards and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the group and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the directors set standards for internal control aimed at reducing the risk of error or loss in a cost-effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the group and all employees are required to maintain the

highest ethical standards in ensuring the group's business is conducted in a manner that in all reasonable circumstances is above reproach.

The focus of risk management in the group is on identifying, assessing, managing and monitoring all known forms of risk across the group. While operating risk cannot be fully eliminated, the group endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The directors are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The external auditors are responsible for independently reviewing and reporting on the group's financial statements. The financial statements have been examined by the group's external auditors and their report is presented on page 5.

The financial statements set out on pages 6 to 60 which have been prepared on the going concern basis, were approved by the directors on 15 March 2013 and are signed on their behalf by:



RE Garratt
Chairman



A Kirsten
Chief Financial Officer

COMPANY SECRETARY'S CERTIFICATE

I hereby confirm that to the best of my knowledge and belief, all returns as are required of a public company in terms of the Companies Act No. 71 of 2008 (as amended), have been duly lodged with the Companies and Intellectual Property Commission and that all such returns are true, correct and up to date.



BJ Bastard
Company Secretary

15 March 2013
Cape Town

AUDIT AND RISK COMMITTEE REPORT

This report for the financial year ended 31 December 2012 is presented to the shareholders of HomeChoice Holdings Limited in compliance with the requirements of the Companies Act of South Africa, No 71 of 2008 (as amended) and the King Code of Governance for South Africa 2009 (King III).

ROLE OF THE COMMITTEE

The audit and risk committee is a statutory committee appointed by shareholders and is accountable to shareholders and the board. If differences of opinion arise between the committee and the board where the committee's statutory functions are concerned, the committee's decision will prevail.

The committee is governed by a formal board-approved charter that guides the committee in terms of its authority, objectives and responsibilities. The responsibilities of the committee include:

- reviewing accounting policies and assessing whether the annual financial statements reflect appropriate accounting principles;
- reviewing and assessing the fairness of all financial information issued to shareholders;
- overseeing integrated reporting, reviewing the disclosure of sustainability issues in the integrated report;
- reviewing and recommending the annual financial statements and integrated report for approval to the board;
- confirming the nomination and appointment of the external auditors each year, monitoring and reporting on their independence and approving the terms of engagement, scope of the audit and fees paid;
- overseeing the development, implementation and review of a risk management policy and plan for a system and process of risk management to recommend for approval to the board;
- identifying and reviewing the group's exposure to significant risks and its risk mitigation strategy;
- providing assurance on the adequacy and effectiveness of the group's systems of internal financial and operational control and compliance with laws and procedures;
- monitoring and supervising the effective functioning and performance of internal audit, ensuring that it operates independently of management and approving the annual audit plan;
- considering the appropriateness of the expertise and experience of the chief financial officer and finance function; and
- providing effective communication between directors, management and external auditors.

COMMITTEE COMPOSITION AND MEETINGS

The committee is comprised of three non-executive directors, all of whom are suitably skilled with at least two

having extensive financial experience. The chairman of the committee is the lead independent director. The members of the committee for the period under review were as follows:

- John Bester (chairman), BCom (Hons) CA(SA)
- Willem Jungschläger, BA (Hons) PhD
- Pierre Joubert, BCom CA(SA)

Biographical details of the committee members appear on page 44 of the integrated annual report.

Meetings are also attended by invitees, including the executive chairman, chief financial officer, company secretary, finance director, head of internal audit and external auditors.

The committee typically meets four times during the year and has established an annual meeting plan agenda. The chairman of the committee reports to the board after each committee meeting and also attends the annual general meeting of shareholders to answer any questions that may arise concerning the activities of the committee.

As part of the annual board evaluation, the performance of the committee and individual committee members was assessed and found to be working well.

ACTIVITIES OF THE COMMITTEE

The main activities undertaken by the committee during the year are summarised as follows:

Compliance with laws and regulations

The committee reviewed the processes in place to ensure compliance with legal and regulatory provisions and believes that they are appropriate. The committee was not made aware of any material breach of laws or legislation during the year.

Internal control and risk management

The committee has assisted the board in assessing the adequacy of the risk management process and has an oversight role regarding the management of risk. Having considered, analysed, reviewed and debated information provided by management and internal audit, the committee is satisfied that:

- the internal controls of the group have been effective in all material aspects throughout the year under review;
- these controls have ensured that the group's assets have been safeguarded;
- proper accounting records have been maintained; and
- resources have been utilised efficiently.

Internal audit

The internal audit function provides assurance to the board on the adequacy and effectiveness of the group's internal control and risk management processes. The committee has ensured that the internal audit has functioned independently and has the authority to enable it to fulfill its duties. The chairman of the committee has met separately with the head of internal audit without management being present.

The committee has approved the internal audit plan and has reviewed the activities and findings of the internal audit function. The committee has reviewed reports on the controls regarding security, financial and accounting systems and reporting and satisfied itself that management maintains an effective control environment and identifies and manages critical risk areas. The committee was not made aware of any material breach of internal controls during the year.

External audit

The committee nominated for appointment the external auditor, reviewed the audit plan, the terms of engagement and the audit fee budget. The committee has appraised the independence, expertise and objectivity of PricewaterhouseCoopers as external auditor as well as approved the terms of engagement and the fees paid. The committee is satisfied that both the external auditor and the engagement partner are independent of the group and management and are able to express an independent opinion on the group's annual financial statements. Fees paid to the auditors are detailed in note 24 of the annual financial statements.

The committee determined the nature and extent of any non-audit services and pre-approved any proposed contract with the auditors for the provision of non-audit services. During the year, PricewaterhouseCoopers received fees of R238 300 for non-audit services amounting to 20,6% of the audit fees paid. In terms of the committee charter, non-audit services may not exceed 30% of the total external auditor's remuneration.

The committee reviewed the external auditor's opinion on the financial statements and considered any reports on risk exposure and weaknesses in internal controls. The committee also met with the external auditors separately without management being present.

The committee concludes that the skills, independence, audit plan, reporting and overall performance of the external auditors are acceptable and hereby recommends the re-appointment of PricewaterhouseCoopers as external auditor and Thinus Hamman as the engagement partner for 2013.

Going concern

The committee has reviewed management's assessment of the going concern and has recommended to the board that the group will be a going concern for the foreseeable future.

Annual financial statements

The committee has reviewed the group's interim and annual financial statements for the period and has considered matters such as the selection of accounting policies and disclosure of financial information. The committee is satisfied that the annual financial statements comply with International Financial Reporting Standards and recommended the approval of the annual financial statements to the board.

Expertise of the chief financial officer and finance function

The committee has considered the appropriateness of the expertise and experience of the chief financial officer.

The committee believes that Annalize Kirsten, the chief financial officer, possesses the appropriate expertise and experience to meet her responsibilities. The committee has also considered the collective expertise, resources and experience of the finance function and concluded that they are appropriate.

Integrated annual report

The committee has a responsibility to oversee integrated reporting having regard to all factors and risks that may impact on the integrity of the integrated annual report. The committee has reviewed the disclosure of sustainability issues in the integrated annual report and is satisfied that it is reliable and does not conflict with the annual financial statements. The committee believes that engaging with an external assurance provider on material sustainability issues would not be beneficial to shareholders at this time. The committee recommended the approval of the integrated annual report to the board.

RE-ELECTION OF COMMITTEE MEMBERS

The following members have made themselves available for re-election to the committee and are hereby proposed to shareholders for consideration and approval at the annual general meeting in May 2013:

- John Bester
- Willem Jungschläger
- Pierre Joubert



John Bester

Chairman of the audit and risk committee

15 March 2013

Cape Town

REPORT OF THE DIRECTORS for the year ended 31 December 2012

NATURE OF BUSINESS

HomeChoice Holdings Limited is a leading credit-based direct marketing retailer selling homeware merchandise and financial services products to the rapidly expanding urban middle-income mass market in southern Africa.

GENERAL REVIEW

The financial results are reflected in the annual financial statements on pages 6 to 60. Commentary on these annual financial statements is provided in the report of the chief financial officer in the integrated annual report which is available on the website homechoiceholdings.co.za or can be requested from the company secretary.

PROPERTY, PLANT AND EQUIPMENT

There were no significant changes in the nature of the group's property, plant and equipment during the period. Further details of the movements in the carrying value of property, plant and equipment are contained in note 4 to the group annual financial statements.

STATED AND SHARE CAPITAL

The unissued shares are under the control of the directors until the next annual general meeting. Details of the authorised and issued share capital are contained in note 13 to the group annual financial statements.

DISTRIBUTIONS TO SHAREHOLDERS

Dividends of 50 (fifty) cents were declared and paid during the year (2011: Nil). In the prior year, the company's share premium was reduced by an aggregate amount of R67,5 million which was utilised to repay members an amount of 65 (sixty-five) cents per ordinary share in the capital of the company held by its members.

SUBSIDIARY COMPANIES

Details of the company's investments in subsidiaries are set out on page 55 of this report. The interest of the company in the aggregate profits before taxation of the subsidiary companies is R376 646 million (2011: R312 838 million).

SHARE INCENTIVE AND OPTION SCHEME

As part of an employee share incentive scheme, 2 175 750 (2011: 1 229 100) share options were granted to employees as reflected in note 15 to the group annual financial statements.

DIRECTORS

The names of the company's directors and their profiles appear on page 44 in the integrated annual report. The following directors retire by rotation in terms of the memorandum of incorporation but, being eligible, offer themselves for re-election as directors:

A Chorn
P Joubert

AUDIT AND RISK COMMITTEE

The directors confirm that the audit and risk committee has addressed the specific responsibilities required in terms of the Companies Act No. 71 of 2008 (as amended). Further details are contained within the audit and risk committee report on pages 2 and 3.

COMPANY SECRETARY

BJ Bastard was appointed company secretary on 20 April 2012. His business and postal address appear on the inside back cover of the integrated annual report.

The previous company secretary, G Jacobs, resigned as company secretary on 20 April 2012.

SPECIAL RESOLUTIONS

On 4 May 2012 the shareholders passed the following special resolutions:

Resolution 1

Resolved to approve and ratify the remuneration of the directors for services as directors.

Resolution 2

Resolved to authorise the provision of financial assistance.

Resolution 3

To place the unissued shares in the authorised share capital of the company under the control of the directors for allotment and issue.

On 28 May 2012 the shareholders passed the following special resolutions:

Resolution 1

The conversion all of the existing authorised and issued ordinary shares of the company with a par value of 1 (one) cent each into ordinary shares of no par value.

Resolution 2

The adoption of a new memorandum of incorporation.

On 14 August 2012 the shareholders passed the following special resolutions:

Resolution 1

To approve a potential listing on the JSE.

Resolution 2

To approve the adoption of the share option scheme.

Resolution 3

To authorise the directors to issue shares in terms of section 41(1) and 41(3) of the Companies Act, in terms of the listing.

Resolution 4

To give the directors a general authority to repurchase shares.

SPECIAL RESOLUTIONS PASSED BY SUBSIDIARY COMPANIES

No special resolutions of any significance were passed during the year under review.

BORROWING POWERS

The borrowing powers of the group are not limited in terms of the memorandum of incorporation of the companies.

GOING CONCERN

The annual financial statements have been prepared on the going concern basis. The directors have reviewed the group's cash flow forecast for the 12 months to 31 December 2013 and, in the light of this review and the current financial position, they are satisfied that the group has or has access to adequate resources to continue in operational existence for the foreseeable future.

EVENTS SUBSEQUENT TO THE REPORTING DATE

No event which is material to the understanding of this report has occurred between the end of the reporting period and the date of this report.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF HOMECHOICE HOLDINGS LIMITED

for the year ended 31 December 2012

We have audited the consolidated and separate annual financial statements of Homechoice Holdings Limited set out on pages 6 to 60, which comprise the consolidated and separate statements of financial position as at 31 December 2012, and the consolidated and separate statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The company's directors are responsible for the preparation and fair presentation of these consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated and separate financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated and separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes

evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated and separate annual financial statements present fairly, in all material respects, the consolidated and separate financial position of Homechoice Holdings Limited as at 31 December 2012, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

OTHER REPORTS REQUIRED BY THE COMPANIES ACT

As part of our audit of the consolidated and separate annual financial statements for the year ended 31 December 2012, we have read the Directors' Report, the Audit Committee's Report and the Company Secretary's Certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited consolidated and separate annual financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited consolidated and separate annual financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.



PricewaterhouseCoopers Inc.

Director: MC Hamman

Registered Auditor

Cape Town

15 March 2013

GROUP STATEMENT OF FINANCIAL POSITION

at 31 December 2012

	Notes	2012 R'000	2011 R'000
ASSETS			
Non-current assets			
Property, plant and equipment	4	165 438	136 961
Intangible assets	5	40 678	20 913
Loans to employees	6	9 580	11 664
Investment in associates	7	3 951	1 677
Deferred taxation	8	13 206	12 878
		232 853	184 093
Current assets			
Inventories	10	110 241	92 149
Taxation receivable		11	1 175
Trade and other receivables	11	1 020 777	749 713
Trade receivables – HomeChoice		526 142	420 933
Trade receivables – Other retail		57 386	21 344
Loans receivable – FinChoice		411 646	296 580
Other receivables		25 603	10 856
Cash and cash equivalents	12	10 192	46 069
		1 141 221	889 106
Total assets		1 374 074	1 073 199
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Stated and share capital	13.1	30 980	1 039
Share premium	13.2	–	29 941
Treasury shares	14	(11 331)	(9 732)
Other reserves	16	1 084	545
Retained earnings		1 049 589	815 542
Total equity		1 070 322	837 335
Non-current liabilities			
Interest-bearing liabilities	17	90 977	74 895
Deferred taxation	8	60 097	45 159
Other payables	18	3 480	3 450
		154 554	123 504
Current liabilities			
Interest-bearing liabilities	17	9 178	7 433
Taxation payable		5 850	2 409
Trade and other payables	19	112 718	85 454
Provisions	20	18 934	17 064
Bank overdraft	12	2 518	–
		149 198	112 360
Total liabilities		303 752	235 864
Total equity and liabilities		1 374 074	1 073 199

GROUP STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2012

	Notes	2012 R'000	2011 R'000
Revenue	21	1 434 359	1 121 060
Retail sales		841 480	670 466
Cost of retail sales		(411 403)	(312 548)
Gross profit		430 077	357 918
Finance charges earned		363 474	278 454
Fees from ancillary services		229 405	171 746
Other net gains and losses	22	759	2 028
Other income	23	5 036	2 095
Debtor costs	24	(227 769)	(148 087)
Other trading expenses	24	(398 120)	(322 957)
Dividends received		-	394
Operating profit		402 862	341 591
Interest received		2 624	2 975
Interest paid		(6 236)	(6 156)
Share of loss of associates		(2 097)	(366)
Profit before taxation		397 153	338 044
Taxation	25	(112 656)	(98 048)
Profit for the year		284 497	239 996
Other comprehensive loss			
Losses arising on available-for-sale financial assets	9	-	(1 634)
Realised gains on disposal of available-for-sale financial assets	9	-	(2 184)
Other comprehensive loss for the year, net of taxation		-	(3 818)
Total comprehensive income		284 497	236 178
Earnings per share (cents)			
Basic	32.1	282,1	237,4
Diluted	32.2	280,1	237,4

GROUP STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2012

	Stated and share capital R'000	Share premium R'000	Treasury shares R'000	Other reserves R'000	Retained earnings R'000	Equity attributable to owners of the parent R'000
Balance at 1 January 2011	1 039	97 456	(8 938)	4 113	575 546	669 216
Changes in equity						
Total comprehensive income for the year	–	–	–	(3 818)	239 996	236 178
Purchases of treasury shares by share trust	–	–	(2 635)	–	–	(2 635)
Reduction in share premium	–	(67 515)	1 841	–	–	(65 674)
Share option scheme	–	–	–	250	–	250
Total changes	–	(67 515)	(794)	(3 568)	239 996	168 119
Balance at 1 January 2012	1 039	29 941	(9 732)	545	815 542	837 335
Changes in equity						
Conversion to no par value shares	29 941	(29 941)	–	–	–	–
Total comprehensive income for the year	–	–	–	–	284 497	284 497
Purchases of treasury shares by share trust	–	–	(1 599)	–	–	(1 599)
Dividends paid	–	–	–	–	(50 450)	(50 450)
Share option scheme	–	–	–	539	–	539
Total changes	29 941	(29 941)	(1 599)	539	234 047	232 987
Balance at 31 December 2012	30 980	–	(11 331)	1 084	1 049 589	1 070 322

GROUP STATEMENT OF CASH FLOWS

for the year ended 31 December 2012

	Notes	2012 R'000	2011 R'000
Cash flows from operating activities			
Operating cash flows before working capital changes	27	413 710	346 761
Movements in working capital	27	(259 992)	(203 253)
Cash generated from operations	27	153 718	143 508
Interest received		2 624	2 975
Interest paid		(6 236)	(6 156)
Dividends received		–	394
Dividends paid		(50 450)	–
Taxation paid	28	(93 441)	(91 647)
Net cash inflow from operating activities		6 215	49 074
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(35 464)	(24 403)
Proceeds on disposal of property, plant and equipment		–	300
Purchase of intangible assets	5	(24 612)	(16 466)
Proceeds from sale of available-for-sale financial assets		–	39 811
Loans repaid by employees		3 609	3 712
Investment in associates		(4 371)	(1 383)
Net cash (outflow)/inflow from investing activities		(60 838)	1 571
Cash flows from financing activities			
Reduction of share premium		–	(65 674)
Purchase of treasury shares		(1 599)	(2 635)
Proceeds from interest-bearing liabilities		31 585	74 685
Repayments of interest-bearing liabilities		(13 758)	(49 976)
Net cash inflow/(outflow) from financing activities		16 228	(43 600)
Net (decrease)/increase in cash and cash equivalents and bank overdrafts		(38 395)	7 045
Cash, cash equivalents and bank overdrafts at the beginning of the year		46 069	39 024
Cash, cash equivalents and bank overdrafts at the end of the year	12	7 674	46 069

GROUP SEGMENTAL ANALYSIS

for the year ended 31 December 2012

	Retail			Financial services		
	2012 R'000	% change	2011 R'000	2012 R'000	% change	2011 R'000
Segmental revenue	1 178 017		939 002	255 153		181 503
Retail sales	841 480	25,5	670 466	–		–
Finance charges earned	206 744	28,6	160 785	156 730	33,2	117 669
Fees from ancillary services	129 793	20,5	107 751	98 423	54,2	63 834
Dividends received	–		–	–		–
Intersegment revenue	–		–	–		–
Revenue from external customers	1 178 017	25,5	939 002	255 153	40,6	181 503
Segmental operating profit/(loss)	262 960	14,4	229 888	129 465	39,4	92 855
Interest received	2 162		1 399	120		173
Interest paid	(975)		(1 535)	(30 149)		(23 995)
Share of loss of associates	–		–	–		–
Profit before taxation	264 147	15,0	229 752	99 436	44,0	69 033
Taxation	(73 413)		(68 127)	(27 842)		(19 329)
Profit for the year	190 734	18,0	161 625	71 594	44,0	49 704
Segmental assets *	782 937		597 814	444 326		340 697
Segmental liabilities *	188 172		133 876	16 896		26 785
Group loans receivable/(payable)	42 212		133 177	(270 335)		(228 484)
Segmental equity	636 977		597 115	157 095		85 428
Operating cash flows before working capital changes	272 960	14,4	238 502	130 766	39,0	94 104
Movements in working capital	(143 211)		(117 955)	(117 125)		(86 423)
Cash generated/(utilised) by operations	129 749	7,6	120 547	13 641	77,6	7 681
Gross profit margin (%)	51,1		53,4			
Operating profit margin (%)	22,3		24,5	50,7		51,2
Capital expenditure						
Property, plant and equipment	4 759		5 268	620		719
Intangible assets	24 587		16 424	25		42
Depreciation and amortisation	9 739		8 774	896		1 341
Marketing costs	111 613	19,3	93 587	8 176	67,9	4 870
Staff costs	141 371	24,1	113 925	22 972	35,8	16 911
Other costs	105 628	10,5	95 613	16 788	22,4	13 721
Other trading expenses	358 612	18,3	303 125	47 936	35,0	35 502
Debtor costs	149 997	58,0	94 936	77 772	46,3	53 151
Total trading expenses (refer to note 24)	508 609	27,8	398 061	125 708	41,8	88 653

* Excluding group loans, including loans to share trust

Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors of HomeChoice Holdings Ltd. The group is primarily a retailer of household goods and provider of loans and other financial services. The group's reportable segments have been identified as follows:

- **Retail:** HomeChoice provides an exclusive range of household goods to the urban market;
- **Financial services:** FinChoice provides personal loans with terms ranging between 6 and 36 months;
- **Property:** The group holds land and buildings which are primarily used by HomeChoice and FinChoice; and
- **Other:** Aggregated under Other is the holding company's results and the results of the group's associates.

	Property			Other			Eliminations			Total		
	2012 R'000	% change	2011 R'000	2012 R'000	% change	2011 R'000	2012 R'000	% change	2011 R'000	2012 R'000	% change	2011 R'000
	18 462		17 435	153 266		8 746	–		–	1 604 898		1 146 686
	–		–	–		–	–		–	841 480	25,5	670 466
	–		–	–		–	–		–	363 474	30,5	278 454
	18 462	5,9	17 435	–		284	–		–	246 678	30,3	189 304
	–		–	153 266		8 462	–		–	153 266		8 462
	(17 273)		(17 273)	(153 266)		(8 353)	–		–	(170 539)		(25 626)
	1 189	634,0	162	–	(100,0)	393	–		–	1 434 359	27,9	1 121 060
	15 782	4,5	15 107	146 313	1 040,0	12 834	(151 658)	(1 567,9)	(9 093)	402 862	17,9	341 591
	35		18	30 455		25 380	(30 148)		(23 995)	2 624	(11,8)	2 975
	(5 260)		(4 621)	–		–	30 148		23 995	(6 236)	1,3	(6 156)
	–		–	(2 097)		(366)	–		–	(2 097)	473,0	(366)
	10 557	0,5	10 504	174 671	361,5	37 848	(151 658)	(1 567,9)	(9 093)	397 153	17,5	338 044
	(2 956)		(2 941)	(8 445)		(7 651)	–		–	(112 656)		(98 048)
	7 601	0,5	7 563	166 226	450,5	30 197	(151 658)	(1 567,9)	(9 093)	284 497	18,5	239 996
	154 257		124 856	9 772		27 946	(17 218)		(18 114)	1 374 074		1 073 199
	98 597		77 281	17 305		16 036	(17 218)		(18 114)	303 752		235 864
	(34 165)		(33 681)	262 288		128 988	–		–	–		–
	21 495		13 894	254 755		140 898	–		–	1 070 322		837 335
	16 774	3,2	16 253	(6 790)	(21 318,8)	32	–	(100,0)	(2 130)	413 710	19,3	346 761
	(97)		59	441		114	–	(100,0)	952	(259 992)		(203 253)
	16 677	2,2	16 312	(6 349)	(4 448,6)	146	–	(100,0)	(1 178)	153 718	7,1	143 508
	85,5		86,6	95,5		146,7	–		–	51,1		53,4
	–		–	–		–	–		–	28,1		30,5
	30 085		18 416	–		–	–		–	35 464		24 403
	–		–	–		–	–		–	24 612		16 466
	1 165		1 145	–		–	–		–	11 800		11 260
	–		–	–		–	–		–	119 789	21,7	98 457
	–		–	147	115,6	(940)	–		–	164 490	26,6	129 896
	2 702	13,9	2 372	5 996	3 406,4	171	(17 273)	–	(17 273)	113 841	20,3	94 604
	2 702	13,9	2 372	6 143	898,8	(769)	(17 273)	–	(17 273)	398 120	23,3	322 957
	–		–	–		–	–		–	227 769	53,8	148 087
	2 702	13,9	2 372	6 143	898,8	(769)	(17 273)	–	(17 273)	625 889	32,9	471 044

Eliminations include all intergroup transactions, balances, income and expenses, as eliminated on consolidation.

The group has a large, wide-spread customer base and no individual customer contributes a significant proportion of revenue. Sales outside of South Africa are less than 10% of total sales.

The chief operating decision-maker monitors the operating results of the business segments separately for the purposes of making decisions about resources to be allocated and of assessing performance. They primarily assess the performance of the operating segments based upon a measure of operating profit. Intersegment pricing is determined on an arm's length basis in a manner similar to transactions with third parties, with the exception of certain intergroup loans, as disclosed in notes 3 and 4 to the company annual financial statements.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2012

1. ACCOUNTING POLICIES

1.1 Presentation of annual financial statements

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies comply with International Financial Reporting Standards (IFRS), Interpretations issued by the International Financial Reporting Interpretation Committee (IFRIC) and the requirements of the Companies Act.

1.2 Basis of consolidation

The consolidated annual financial statements include those of the company and its subsidiaries, including any special purpose entities such as the employee share trust.

1.3 Basis of preparation

These annual financial statements have been prepared on the historical cost basis except for available-for-sale investments, which are measured at fair value. The consolidated and separate annual financial statements are expressed in South African Rand (ZAR or R). The principal accounting policies applied in the preparation of these annual financial statements are set out below and are consistent with those adopted in the prior year, except for new and amended standards and interpretations, as set out in note 2. The application of these new and amended standards and interpretations had no impact on the comparative results.

1.4 Investment in subsidiaries

Subsidiaries are all entities over which the group has the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity. The group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. The results of subsidiaries are included in the consolidated annual financial statements from the effective date of acquisition to the effective date of disposal. All intergroup

transactions, balances, income and expenses are eliminated on consolidation.

Non-controlling interests in the net assets of consolidated subsidiaries are identified and recognised in equity, separately from the group's interest in subsidiaries. Losses of subsidiaries attributable to non-controlling interest holders are allocated to the non-controlling interest even if this results in a debit balance being recognised. Transactions where ownership changes but control is retained are regarded as equity transactions and are recognised directly in the statement of changes in equity. Where a subsidiary is disposed of and a non-controlling shareholding is retained, the remaining investment is measured to fair value with the adjustment to fair value recognised in profit and loss as part of the gain or loss on disposal of the controlling interest. Adjustments are made when necessary to the annual financial statements of subsidiaries to bring their accounting policies in line with those of the group.

1.5 Investment in associate

An associate is an entity over which the group has significant influence and which is neither a subsidiary nor a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss. Refer to note 1.8 for the impairment of non-financial assets, including goodwill. The group's share of its associates' post-acquisition profits or losses is recognised in profit and loss, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. Unrealised gains on transactions between the group and its associates are eliminated to the extent of the group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. When the group reduces its level of significant influence or loses significant influence, the group proportionately reclassifies the related items which were previously accumulated in equity through other comprehensive income to profit or loss as a reclassification adjustment.

In such cases, if an investment remains, that investment is measured to fair value, with the fair value adjustment being recognised in profit or loss as part of the gain or loss on disposal. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the group.

1.6 Property, plant and equipment

Property, plant and equipment are initially recognised at cost, being the cash price equivalent at the recognition date. The cost of an asset comprises any costs incurred in bringing the asset to the location and condition necessary for it to operate as intended by management. Property, plant and equipment are subsequently stated at cost, less accumulated depreciation and accumulated impairment in value. Freehold land is stated at cost less any accumulated impairment in value and is not depreciated. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably.

All other repairs and maintenance expenditures are charged to profit and loss during the financial period in which they are incurred. Depreciation commences when the assets are available for their intended use.

Property, plant and equipment are depreciated on a straight-line basis over the expected useful lives of the various classes of assets, after taking into account residual values. Useful lives of property, plant and equipment, the depreciation method, depreciation rates and residual values are reviewed on an annual basis. The annual rates applied for depreciation are as follows:

Buildings *	10,0%
Furniture and fittings	4,0% – 33,3%
Office equipment	7,7% – 33,3%
Computer equipment	11,1% – 50,0%
Motor vehicles	14,3% – 25,0%
Plant and machinery	14,3% – 33,3%

* *Main building components are not depreciated as their residual value exceeds cost.*

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit and loss in the year the asset is derecognised. An asset's carrying amount is written down immediately to its recoverable amount if the assets' carrying amount is greater than its estimated recoverable amount.

1.7 Intangible assets

Intangible assets are initially recognised at cost. The useful lives of intangible assets are assessed to be either finite or indefinite. If assessed as having a finite useful life, it is amortised over its useful economic life using a straight-line basis and tested for impairment if there is an indication that it may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed annually. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in profit or loss. Intangible assets include licences and computer software (including development costs). All of the group's intangible assets are assessed as having finite useful lives. The annual amortisation rates applied are as follows:

Licences	10,0% – 33,3%
Computer software	14,3% – 33,3%

Costs associated with maintaining computer software programs are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the group are recognised as intangible assets when the following criteria are met:

- It is technically feasible to complete the software product so that it will be available for use;
- Management intends to complete the software product and use it;
- There is an ability to use the software product.
- It can be demonstrated how the software product will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use the software product are available; and
- The expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit and loss when the asset is derecognised.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2012 (continued)

1.8 Impairment of non-financial assets

At each reporting date the group assesses whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the group makes an estimate of the asset's recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount, with the impairment loss being recognised in profit and loss. An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised for the asset in prior years. Such a reversal is recognised in profit and loss.

1.9 Inventory

Inventory is valued at the lower of cost, determined on the first-in-first-out basis, and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and cost necessary to make the sale.

1.10 Leases

Leases are classified as operating leases, where substantially all the risks and rewards associated with ownership of the asset are not transferred from the lessor to the lessee. Operating lease payments are recognised as an expense in profit and loss on a straight-line basis over the lease term. The resulting difference arising between the straight-line basis and contractual cash flows is recognised as an operating lease obligation or asset. Contingent rental income and expenses are recognised when accrued or incurred. Where the group leases assets and substantially assumes all the risks and rewards of ownership, the lease is classified as a finance lease. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

1.11 Financial instruments

Financial instruments recognised on the statement of financial position include trade and other receivables, cash and cash equivalents, trade and

other payables and interest-bearing borrowings. Financial instruments are initially measured at fair value, including transaction costs, when the group becomes a party to the contractual arrangements. However, transaction costs in respect of financial assets classified as fair value through profit and loss are expensed. A financial asset is derecognised when the contractual rights to receive cash flows from the asset have been transferred or have expired or when substantially all the risks and rewards of ownership have passed. A financial liability is derecognised when the relevant obligation has either been discharged or cancelled or has expired. Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a current legally enforceable right to set off recognised amounts and there is an intention to realise the assets and settle the liabilities on a net basis. Subsequent to initial recognition, these instruments are measured as set out below.

Trade and other receivables

Trade and other receivables are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of receivables. A default or delinquency in payment is regarded as objective evidence that a receivable might be impaired. The amount of the allowance is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. The amount of any impairment, recoveries and the movement in the allowance is recognised as debtor costs in profit and loss.

Cash and cash equivalents

Cash and cash equivalents, consisting of cash on hand, cash in banks, short-term deposits and bank overdrafts, are subsequently measured at amortised cost.

1.12 Financial guarantee contracts

Financial guarantee contracts are recognised as financial liabilities at the date the guarantee is issued at fair value less cumulative amortisation. The fair value of the guarantee is determined as the present value of the difference in net cash flows between the contractual payments under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligation.

1.13 Derivative financial instruments

The group uses derivative financial instruments such as forward currency contracts to economically hedge its risks associated with foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. Derivatives are categorised as held-for-trading at fair value through profit and loss, unless they are designated as hedges.

1.14 Trade and other payables

Liabilities for trade and other payables are classified as financial liabilities and are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in profit and loss when liabilities are derecognised, as well as through the amortisation process.

1.15 Interest-bearing borrowings

Borrowings are classified as other financial liabilities and are subsequently measured at amortised cost using the effective interest rate. Gains and losses are recognised in profit and loss when liabilities are derecognised, as well as through the amortisation process.

1.16 Loans to employees

Loans to employees are classified as loans and receivables. Loans with maturity repayment terms are measured at amortised cost using the effective interest rate method less any allowance for impairment.

1.17 Impairment of financial assets

The group assesses at each reporting date whether a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred and reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying

amount of the asset is reduced by the allowance for impairment. The amount of the loss is recognised in profit and loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit and loss, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

1.18 Share capital and equity

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Stated and share capital

Share capital represented the par value of ordinary shares issued, being classified as equity. During the year, the ordinary shares were converted to no par value shares, resulting in the existing share capital and premium being transferred to stated capital. If the group reacquires its own equity instruments, the consideration paid, including any directly attributable incremental costs, are deducted from equity until the shares are cancelled or reissued. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the group's own equity instruments. Consideration paid or received shall be recognised directly in equity.

Share premium

Share premium represents the excess consideration received by the company over the par value of ordinary shares issued and was classified as equity. Incremental costs directly attributable to the issue of new shares or options were shown in equity as a deduction from share premium, net of any taxation effect.

Treasury shares

Shares in the company held by a share trust are classified as treasury shares. Treasury shares are treated as a deduction from equity and the cost price of these shares is deducted in arriving at group equity. No gain or loss is recognised in profit and loss on the purchase, sale, issue or cancellation of the group's own equity instruments.

1.19 Dividend distribution

Dividend distributions to the company's shareholders are recognised as a liability in the group's financial statements in the period in which dividends are approved by the company's shareholders.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2012 (continued)

1.20 Share-based payments

The group operates an equity-settled share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments (share options) of the group. The fair value of the employee services received in exchange for the grant of the share options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the share options granted:

- Including any market performance conditions (for example, an entity's share price);
- Excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- Including the impact of any non-vesting conditions.

Non-market vesting conditions are included in assumptions about the number of share options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the entity revises its estimates of the number of share options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in profit and loss, with a corresponding adjustment to equity. When the share options are exercised, the company issues new shares or settles through releasing existing treasury shares. If issuing new shares, the proceeds received net of any directly attributable transaction costs are credited to stated capital when the options are exercised. If settling through the release of existing treasury shares, the proceeds received net of any directly attributable transaction costs are credited to retained earnings, with the resulting decrease in treasury shares being debited to same. The grant by the company of share options over its equity instruments to the employees of subsidiary undertakings in the group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent standalone accounts.

1.21 Provisions and contingencies

Provisions are recognised when the group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a

reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost. For further details on the nature of provisions raised within the group, refer to note 20. Contingent liabilities arise when an obligation has resulted, but is either not probable or not able to be reliably estimated. Contingent liabilities are not recognised.

1.22 Revenue recognition

Revenue is recognised at the fair value of the consideration received, net of discounts and related taxes, and consists primarily of the retail sales, finance charges earned, fees from ancillary services and dividends received. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the group and the revenue can be measured reliably. The following specific criteria must also be met before revenue is recognised:

Retail sales

Retail sales comprises revenue from the sale of goods and income earned from the delivery of such goods and is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods. It is the group's policy to sell its products to the retail customer with a right to return within 14 days. The group does not operate any loyalty programmes.

Finance charges earned

Finance charges earned includes finance charges and delinquent interest earned on trade and other receivable balances. Finance charges and delinquent interest are recognised on the time-proportionate basis using the effective interest rate implicit in the instrument. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the group estimates cash flows and includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees from ancillary services

Fees from ancillary services include revenue earned for the origination and administration of transactions with customers, as well as insurance distributions received on our credit life products and group schemes. Origination fees are charged upfront and are capitalised on initiation of a loan or credit sale. In accordance with IAS 18 Revenue, these origination fees are considered an integral part of the effective interest rate and are accounted for over the shorter of the original contractual term and the actual term of the loan or credit sale, using the effective interest rate. Trade receivables are reduced by the deferred portion of these fees. The group does not defer any related operating costs, as these are all internal costs which are not directly attributable to individual transactions and as such are primarily absorbed infrastructure costs. While origination fees are regarded as an integral part of the effective interest rate, they are not accounted for as interest income, but as fees from ancillary services. Monthly administration fees are recognised in profit and loss as they are charged to the customer. Insurance distributions are recognised as income when the right to receive payment is established.

Dividends received

Dividends received on equity instruments are recognised when the right to receive payment is established.

1.23 Cost of retail sales

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. Cost of sales includes costs of purchase and subsequent distribution. Costs of purchase include the purchase price, import duties, non-recoverable taxes and transport costs. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs. Costs directly related to the provision of services recognised as revenue in the current period are included in cost of sales.

1.24 Interest paid

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset. Finance charges payable on suspensive sale

transactions, for the purchase of property, plant and equipment, are accounted for over the period of the agreements using the effective interest rate method and are included in interest paid. Other borrowing costs are recognised as an expense when incurred.

1.25 Employee benefits

Retirement obligations

The group operates a defined contribution retirement provident fund scheme which is funded through payments to insurance companies, determined by periodic actuarial calculations. A defined contribution plan is a retirement plan under which the group pays fixed contributions into a separate entity. The group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions are recognised as an employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Bonus scheme

The group recognises a liability and an expense for bonuses, based on a formula that takes into consideration the profit attributable to the group's shareholders after certain adjustments. The group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

1.26 Taxation

The income tax expense is determined based on taxable income for the year and includes deferred tax, secondary tax on companies (STC) (which has been replaced effective 1 April 2012 by withholding tax on dividends) and capital gains tax. Tax is recognised in profit and loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In such case the tax is also recognised in other comprehensive income or directly in equity respectively.

Current taxation

Management periodically evaluates positions taken in tax returns with respect to situations in which tax regulation is subject to interpretation. Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2012 (continued)

Deferred taxation

Deferred taxation is recognised using the liability method on temporary differences at the reporting date between the carrying amounts for financial reporting purposes and the tax bases of assets and liabilities. However, the deferred income taxation is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred taxation assets are recognised to the extent that it is probable that the related taxation benefit will be realised in the foreseeable future against future taxable profit. Deferred taxation is calculated using the taxation rates that have been enacted at the reporting date that are expected to apply when the asset is realised or the liability settled. The carrying amount of a deferred tax asset is reviewed at each reporting date. If it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all to be utilised, the carrying value of the deferred tax asset is reduced. Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

Secondary tax on companies

For all dividends declared prior to 1 April 2012, STC was recognised as part of the tax expense in the statement of comprehensive income when the related dividend was paid.

Withholding tax on dividends

STC was abolished with effect from 1 April 2012 and replaced by a dividends tax, which is not levied on the company but on the beneficial owner of the share and accordingly does not require recognition in profit or loss. Dividends tax withheld by the company on dividends paid to its shareholders (who do not qualify for an exemption from dividends tax) and payable at the reporting date to the South African Revenue Service (where applicable) is included in trade and other payables in the statement of financial position.

1.27 Foreign currency transactions

Items included in the annual financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates (functional currency). The consolidated annual financial statements are presented in South African rand, which is the company's functional and the group's presentation currency. Foreign currency transactions are translated into the functional

currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit and loss, except when deferred in other comprehensive income as qualifying cash flow hedges.

1.28 Significant accounting judgements, estimates and assumptions

The preparation of the group's annual financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying value of the asset or liability affected in the future.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Depreciation of property, plant and equipment

The group assigns useful lives and residual values to property, plant and equipment based on periodic studies of actual asset lives and the intended use for those assets. Changes in circumstances such as technological advances, prospective economic utilisation and physical condition of the assets concerned could result in the actual useful lives or residual values differing from initial estimates. Where the group determines that the useful life of property, plant and equipment should be shortened or residual value reduced, it depreciates the net book value in excess of the residual value over the revised remaining useful life, thereby increasing depreciation expense. Any change in an asset's life or residual value is reflected in the group's annual financial statements when the change in estimate is determined.

Amortisation of intangible assets

Computer software is amortised to its estimated residual value on a straight-line basis over its expected useful life. Amortisation commences when the computer software is available for its intended use. The amortisation period, method and residual values are reviewed at each reporting date. A change resulting from the review is treated as a change in accounting estimate.

Trade and loan receivables

A provision for impairment of trade and loan receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is measured as the difference between the asset's

carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. The estimated future cash flow is based on prior debtors' book yields and average instalment terms. The prior year debtors' book yields have been adjusted to take into account the current economic conditions. As these conditions are uncertain, management has been cautious in assessing the ability of customers to make their required payments.

2. STANDARDS AND INTERPRETATIONS

2.1 New and amended standards and interpretations adopted by the group

No new standards, amendments or interpretations to existing standards, relevant to the group's operations, became effective for the year ended 31 December 2012. The following new standards, amendments or interpretations to existing standards became effective during the year, but are not relevant to the group's operations:

- *Amendments to IFRS 1, First-time Adoption of International Financial Reporting Standards;*
- *Amendments to IFRS 7, Financial Instruments: Disclosures; and*
- *Amendments to IAS 12, Income Taxes.*

2.2 New and amended standards and interpretations not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the group's accounting periods beginning on or after 1 January 2013 or later periods, but which the group has not early adopted, are as follows:

IFRS 9, Financial Instruments: Classification and Measurement

This new standard covers the classification and measurement of financial assets and aims to enhance the ability of investors and other users of financial information to understand the accounting of financial assets and reduce complexity. The standard is intended ultimately to replace IAS 39 and becomes effective for annual periods beginning on or after 1 January 2015. The group is still considering the expected impact of IFRS 9, which could be significant.

IFRS 10, Consolidated Financial Statements

The new standard establishes control as the only basis for consolidation of all entities, regardless of the nature of the investee. It amends the definition of control to include three elements, namely power over an investee, exposure or rights to variable returns of the investee and the ability to use power over the investee to affect the investor's returns. The new standard will replace IAS 27, *Consolidated and Separate Financial Statements and SIC 12, Consolidation – Special Purpose Entities* and becomes effective for annual periods beginning on or after 1 January 2013. The group is still determining the expected impact of IFRS 10.

IFRS 12, Disclosure of Interests in Other Entities

The objective of the new standard is to increase transparency in financial reporting where the reporting entity has an interest in subsidiaries, joint arrangements, associates or unconsolidated structured entities. The standard requires disclosure of information to enable users of financial statements to evaluate the nature, risks and financial effects associated with its interests in other entities. IFRS 12 becomes effective for annual periods beginning on or after 1 January 2013. The group expects that its adoption will not have a material financial impact on its annual financial statements, however, it will impose additional disclosure requirements.

IFRS 13, Fair Value Measurement

The objective of the new standard is to reduce the complexity and improve the consistency of fair value measurements and is part of the IASB's IFRS and US GAAP convergence project. The standard consolidates and clarifies the requirements for measuring fair value and includes disclosure enhancements to assist users of financial statements to better assess the valuation techniques and inputs used to measure fair value. IFRS 13 is effective for annual periods beginning on or after 1 January 2013 and the group is still determining its expected impact.

Amendments to IAS 1, Presentation of Financial Statements

The amendments to IAS 1 require items that are recognised in other comprehensive income, that may in a future period be reclassified to profit and loss, to be presented separately from those items that may never be reclassified to profit and loss. IAS 1 becomes effective for annual periods beginning on or after 1 July 2012. The group expects that its adoption will not have a material financial impact on its annual financial statements, however, it will impose additional disclosure requirements.

2.3 New and amended standards and interpretations not currently relevant to the group's operations

The group has not applied the following new and amended standards and interpretations that have been issued but are not yet effective, nor relevant to the group's operations:

- *Amendments to IFRS 1, First-time Adoption of International Financial Reporting Standards (effective 1 January 2013);*
- *Amendments to IFRS 7, Financial Instruments: Disclosures (effective 1 January 2013);*
- *Amendments to IAS 32, Financial Instruments: Presentation (effective 1 January 2014);*
- *IFRS 11, Joint Arrangements (effective 1 January 2013);*
- *Amendments to IAS 19, Employee Benefits (effective 1 January 2013); and*
- *Annual Improvements to IFRS (effective 1 May 2012).*

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2012 (continued)

3. RISK MANAGEMENT AND FINANCIAL INSTRUMENT DISCLOSURE

The board is accountable for the process of risk management, establishing appropriate risk and control policies and communicating these throughout the group. The group's risk management policies are designed to identify risks faced by the group and establish appropriate controls and limits to mitigate the risk to acceptable levels. The audit and risk committee oversees how management monitors compliance with these risk and control policies.

The group's risk management process is more fully described in the governance section of the integrated annual report. This note discloses information about the group's capital risk management and exposure to risks from its use of financial instruments.

3.1 Capital risk management

The group's objectives in managing capital is to sustain the group's ability to continue as a going concern while enhancing returns to shareholders. The group primarily makes use of equity for capital management purposes. Equity consists of ordinary share capital and reserves as disclosed in the statement of changes in equity. The capital structure of the group also consists of debt, which includes the borrowings disclosed in note 17, and cash and cash equivalents disclosed in note 12.

The directors meet regularly to review the capital structure. As part of this review the directors consider the availability of funding within the group to fund the group's capital requirements. The directors also consider the cost of capital and the risks associated with each class of capital.

The board monitors the return on equity and seeks to maintain a balance between the higher returns that may be possible with higher levels of borrowings and the security and other benefits afforded by a sound capital position. The directors have determined a medium-term target of 27% to 32%. The group's return on equity was 30,0% (2011: 31,9%).

In order to maintain or adjust the capital structure, the group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or increase or reduce debt. From time to time the group repurchases its own shares or reduces share premium. The timing of these repurchases or share premium reductions depend on the availability of shares to be repurchased and available funding. The decision to repurchase shares or reduce share premium is made on a specific transaction basis. The group does not have a defined share buy-back plan. During the year, the share premium was reduced by nil cents per share (2011: 65 cents).

There were no changes in the group's approach to capital maintenance during the year. Neither the company nor its subsidiaries are subject to externally imposed capital requirements.

3.2 Financial risk management

The group's activities expose it to a variety of financial risks arising from the use of financial instruments, including credit risk, liquidity risk and market risk.

The group's financial assets and liabilities, as well as non-financial assets and liabilities, can be summarised as follows:

	Note	Loans and receivables R'000	Non-financial assets R'000	Total R'000
3. RISK MANAGEMENT AND FINANCIAL INSTRUMENT DISCLOSURE (continued)				
3.2 Financial risk management (continued)				
ASSETS				
2012				
Non-current assets				
Loans to employees	6	9 580	–	9 580
Current assets				
Trade receivables – HomeChoice	11	526 142	–	526 142
Trade receivables – Other retail	11	57 386	–	57 386
Loans receivable – FinChoice	11	411 646	–	411 646
Other receivables	11	13 105	12 498	25 603
Cash at bank	12	10 192	–	10 192
Total		1 028 051	12 498	1 040 549
Guarantees		15 000		
Maximum exposure to credit risk		1 043 051		
2011				
Non-current assets				
Loans to employees	6	11 664	–	11 664
Current assets				
Trade receivables – HomeChoice	11	420 933	–	420 933
Trade receivables – Other retail	11	21 344	–	21 344
Loans receivable – FinChoice	11	296 580	–	296 580
Other receivables	11	2 040	8 816	10 856
Cash at bank	12	31 811	–	31 811
Money market investments	12	14 258	–	14 258
Total		798 630	8 816	807 446
Guarantees		15 000		
Maximum exposure to credit risk		813 630		

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2012 (continued)

Note	At amortised cost R'000	Non-financial liabilities R'000	Total R'000	
3. RISK MANAGEMENT AND FINANCIAL INSTRUMENT DISCLOSURE (continued)				
3.2 Financial risk management (continued)				
LIABILITIES				
2012				
Non-current liabilities				
Borrowings from bank	17	84 026	–	84 026
Suspensive sale agreements	17	6 951	–	6 951
Non-current other payables	18	3 480	–	3 480
Current liabilities				
Trade payables	19	87 337	–	87 337
Other payables	19	18 502	6 879	25 381
Borrowings from bank	17	7 248	–	7 248
Suspensive sale agreements	17	1 930	–	1 930
Total		209 474	6 879	216 353
2011				
Non-current liabilities				
Borrowings from bank	17	66 572	–	66 572
Suspensive sale agreements	17	8 323	–	8 323
Non-current other payables	18	3 450	–	3 450
Current liabilities				
Trade payables	19	71 287	–	71 287
Other payables	19	9 969	4 198	14 167
Borrowings from bank	17	5 102	–	5 102
Suspensive sale agreements	17	2 331	–	2 331
Total		167 034	4 198	171 232

3.3 Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the group. The group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. There is no concentration of credit risk as the group has a large, wide-spread customer base. Credit risk consist principally of trade and loan receivables and short-term cash deposits. The group's maximum exposure to credit risk at year-end in respect of financial assets is shown in note 3.2. Refer to the "Credit Risk Management" section in the Managing the Risk of Credit report on page 89 of the integrated annual report.

The group did not consider there to be any significant credit risk exposure which has not been adequately provided for.

Trade and loan receivables

Trade and loan receivables have repayment terms of 6 to 36 months and attract interest based on rates determined by the National Credit Act. Methods used to grant credit to customers comply with the requirements of the Act.

Customer acquisition takes into account the risk level, repurchase propensity and profitability of new customers. Bespoke scorecards predict the level of risk of new customers, and relatively small instalment accounts are granted. Industry-wide fraud databases are used to identify potentially fraudulent applications. The group maintains a suite of behaviour scorecards which provide a sound basis for extending further instalment credit to good-paying customers. These scorecards are regularly reviewed and upgraded. The group manages the ageing of HomeChoice and Other retail trade receivables on a contractual basis.

The FinChoice loans receivable book is derived from HomeChoice customers who have demonstrated good payment behaviour. The group manages the ageing of FinChoice loans receivable on a recency basis. Recency refers to the number of payment cycles that have elapsed since the last qualifying payment was received.

All group data is taken into account when a customer is considered for credit extension. The quality of the customer base is closely monitored and early default models are maintained to detect any signs of early customer default. External collection agents are used to supplement collections activities to recover outstanding balances. The group does not hold any collateral against receivable balances.

A provision for impairment is raised when there is objective evidence that the business will not be able to collect all amounts due according to the original terms of the receivable. A default or delinquency in payment is regarded as objective evidence that a receivable might be impaired. Accordingly, a percentage of all trade and loans receivable past due is provided for. The group establishes an allowance for impairment that represents its estimate of incurred losses using delinquency roll rate models.

No security is obtained for trade and loans receivables, and accordingly the entire balance as per the statement of financial position is exposed to credit risk.

HomeChoice and Other retail receivables classified as 'satisfactory paid' includes current receivables and amounts past due less than 30 days. Past experience has shown that a significant portion of amounts past due less than 30 days carry credit risk similar to that of current receivables, and accordingly these balances are reviewed together.

The ageing of gross trade receivables at 31 December was:

Contractual	2012	2011
	%	%
HomeChoice		
Satisfactory paid *	69,7	70,8
Current	44,2	43,3
Past due less than 30 days	25,5	27,5
Past due 31 – 60 days *	10,6	11,2
Past due 61 – 90 days *	5,8	5,7
Past due more than 91 days *	13,9	12,3
	100,0	100,0
Other retail		
Satisfactory paid	91,2	94,8
Current	82,3	89,0
Past due less than 30 days	8,9	5,8
Past due 31 – 60 days	3,6	2,0
Past due 61 – 90 days	2,4	1,2
Past due more than 91 days	2,8	2,0
	100,0	100,0

* Amounts have been restated as set out in note 35

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2012 (continued)

3. RISK MANAGEMENT AND FINANCIAL INSTRUMENT DISCLOSURE (continued)

3.3 Credit risk management (continued)

The group manages the ageing of FinChoice loans receivable on a recency basis. Recency refers to the number of payment cycles that have elapsed since the last qualifying payment was received. The ageing of loan receivables at 31 December was:

Recency	2012 %	2011 %
Current *	88,9	90,9
Not paid 1 – 30 days *	6,1	4,8
Not paid 31 – 60 days *	2,2	2,0
Not paid more than 61 days *	2,8	2,3
	100,0	100,0

* Amounts have been restated as set out in note 35

Loan product	2012 %	2011 %
6-month loan	21,1	22,5
12-month loan	21,4	24,8
24-month loan	51,6	50,3
36-month loan	4,1	–
Other	1,8	2,4
	100,0	100,0

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:

	2012 %	2011 %
HomeChoice	9,4	8,3
Other retail	1,5	0,9
FinChoice	0,3	–

Cash and cash equivalents

The group invests surplus cash only with F1+ and approved F1 national short-term rated financial institutions.

Loans to employees

In terms of the group's employee share incentive scheme, loans have been provided to certain directors and managers of the group to enable them to acquire shares in HomeChoice Holdings Ltd at market value. These shares are pledged to and held by the trustees of the HomeChoice Share Trust.

Financial guarantees

Credit risk arises in relation to financial guarantees given to certain parties. A subsidiary of the group has provided security on behalf of the group's associate, as discussed in note 7.

3.4 Liquidity risk management

Liquidity risk is the risk that the group will not be able to meet its financial obligations as they fall due. The group's approach to liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risking damage to the group's reputation. The risk is managed through optimisation of daily cash management and regular reviews of cash flow projections to ensure that appropriate borrowing facilities are in place.

The following table details the group's undiscounted contractual maturities for its financial liabilities:

	Weighted average interest rate %	On demand R'000	Less than 1 month R'000	1 to 3 months R'000	3 months to 1 year R'000	1 to 2 years R'000	Over 2 years R'000
2012							
Non-interest-bearing liabilities							
Non-current other payables	–	–	–	–	–	770	2 710
Trade and other payables	–	49 204	49 161	6 611	953	–	–
Financial guarantees	–	15 000	–	–	–	–	–
Interest-bearing liabilities							
Borrowings from the bank	7,94	–	764	1 528	9 236	15 269	97 987
Suspensive sale agreements	8,77	–	218	436	1 963	2 617	5 189
		64 204	50 143	8 575	12 152	18 656	105 886
2011							
Non-interest-bearing liabilities							
Non-current other payables	–	–	–	–	–	770	2 680
Trade and other payables	–	34 033	44 962	1 763	870	–	–
Financial guarantees	–	15 000	–	–	–	–	–
Interest-bearing liabilities							
Borrowings from the bank *	8,93	–	1 670	1 772	7 975	10 634	81 638
Suspensive sale agreements	9,00	–	323	703	2 011	2 489	7 318
		49 033	46 955	4 238	10 856	13 893	91 636

* Amounts have been restated as set out in note 35

The group has the following undrawn borrowing facilities available:

	2012 R'000	2011 R'000
General banking facilities available *	125 000	105 000
Guarantees	9 300	6 700
Suspensive sale agreements facility available	25 000	15 000
	159 300	126 700
Amounts drawn against these facilities	(96 539)	(73 480)
Unutilised borrowing facilities at 31 December	62 761	53 220

* Amounts have been restated as set out in note 35

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2012 (continued)

3. RISK MANAGEMENT AND FINANCIAL INSTRUMENT DISCLOSURE (continued)

3.5 Market risk management

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of market prices. Market prices comprise three types of risk: equity price risk, foreign currency risk and interest rate risk. Financial instruments affected by market risk include trade and other receivables, interest-bearing liabilities and cash and cash equivalents.

Equity price risk management

The group is not exposed to equity price risk.

Foreign currency risk management

The group undertakes transactions in foreign currencies, hence exposure to exchange rate fluctuations arise. The majority of these transactions are purchases of inventory from Asia and are denominated in US dollar. When deemed appropriate by the directors, the group enters into forward exchange contracts to assist in managing its foreign currency exposure and economically hedge the exchange risk.

The group had uncovered foreign liabilities (including foreign bank overdrafts) at 31 December 2012 amounting to R23,085 million (2011: R16,542 million). There were no outstanding forward exchange contracts at the reporting dates.

The group measures sensitivity to foreign exchange rates as the effect of a change in the US dollar exchange rate on profit after taxation based on the group's exposure at 31 December. The group regards a 15% change in exchange rates as being reasonably possible at the reporting dates.

The sensitivity of the group's profit after taxation due to a reasonably possible change in exchange rates, with all other variables held constant, through the impact on uncovered foreign liabilities at year-end is as follows:

	Effect on profit after taxation	
	2012 R'000	2011 R'000
15% appreciation in ZAR/USD exchange rates *	2 221	1 787
15% depreciation in ZAR/USD exchange rates *	(2 221)	(1 787)

The following line items on the group's statement of financial position includes balances denominated in US dollar:

	2012 R'000	2011 R'000
Trade and other payables *	20 567	16 542
Bank overdraft	2 518	–
	23 085	16 542

* Amounts have been restated as set out in note 35

Interest rate risk management

At year-end the group's interest-bearing assets and liabilities comprised trade and loan receivables, cash and cash equivalents, money market investments, borrowings from the bank and suspensive sale agreements. All interest-bearing assets and liabilities are sensitive to fluctuations in interest rates, except for trade and loan receivables, where the interest rate is fixed at the time of entering into an agreement with the customer.

The group measures sensitivity to interest rates as the effect of a change in the Reserve Bank repo rate on the profit after taxation based on the group's exposure at 31 December. The group regards a 100 basis points (2011: 100 basis points) change in the Reserve Bank repo rate as being reasonably possible at the reporting dates.

	Movement in basis points	Effect on profit after taxation	
		2012 R'000	2011 R'000
Cash and cash equivalents	+100	73	229
	-100	(73)	(229)
Money market investments	+100	-	103
	-100	-	(103)
Borrowings from the bank	+100	(657)	(516)
	-100	657	516
Suspensive sale agreement	+100	(64)	(77)
	-100	64	77

3.6 Fair value of financial instruments

The fair values of financial instruments are measured in accordance to the following fair value measurement hierarchy:

- Level 1: Quoted prices in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices that are observable for the asset or liability; and
- Level 3: Inputs for the asset or liability that are not based on observable market data.

At the reporting dates, none of the group's financial assets and liabilities were carried at fair value. The carrying value of financial instruments approximate their fair value.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2012 (continued)

	2012			2011		
	Cost R'000	Accumulated depreciation R'000	Carrying value R'000	Cost R'000	Accumulated depreciation R'000	Carrying value R'000
4. PROPERTY, PLANT AND EQUIPMENT						
Land and buildings	155 166	(4 592)	150 574	125 081	(3 427)	121 654
Motor vehicles	1 831	(989)	842	1 918	(1 126)	792
Computer equipment	18 581	(12 285)	6 296	15 847	(9 371)	6 476
Equipment, furniture, fittings and plant	19 375	(11 649)	7 726	17 344	(9 305)	8 039
Total	194 953	(29 515)	165 438	160 190	(23 229)	136 961

Analysis of movements:

	Opening balance R'000	Additions R'000	Disposals R'000	Depreciation R'000	Closing balance R'000
2012					
Land and buildings	121 654	30 085	–	(1 165)	150 574
Motor vehicles	792	156	–	(106)	842
Computer equipment	6 476	2 868	(34)	(3 014)	6 296
Equipment, furniture, fittings and plant	8 039	2 355	–	(2 668)	7 726
Total	136 961	35 464	(34)	(6 953)	165 438
2011					
Land and buildings	104 384	18 416	–	(1 146)	121 654
Motor vehicles	788	487	(399)	(84)	792
Computer equipment	6 086	3 245	(10)	(2 845)	6 476
Equipment, furniture, fittings and plant	8 607	2 255	–	(2 823)	8 039
Total	119 865	24 403	(409)	(6 898)	136 961

Land and buildings comprise:

- Land and buildings, being remainder erf 66592 Cape Town at Wynberg situated in the City of Cape Town, in extent of 2 858 square metres (acquired in 2007);
- Land and buildings, being remainder erf 91380 Cape Town at Wynberg situated in the City of Cape Town, in extent of 4 936 square metres (acquired in 2011); and
- Industrial-site land, on which a warehouse is currently being erected, being remainder of portion 240 of the farm Wimbledon 454 situated in the City of Cape Town and measuring 3,314 hectares (acquired in 2005).

The carrying value of property, plant and equipment subject to suspensive sale agreements (refer to note 17) as at 31 December 2012 was R3,710 million (2011: R4,200 million).

Included in property, plant and equipment are assets with a cost of R12,429 million (2011: R7,765 million) that are in use but fully depreciated.

Land and buildings include a carrying value of R132,281 million (2011: R103,361 million) currently encumbered as shown in note 17. Included in disposals are equipment, furniture and fittings and plant with a cost of R0,324 million (2011: R0,067 million) and accumulated depreciation of R0,324 million (2011: R0,067 million) and computer equipment with a cost of R0,134 million (2011: R0,235 million) and accumulated depreciation of R0,100 million (2011: R0,225 million), which had no further economic value and have been removed from the register.

	2012			2011		
	Cost R'000	Accumulated amortisation R'000	Carrying value R'000	Cost R'000	Accumulated amortisation R'000	Carrying value R'000
5. INTANGIBLE ASSETS						
Licences	24 357	(8 263)	16 094	19 623	(7 559)	12 064
Computer software	30 656	(6 072)	24 584	10 778	(1 929)	8 849
Total	55 013	(14 335)	40 678	30 401	(9 488)	20 913

Analysis of movements:

	Opening balance R'000	Additions R'000	Disposals R'000	Amortisation R'000	Closing balance R'000
2012					
Licences	13 529	4 734	–	(2 169)	16 094
Computer software	7 384	19 878	–	(2 678)	24 584
Total	20 913	24 612	–	(4 847)	40 678
2011					
Licences	3 510	12 000	–	(1 981)	13 529
Computer software	5 391	4 466	(92)	(2 381)	7 384
Total	8 901	16 466	(92)	(4 362)	20 913

The net carrying value of intangible assets subject to suspensive sale agreements at 31 December 2012 was R9,183 million (2011: R8,919 million). Included in computer software are internally generated intangible assets with a carrying value of R15,106 million (2011: R7,229 million). Included in intangible assets are assets with a cost of R4,388 million (2011: R0,613 million) that are in use but fully amortised, and development costs of R29,991 million (2011: R11,071 million) incurred on assets which have not yet been brought into use by the group and have not been amortised.

	2012 R'000	2011 R'000
6. LOANS TO EMPLOYEES		
Opening balance	11 664	13 177
Loans repaid	(3 609)	(3 712)
Amortised cost adjustment	538	1 046
Notional interest recognised	987	1 153
Loans to employees	9 580	11 664

In terms of the group's employee share incentive scheme, loans have been provided to certain directors and employees of the group to enable them to acquire shares in HomeChoice Holdings Ltd at market value.

These full recourse loans are interest-free and repayable within five years of the acquisition date. The shares are pledged to and held by the trustees of the HomeChoice Share Trust.

The amortised cost adjustment is based on an effective interest rate of prime less 2% at date of issue.

Refer to note 30 for details of loans provided to directors and key management personnel.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2012 (continued)

	2012 R'000	2011 R'000
7. INVESTMENT IN ASSOCIATES		
Carrying amount of investments	3 951	1 677
En-commandite partnership (founded in 2006)		
The group was a founder partner in an en-commandite partnership formed for the transportation of passengers by air for fare. The group held a 25% interest in the partnership. The partnership ceased all operations during the prior year and is in the process of being dissolved.		
En-commandite partnership (founded in 2011)		
During 2011, the group entered into a new en-commandite partnership formed for the transportation of passengers by air for fare. The group holds a 25% interest in the partnership and accounts for this minority interest as an associate.		
Movements in the carrying value of the associate were as follows:		
Opening balance	1 677	–
Contributions made	4 371	2 239
Share of loss of associate	(2 097)	(562)
Closing balance	3 951	1 677
Share of associate's revenue and loss for the year:		
Revenue	556	202
Loss	(1 011)	(764)
Share of associate's assets and liabilities:		
Non-current assets	16 216	16 517
Current assets	119	246
Non-current liabilities	(10 032)	(12 814)
Current liabilities	(2 844)	(2 455)
	3 459	1 494

A subsidiary of the group has provided surety limited to R15 million to The Standard Bank of South Africa Ltd in connection with the group's share of the associate's liability to the bank. The liability is payable over five years in monthly instalments of R0,302 million (2011: R0,305 million) including interest and capital. The fair value of this financial guarantee has been determined to be immaterial as the bank has a mortgage over the associate's assets and the likelihood of the surety being called is negligible.

	2012 R'000	2011 R'000
8. DEFERRED TAXATION		
The analysis of deferred tax assets and liabilities is as follows:		
Deferred tax assets	13 206	12 878
Deferred tax liabilities	(60 097)	(45 159)
Net deferred tax liabilities	(46 891)	(32 281)
The gross movements on the deferred income tax account are as follows:		
At 1 January	(32 281)	(26 253)
Charged to profit and loss	(14 610)	(6 028)
At 31 December	(46 891)	(32 281)

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	Assessed loss R'000	STC credits R'000	Other R'000	Total R'000
Deferred tax assets				
At 1 January 2011	907	548	7 539	8 994
Charged to profit and loss	(907)	(548)	8	(1 447)
At 31 December 2011 *	–	–	7 547	7 547
Charged to profit and loss	–	–	930	930
At 31 December 2012	–	–	8 477	8 477

	Accelerated tax wear and tear allowances R'000	Debtors' provisions and allowances R'000	Other R'000	Total R'000
Deferred tax liabilities				
At 1 January 2011	(7 142)	(27 403)	(702)	(35 247)
Charged to profit and loss	(533)	(4 056)	8	(4 581)
At 31 December 2011 *	(7 675)	(31 459)	(694)	(39 828)
Charged to profit and loss	(1 729)	(14 052)	241	(15 540)
At 31 December 2012	(9 404)	(45 511)	(453)	(55 368)

* Amounts have been restated as set out in note 35

Deferred tax liabilities include amounts of R5,067 million (2011: R4,030 million) that are non-current.

Deferred tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefits through future taxable profits are probable. Deferred tax assets include no amounts that are non-current.

9. AVAILABLE-FOR-SALE INVESTMENTS

During the prior year, the group disposed of all its available-for-sale listed preference shares for proceeds of R39,811 million, resulting in a gain of R1,858 million. The group has not reclassified any financial assets from cost or amortised cost to fair value, or from fair value to cost or amortised cost during the current or prior year.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2012 (continued)

	2012 R'000	2011 R'000
10. INVENTORIES		
Merchandise for resale	75 670	74 247
Provision for inventory obsolescence	(9 942)	(12 708)
Goods in transit	44 513	30 610
	110 241	92 149

Inventory sold at less than cost during the current year amounted to R8,403 million (2011: R3,589 million).

11. TRADE AND OTHER RECEIVABLES

Trade receivables – HomeChoice	648 493	509 353
Provision for impairment	(122 351)	(88 420)
	526 142	420 933
Trade receivables – Other retail	67 513	25 410
Provision for impairment	(10 127)	(4 066)
	57 386	21 344
Loans receivable – FinChoice	464 438	331 914
Provision for impairment	(52 792)	(35 334)
	411 646	296 580
Other receivables	25 603	10 856
Total trade and other receivables	1 020 777	749 713
Total trade and loan receivables	1 180 444	866 677
Provision for impairment	(185 270)	(127 820)
Other receivables	25 603	10 856

A percentage of all trade and loan receivable balances past due has been provided for. Refer to significant accounting judgements, estimates and assumptions for further details regarding the calculation of impairment of debtors and note 3.3 for further details of credit risk management.

Movements in the provision for impairment of trade receivables – HomeChoice were as follows:

Opening balance	(88 420)	(72 063)
Movement in provision	(33 931)	(16 357)
Debtor costs charged to profit and loss	(139 444)	(90 730)
Debts written off during the year, net of recoveries	105 513	74 373
Closing balance	(122 351)	(88 420)

Movements in the provision for impairment of trade receivables – Other retail were as follows:

Opening balance	(4 066)	(1 210)
Movement in provision	(6 061)	(2 856)
Debtor costs charged to profit and loss	(10 553)	(4 206)
Debts written off during the year, net of recoveries	4 492	1 350
Closing balance	(10 127)	(4 066)

Movements in the provision for impairment of loans receivable – FinChoice were as follows:

Opening balance	(35 334)	(25 181)
Movement in provision	(17 458)	(10 153)
Debtor costs charged to profit and loss	(77 772)	(53 151)
Debts written off during the year, net of recoveries	60 314	42 998
Closing balance	(52 792)	(35 334)

Trade and loan receivables have repayment terms of between 6 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 R1 15,227 million (2011: R78,916 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.

	2012 R'000	2011 R'000
12. CASH AND CASH EQUIVALENTS		
Cash at bank	10 192	31 811
Money market investments	–	14 258
	10 192	46 069
Bank overdraft	2 518	–
Cash at bank earns interest based on daily bank deposit rates. Money market investments are made depending on cash requirements, and earn interest at the respective prevailing investment rates.		
Cash and cash equivalents include the following for the purposes of the statement of cash flows:		
Cash and cash equivalents	10 192	46 069
Bank overdraft	(2 518)	–
	7 674	46 069

13. STATED CAPITAL, SHARE CAPITAL AND SHARE PREMIUM

13.1 Stated and share capital

Authorised

200 000 000 (2011: 200 000 000) ordinary shares with no par value (2011: par value of 1 cent each)

2 000 2 000

Issued

103 869 438 (2011: 103 869 438) ordinary shares with no par value (2011: par value of 1 cent each)

1 039 1 039

Share premium transferred upon conversion of shares to no par value shares (refer to note 13.2)

29 941 –

Stated capital

30 980 1 039

	'000	'000
Reconciliation of movement in issued shares		
Number of issued shares at the beginning and the end of the year	103 869	103 869
Treasury shares held by share trust	(3 090)	(2 970)
Number of issued shares, net of treasury shares	100 779	100 899
Treasury shares as a % of issued shares	3,0	2,9

The unissued shares are under the control of the directors until the next annual general meeting.

	R'000	R'000
13.2 Share premium		
Balance at the beginning of the year	29 941	97 456
Reduction in share premium	–	(67 515)
Transferred to stated capital upon conversion of shares to no par value shares (refer to note 13.1)	(29 941)	–
Balance at the end of the year	–	29 941

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2012 (continued)

	2012 R'000	2011 R'000
14. TREASURY SHARES		
Balance at the beginning of the year	(9 732)	(8 938)
Reduction in share premium	–	1 841
Shares purchased during the year	(1 599)	(2 635)
Balance at the end of the year	(11 331)	(9 732)

	'000	'000
Balance at the beginning of the year	2 970	2 670
Shares purchased during the year	120	300
Balance at the end of the year	3 090	2 970

15. SHARE-BASED PAYMENT

The group has established a share option incentive scheme in which options to acquire shares in HomeChoice Holdings Ltd have been granted to employees of subsidiaries of HomeChoice Holdings Ltd. All options have been granted with an exercise price equal to the market price of the shares on the date of the grant, and are conditional on the participant remaining in service with the group. The group has no legal or constructive obligation to repurchase or settle the options in cash.

Movements in the number of share options outstanding and their related average exercise prices are as follows:

	2012		2011	
	Average exercise price per share (cents)	Number of options	Average exercise price per share (cents)	Number of options
At 1 January	748	1 385 250	584	250 000
Options granted during the year	1 066	2 175 750	782	1 229 100
Options forfeited during the year	981	(387 600)	747	(93 850)
At 31 December	938	3 173 400	748	1 385 250

No options were exercisable at the reporting dates. Share options outstanding at the end of the year have the following vesting dates and exercise prices:

	2012		2011	
	Average exercise price per share (cents)	Number of options	Average exercise price per share (cents)	Number of options
2012	–	–	747	251 950
2013	747	201 550	–	–
2014	584	250 000	584	250 000
2015	798	830 100	795	883 300
2016	1 066	1 891 750	–	–
Total	938	3 173 400	748	1 385 250

15. SHARE-BASED PAYMENT (continued)

Analysis of options outstanding:

Grant date	29 Nov 2010	20 May 2011	20 May 2011	1 Oct 2011	Sub-total
Number of share options outstanding	250 000	201 550	505 100	325 000	1 281 650
Grant price (cents)	584	747	747	876	
Fair value of option (cents)	118	80	94	101	

Grant date	Sub-total	31 Mar 2012	15 Apr 2012	29 Jun 2012	1 Oct 2012	Total
Number of share options outstanding	1 281 650	667 000	100 000	1 039 750	85 000	3 173 400
Grant price (cents)		1 064	876	1 064	1 329	
Fair value of option (cents)		82	94	76	188	

The fair values of options granted during the current and prior year were determined using a binomial option-pricing model.

The assumptions used in determining the fair value were as follows:

Grant date	29 Nov 2010	20 May 2011	20 May 2011	1 Oct 2011
Grant price (cents)	584	747	747	876
Expected option life (years)	4	1	4	4
Expected volatility (%)	35,00	35,00	35,00	35,00
Expected dividend yield (%)	6,80	8,43	8,43	8,56
Expected employee attrition (%)	–	10,00	10,00	10,00
Risk-free interest rate (%)	6,40	6,10	7,87	6,80

Grant date	31 Mar 2012	15 Apr 2012	29 Jun 2012	1 Oct 2012
Grant price (cents)	1 064	876	1 064	1 329
Expected option life (years)	4	4	4	4
Expected volatility (%)	27,13	27,13	26,63	26,37
Expected dividend yield (%)	9,59	9,59	9,59	3,35
Expected employee attrition (%)	10,00	10,00	10,00	10,00
Risk-free interest rate (%)	6,89	6,89	6,18	5,66

The volatility, measured at the standard deviation of continuously compounded share returns, was based on statistical analysis of monthly share prices of listed peers over the last three years.

Total expenses of R0,539 million (2011: R0,250 million) relating to equity-settled share-based payments were recognised during the year. Refer to note 16 for disclosure of the share-based payment reserve.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2012 (continued)

	Available-for-sale investments R'000	Share-based payment reserve R'000	Total R'000
16. OTHER RESERVES			
Balance at 1 January 2011	3 818	295	4 113
Realised gain on available-for-sale investments disposed during the year	(2 184)	–	(2 184)
Unrealised loss on available-for-sale investments	(1 634)	–	(1 634)
Share-based payment	–	250	250
Total changes	(3 818)	250	(3 568)
Balance at 1 January 2012	–	545	545
Share-based payment	–	539	539
Total changes	–	539	539
Balance at 31 December 2012	–	1 084	1 084

	2012 R'000	2011 R'000
17. INTEREST-BEARING LIABILITIES		
Long-term portion		
Suspensive sale agreements – FirstRand Bank Ltd	6 951	8 323
FirstRand Bank Ltd	–	6 273
Standard Bank of South Africa Ltd	54 645	60 299
Rand Merchant Bank (a division of FirstRand Bank Ltd)	29 381	–
Total non-current interest-bearing liabilities	90 977	74 895
Short-term portion payable within one year		
Suspensive sale agreements - FirstRand Bank Ltd	1 930	2 331
FirstRand Bank Ltd	–	634
Standard Bank of South Africa Ltd	4 874	4 468
Rand Merchant Bank (a division of FirstRand Bank Ltd)	2 374	–
Total current interest-bearing liabilities	9 178	7 433
Total interest-bearing liabilities	100 155	82 328

	2012 R'000	2011 R'000
17. INTEREST-BEARING LIABILITIES (continued)		
Movements in the suspensive sale agreements were as follows:		
Opening balance	10 654	2 543
Borrowings raised	621	9 964
Interest and administration fees	934	292
Payments made	(3 328)	(2 145)
Closing balance	8 881	10 654
Movements in the FirstRand Bank Ltd liability were as follows:		
Opening balance	6 907	7 489
Interest and administration fees	405	643
Payments made	(7 312)	(1 225)
Closing balance	–	6 907
Movements in the Standard Bank of South Africa Ltd liability were as follows:		
Opening balance	64 767	–
Borrowings raised	–	64 721
Interest and administration fees	4 848	830
Payments made	(10 096)	(784)
Closing balance	59 519	64 767
Movements in the Rand Merchant Bank liability were as follows:		
Opening balance	–	–
Borrowings raised	30 964	–
Interest and administration fees	791	–
Closing balance	31 755	–

Suspensive sale agreements are instalment sale agreements which the group has entered into in respect of certain property, plant and equipment where the assets purchased are encumbered as security for the outstanding liability until such time that the liability is discharged. The suspensive sale agreements are repayable in monthly instalments of R0,218 million (2011: R0,323 million) including interest and capital.

Interest rates are linked to the prime overdraft rate and varied between 7,5% and 8,5% (2011: 8% and 9%) during the year. There were no breaches in payments during the current or prior year. The suspensive sale agreements are secured over various items of property, plant and equipment as indicated in note 4, and intangible assets as indicated in note 5.

The FirstRand Bank Ltd facility was secured by a general covering bond over Portion 240 of the farm Wimbledon Number 454, carried interest at prime and was settled in full during the year.

The Standard Bank of South Africa Ltd facility is secured by a general covering bond over the remaining extent of erf 91380 Cape Town, carries interest at prime less 1% and is repayable over nine years (2011: 10 years).

The Rand Merchant Bank facility is secured by a general covering bond over Portion 240 of the farm Wimbledon Number 454, carries interest at prime less 0,25% and is repayable over five years from completion of the warehouse being erected (refer to note 4).

During the prior year, the group settled borrowings due to RMB Private Bank of R51,011 million.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2012 (continued)

	2012 R'000	2011 R'000
18. OTHER PAYABLES		
Non-current other payables		
Amounts owed to prize winners payable in excess of 12 months	3 480	3 450
19. TRADE AND OTHER PAYABLES		
Trade payables	87 337	71 287
Annual leave pay accrual	3 900	3 140
Value-added taxation	6 164	3 651
Other payables	15 317	7 376
	112 718	85 454

Refer to note 26 for disclosure on commitments regarding lease liabilities.

	Opening balance R'000	Utilised during the year R'000	Raised R'000	Closing balance R'000
20. PROVISIONS				
Analysis of movements				
Bonus provision – 2012	17 064	(17 367)	19 237	18 934
Bonus provision – 2011	17 400	(16 630)	16 294	17 064

The provision relates to the group's annual bonus incentive scheme that is payable in March. The bonus provision is based on a financial model that takes into account whether the company achieved its financial and non-financial targets, individual staff performance during the year and the remuneration committee's final discretion.

	2012 R'000	2011 R'000
21. REVENUE		
Retail sales	841 480	670 466
Finance charges earned	363 474	278 454
Fees from ancillary services	229 405	171 746
Initiation fees	134 647	111 680
Admin fees	76 298	59 903
Other fees	18 460	163
Dividends received	–	394
	1 434 359	1 121 060

Refer to the segmental report for an analysis of revenue per segment.

	2012 R'000	2011 R'000
22. OTHER NET GAINS AND LOSSES		
Foreign exchange gains/(losses)	793	(615)
Realised gain on available-for-sale investments	–	2 184
Losses on disposal of property, plant and equipment and intangible assets	(34)	(201)
Net gain on disposal of associate	–	660
	759	2 028
23. OTHER INCOME		
Interest on loans to employees	879	1 180
Prescription of amounts owing	3 266	866
Other	891	49
	5 036	2 095
24. TOTAL TRADING EXPENSES		
<i>Expenses by nature</i>		
Debtor costs		
Trade receivables – HomeChoice	139 444	90 730
Trade receivables – Other retail	10 553	4 206
Loans receivable – FinChoice	77 772	53 151
Total debtor costs	227 769	148 087
Auditor's remuneration	2 027	1 428
Current year	1 156	1 156
Audit related services	666	54
Other services	205	218
Consultation fees	3 029	1 607
Amortisation of intangible assets	4 847	4 362
Depreciation of property, plant and equipment	6 953	6 898
Operating lease charges for immovable property	1 878	1 971
Marketing costs	119 789	98 457
Staff costs*	164 490	129 896
Other costs	95 107	78 338
Total other trading expenses	398 120	322 957
	625 889	471 044
* Staff costs	164 490	129 896
Total staff costs	180 003	142 213
Less disclosed under cost of sales	(15 513)	(12 317)

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2012 (continued)

	2012 R'000	2011 R'000
25. TAXATION		
South African normal income taxation		
Current year	(100 230)	(88 661)
Prior year over/(under)provision	2 184	(3 359)
Deferred taxation		
Current year	(12 426)	(6 028)
Prior year underprovision	(2 184)	–
	(112 656)	(98 048)

	%	%
Reconciliation of effective taxation rate:		
Standard taxation rate	28,0	28,0
Non-deductible expenditure	0,6	–
Exempt income	(0,2)	(0,2)
Secondary tax on companies	–	0,2
Prior year adjustment	–	1,0
Effective taxation rate	28,4	29,0

STC was abolished with effect from 1 April 2012 and replaced by a dividends tax, which is not levied on the company but on the beneficial owner of the share and accordingly does not require recognition in profit or loss.

The prior year's adjustment to taxation relates to the taxation of proceeds from the sale in 2007 of a portion of the legal book of a subsidiary of the group as a fully taxable recoupment. These proceeds were previously assessed and taxed by the South African Revenue Service as a capital gain.

At the previous reporting date, if total retained earnings of the group of R815,542 million were to be declared as dividends, the secondary tax impact at a rate of 10% would have been R74,140 million. Secondary tax on companies have been replaced by a dividends tax on shareholders, effective 1 April 2012.

Other comprehensive income items carried no taxation charge.

26. 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 24.

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

	2012 R'000	2011 R'000
Properties		
Payable within one year	9 499	9 328
Payable between two and five years	2 136	11 635
	11 635	20 963
Suspensive sale agreements		
Payable within one year	2 617	3 182
Payable between two and five years	7 806	9 808
	10 423	12 990
Future finance charges on suspensive sale agreements	(1 542)	(2 336)
	8 881	10 654
The present value of suspensive sale agreement payments is as follows:		
Payable within one year	1 957	2 331
Payable between two and five years	6 924	8 323
	8 881	10 654
Capital commitments for property, plant and equipment:		
Approved by the directors	8 554	836
Approved by the directors and contracted for	60 863	–
	69 417	836

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2012 (continued)

	2012 R'000	2011 R'000
27. RECONCILIATION OF CASH GENERATED FROM OPERATIONS		
Profit before taxation	397 153	338 044
Share of loss of associates	2 097	366
Losses on disposal of property, plant and equipment and intangible assets	34	201
Profit on sale of available-for-sale investments	–	(2 184)
Loans to employees – amortised cost adjustment	(538)	(1 046)
Notional interest on loans to employees	(987)	(1 153)
Depreciation and amortisation	11 800	11 260
Gain on disposal of associate	–	(660)
Share-based employee service expense	539	250
Foreign exchange contracts	–	(1 104)
Interest paid	6 236	6 156
Interest received	(2 624)	(2 975)
Dividends received	–	(394)
Operating cash flows before working capital changes	413 710	346 761
Movements in working capital	(259 992)	(203 253)
Increase in inventories	(18 092)	(22 302)
Increase in trade receivables – HomeChoice	(105 209)	(95 543)
Increase in trade receivables – Other retail	(36 042)	(14 984)
Increase in loans receivable – FinChoice	(115 066)	(89 707)
Increase in other receivables	(14 747)	(5 741)
Increase in trade and other payables	27 294	25 360
Increase/(decrease) in provisions	1 870	(336)
	153 718	143 508
28. TAXATION PAID		
Amounts owing at the beginning of the year	(1 234)	(861)
Amounts charged to profit and loss	(112 656)	(98 048)
South African normal taxation	(98 046)	(92 020)
Deferred taxation	(14 610)	(6 028)
Deferred taxation movement	14 610	6 028
Amounts owing at the end of the year	5 839	1 234
	(93 441)	(91 647)

29. EVENTS AFTER THE REPORTING DATE

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

30. RELATED PARTY TRANSACTIONS

Holding company

At the reporting date, the ultimate controlling party of the group was GFM Holdings Ltd, a company incorporated in Malta. Further details regarding significant shareholders are set out in the shareholder analysis in note 31.

Subsidiaries, associates and related trusts

In the ordinary course of business, certain companies within the group entered into certain intra-group transactions which have been eliminated on consolidation. For a list of the group's subsidiaries, associates and related trusts, refer to page 55.

Other related parties

The HomeChoice Provident Fund

The group provides retirement benefits for its permanent employees through the HomeChoice Provident Fund ("the provident fund"), a defined-contribution plan. The fund is registered under and governed by the Pension Funds Act, 1956, as amended. The latest valuation received from the fund administrators confirmed that the provident fund was in a sound financial position.

Associates

Details regarding the group's associates are set out in note 7. Transactions with the associates are entered into at the prevailing partnership rates.

	2012 R'000	2011 R'000
Contributions to the provident fund	13 330	10 872
Fees paid to associates for transportation services	2 558	1 154

Remuneration

Details regarding executive and non-executive directors' remuneration are disclosed in note 36.

Interest of directors in contracts

As disclosed in note 7, the group holds a 25% interest in an en-commandite partnership formed for the transportation of passengers by air for fare. Mr Rick Garratt, a director, is a related party to another entity with significant influence in this partnership.

Mr Willem Jungschläger, a director of the company, has a controlling interest in an entity which provided consultation services during the year to the group in the amount of R63 000 (2011: R256 000).

Other than the transactions noted above, none of the directors have indicated that they have a material interest in contracts of any significance with the company or any of its subsidiaries.

Loans to directors

Loans have been provided to directors and key management personnel as part of the Employee Share Incentive Scheme as disclosed in note 6.

	2012 R'000	2011 R'000
Loans to employees as reported in the annual financial statements	9 580	11 664
Unearned notional interest	1 365	2 702
Total loans receivable	10 945	14 366
Made up as follows:		
Non-executive directors of HomeChoice Holdings Ltd	933	2 116
Operational directors of the group	7 199	9 394
Other employees	2 813	2 856
	10 945	14 366

Share options

Share options have been granted to certain executive directors of HomeChoice Holdings Ltd and employees of its subsidiaries (refer to note 36).

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2012 (continued)

30. RELATED PARTY TRANSACTIONS (continued)

Key management personnel

Key management personnel are those persons having authority for planning, directing and controlling activities directly or indirectly, including any director of the holding company or subsidiary. Directors of the company's main subsidiaries, HomeChoice (Pty) Ltd and FinChoice (Pty) Ltd, have been classified as key management personnel. Emoluments paid are summarised below:

	2012 R'000	2011 R'000
Remuneration	26 049	22 852
Bonus	5 048	4 070
Share-based payment cost	228	57
Retirement, medical, disability and death benefits	1 204	1 142
	32 529	28 121

	Shareholders		Shares held	
	Number	%	Number	%
31. SHAREHOLDER ANALYSIS				
Range of shareholding				
1 – 500	2	3,4	39	–
501 – 5 000	27	46,6	53 440	0,1
5 001 – 50 000	13	22,4	302 285	0,3
50 001 – 500 000	12	20,7	2 834 223	2,8
Over 500 000	4	6,9	97 589 364	96,8
	58	100,0	100 779 351	100,0
Share trust	1		3 090 087	
	59		103 869 438	
Public and non-public shareholding				
Non-public				
Directors	4	6,9	85 349 531	84,7
Directors of subsidiaries	4	6,9	1 450 000	1,4
Public	50	86,2	13 979 820	13,9
	58	100,0	100 779 351	100,0
Individual shareholders holding 5% or more of shares in issue (net of treasury shares)				
GFM Holdings Ltd			83 649 531	83,0
RMB Securities (a division of FirstRand Bank Ltd)			9 487 033	9,4
			93 136 564	92,4

32. EARNINGS PER SHARE

32.1 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:

	2012		2011	
	Gross R'000	Net R'000	Gross R'000	Net R'000
Profit for the year		284 497		239 996
Adjusted for the after-tax effect of:				
Losses on disposal of property, plant and equipment and intangible assets	34	24	201	145
Gain on disposal of associate	-	-	(660)	(660)
Gain on disposal of available-for-sale financial assets	-	-	(2 184)	(2 184)
Headline earnings		284 521		237 297
Weighted average number of ordinary shares in issue ('000)		100 860		101 083
Earnings per share (cents)				
Basic		282,1		237,4
Headline		282,1		234,8

32.2 Diluted and diluted headline earnings per share

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

	2012 '000	2011 '000
Weighted average number of ordinary shares in issue	100 860	101 083
Number of shares issuable under the share option scheme for no consideration	696	-
Diluted weighted average number of ordinary shares in issue	101 556	101 083
Earnings per share (cents)		
Diluted	280,1	237,4
Diluted headline	280,2	234,8

33. DISTRIBUTIONS PER SHARE

The company has made cash distributions to shareholders comprising of dividends and reductions in share premium.

Distributions paid (cents)	50,0	85,0
Interim	-	35,0
Final	50,0	50,0
Nature of distributions (cents)	50,0	85,0
Reduction in share premium	-	35,0
Dividend paid	50,0	50,0

34. NET ASSET VALUE PER SHARE

The calculation of net asset value per share is based upon net assets divided by the total number of shares in issue, net of treasury shares (refer to note 13).

Net asset value per share (cents)	1 062,0	829,9
Net tangible asset value per share (cents)	1 021,7	809,1

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2012 (continued)

35. RECLASSIFICATIONS AND RESTATEMENTS

To enhance disclosure, certain reclassifications and restatements have been made. These changes have no impact on overall equity, assets, liabilities or profitability.

Revenue

Delivery fee income was previously included under "Fees from ancillary services". The revenue recognition accounting policy has been reviewed and amended to rather include delivery fee income in "Retail sales". This is considered to reflect the nature of the group's retail operations more accurately, being that of a direct marketing retailer. Furthermore, "Fees from ancillary services" have been disaggregated, with initiation fees, admin fees and other fees being now disclosed separately in note 21. These reclassifications had no impact on total revenue.

	Now disclosed R'000	Previously disclosed R'000	Difference R'000
Retail sales	670 466	626 028	44 438
Fees from ancillary services	171 746	216 184	(44 438)

Other income

In the prior year's annual financial statements, "Other income" was aggregated with "Other net gains and losses", whereas these have now been disclosed separately in the statement of comprehensive income, as well as notes 22 and 23.

Expenses by nature

Certain expenses disclosed by nature have been reclassified. The impact of the restatement is as follows:

	Now disclosed R'000	Previously disclosed R'000	Difference R'000
Marketing costs	98 457	99 977	(1 520)
Staff costs	129 896	146 661	(16 765)
Other costs	78 338	60 053	18 285

Group segmental analysis

Loans made by subsidiaries to the share trust, being a fellow subsidiary, were previously excluded from segmental assets, but have now been included. Reclassifications were also made between segments to ensure consistent allocation of segmental assets and liabilities.

	Now disclosed R'000	Previously disclosed R'000	Difference R'000
Segment assets – Retail	597 814	602 946	(5 132)
Segment liabilities – Retail	133 876	152 480	(18 604)
Segment assets – Financial services	340 697	319 928	20 769
Segment liabilities – Financial services	26 785	8 181	18 604
Segment liabilities – Other	16 036	399	15 637
Segment assets – Eliminations	(18 114)	(2 477)	(15 637)
Segment liabilities – Eliminations	(18 114)	(2 477)	(15 637)

Credit risk management

The contractual and recency status percentages have been reviewed during the year and the prior year's disclosed percentages were restated in order to exclude the effects of unearned finance charges, as well as to correct minor misstatements.

Liquidity risk management

The undiscounted future cash flows on bank borrowings and undrawn borrowing facilities (as disclosed in note 3.4) have been reviewed during the year and the prior year's disclosed amounts were restated.

Market risk management

The group's exposure to foreign currency risk has been reviewed during the year and the prior year's disclosed amounts were restated.

Deferred tax

The disclosed amounts of deferred income tax assets and liabilities, without taking into consideration the offsetting of balances within the same tax jurisdiction, have been reviewed and "Other deferred tax liabilities" (in the prior year being offset against "Other deferred tax assets") have been restated as set out below. This restatement had no impact on deferred income tax asset and liabilities as disclosed in the statement of financial position.

	Now disclosed R'000	Previously disclosed R'000	Difference R'000
Deferred tax assets – other	7 547	6 853	694
Deferred tax liabilities – other	(694)	–	(694)

Directors' remuneration

Other benefits falling due to Mr Garratt (as disclosed in note 36) have been reviewed during the year and the prior year's disclosed amount has been restated.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2012 (continued)

36. REMUNERATION

R'000	Short-term benefits				
	Months paid	Director fees	Salary	Other benefits	Performance bonus
2012					
Executive directors					
Richard Garratt	12	–	3 357	2 568	2 000
Shirley Maltz	12	–	1 753	5	1 985
Annalize Kirsten	12	–	1 551	3	1 594
		–	6 661	2 576	5 579
Non-executive directors					
John Bester	12	250	–	–	–
Pierre Joubert **	12	–	–	–	–
Willem Jungschläger	12	500	–	–	–
Amanda Chorn	12	173	–	–	–
		923	–	–	–
Total remuneration		923	6 661	2 573	5 579
2011					
Executive directors					
Richard Garratt ***	12	–	3 028	900	2 000
Shirley Maltz	12	–	1 647	30	1 991
Annalize Kirsten	12	–	1 413	17	1 717
		–	6 088	947	5 708
Non-executive directors					
John Bester	12	250	–	–	–
Pierre Joubert **	12	–	–	–	–
Willem Jungschläger	12	500	–	–	–
Amanda Chorn	12	141	–	–	–
		891	–	–	–
Total remuneration		891	6 088	947	5 708

* The value of equity-settled share options granted is the annual expense determined in accordance with IFRS 2 Share-based Payment, and is presented for information purposes only as it is not regarded as constituting remuneration, given that the value was neither received nor accrued to the directors during the year. Gains made on the exercise of such share options are disclosed in the year when vesting occurs.

** Pierre Joubert waived his fees as a director in respect of the periods under review.

*** Amounts have been restated as set out in note 35.

Share options outstanding at the end of the year have the following vesting date and exercise prices:

Director	Vesting date	Number of share options '000	Exercise price per share R
Shirley Maltz	20 May 2015	25	7,47
	31 March 2016	25	10,64
	29 June 2016	450	10,64
		500	
Annalize Kirsten	20 May 2015	25	7,47
	31 March 2016	25	10,64
	29 June 2016	50	10,64
		100	
		600	

Post-retirement benefits	Long-term benefits		Value of equity-settled share options granted *	Financial assistance granted pursuant to share scheme
Provident fund contributions	Interest benefit on financial assistance	Total remuneration		
31	–	7 956	–	–
211	–	3 954	53	–
186	182	3 516	15	2 652
428	182	15 426	68	2 652
–	34	284	–	–
–	–	–	–	–
–	62	562	–	933
–	–	173	–	–
–	96	1 019	–	933
428	278	16 445	68	3 585
185	–	6 113	–	–
201	–	3 869	4	–
228	246	3 621	4	3 217
614	246	13 603	8	3 217
–	77	327	–	1 058
–	–	–	–	–
–	77	577	–	1 058
–	–	141	–	–
–	154	1 045	–	2 116
614	400	14 648	8	5 333

A photograph of a bedroom. In the foreground, a bed is covered with a patterned duvet and several pillows. To the left, a bedside table holds a lamp with a textured shade and a vase of flowers. A window with sheer curtains is visible in the background. The overall atmosphere is warm and elegant.

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COMPANY STATEMENT OF FINANCIAL POSITION

at 31 December 2012

	Notes	2012 R'000	2011 R'000
ASSETS			
Non-current assets			
Investments in subsidiaries	1	1 088	549
Loan to employee share trust	3	10 657	13 964
Loans to subsidiaries	4	319 194	247 089
		330 939	261 602
Current assets			
Loans to subsidiaries	4	34 210	33 726
Cash and cash equivalents	5	1 057	14 605
		35 267	48 331
Total assets		366 206	309 933
EQUITY AND LIABILITIES			
Stated and share capital	6	30 982	1 039
Share premium	7	–	29 943
Other reserves	8	1 084	545
Retained earnings		238 877	123 667
Total equity		270 943	155 194
Current liabilities			
Trade and other payables		709	307
Taxation payable		922	89
Loans from subsidiaries	4	93 632	154 343
Total liabilities		95 263	154 739
Total equity and liabilities		366 206	309 933

COMPANY STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2012

	Notes	2012 R'000	2011 R'000
Revenue		151 781	8 069
Dividends received		151 781	8 069
Other trading expenses	9	(6 645)	–
Operating profit		145 136	8 069
Interest received		30 454	25 291
Profit before taxation		175 590	33 360
Taxation	10	(8 445)	(6 960)
Total comprehensive income for the year		167 145	26 400

COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2012

	Stated and share capital R'000	Share premium R'000	Other reserves R'000	Retained earnings R'000	Total equity R'000
Balance at 1 January 2011	1 039	97 458	295	97 267	196 059
Changes in equity					
Total comprehensive income for the year	–	–	–	26 400	26 400
Share options scheme	–	–	250	–	250
Reduction in share premium	–	(67 515)	–	–	(67 515)
Total changes in equity	–	(67 515)	250	26 400	(40 865)
Balance at 1 January 2012	1 039	29 943	545	123 667	155 194
Changes in equity					
Total comprehensive income for the year	–	–	–	167 145	167 145
Share options granted	–	–	539	–	539
Conversion to no par value shares	29 943	(29 943)	–	–	–
Dividends paid	–	–	–	(51 935)	(51 935)
Total changes in equity	29 943	(29 943)	539	115 210	115 749
Balance at 31 December 2012	30 982	–	1 084	238 877	270 943

COMPANY STATEMENT OF CASH FLOWS

for the year ended 31 December 2012

	2012 R'000	2011 R'000
Cash flows from operating activities		
Cash (utilised)/generated from operations	(6 243)	122
Profit before taxation	175 590	33 360
Interest received	(30 454)	(25 291)
Dividends received	(151 781)	(8 069)
Increase in trade and other payables	402	122
Interest received	30 454	25 291
Dividends received	151 781	8 069
Dividends paid	(51 935)	–
Taxation paid	(7 612)	(6 004)
Amounts (payable)/receivable at the beginning of the year	(89)	625
Current taxation charged to profit and loss	(8 445)	(6 718)
Amounts payable at the end of the year	922	89
Net cash inflow from operating activities	116 445	27 478
Cash flows from investing activities		
Loans (advanced to)/repaid by subsidiaries	(133 300)	15 724
Loans repaid by employee share trust	3 307	17 557
Net cash (outflow)/inflow from investing activities	(129 993)	33 281
Cash flows from financing activities		
Reduction in share premium	–	(67 515)
Net cash outflow from financing activities	–	(67 515)
Net decrease in cash and cash equivalents	(13 548)	(6 756)
Cash and cash equivalents at the beginning of the year	14 605	21 361
Cash and cash equivalents at the end of the year	1 057	14 605

NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2012

	2012 R'000	2011 R'000
1. INVESTMENTS IN SUBSIDIARIES		
Wholly-owned subsidiaries' shares at cost	4	4
Share options issued in subsidiary companies	1 084	545
	1 088	549

	% interest held	Number of company shares issued and held	
		2012	2011
Operating companies			
HomeChoice (Pty) Ltd	100%	1	1
HomeChoice Property Company (Pty) Ltd	100%	60	60
HomeChoice Investments (Pty) Ltd	100%	120	120
FinChoice (Pty) Ltd	100%	1 700	1 700
Odvest 189 (Pty) Ltd	100%	120	120
Matyana van der Merwe (Pty) Ltd	100%	1 700	1 700
The HomeChoice Share Trust	100%	–	–
The HomeChoice Development Trust	100%	–	–
Dormant companies			
HC Direct (Pty) Ltd	100%	60	60
HomeChoice Nominees (Pty) Ltd	100%	120	120
FoneChoice (Pty) Ltd	100%	60	60
HomeChoice (Pty) Ltd (incorporated in Namibia)	100%	1	1
HomeChoice (Pty) Ltd (incorporated in Botswana)	100%	100	100

Unless otherwise specified, all companies have been incorporated in South Africa.

	2012 R'000	2011 R'000
2. DEFERRED TAXATION		
The analysis of deferred tax assets and liabilities is as follows:		
Deferred tax assets		
Balance at the beginning of the year	–	242
Deferred tax charged to profit and loss	–	936
Reversal of unutilised STC credits	–	(1 178)
	–	–
3. LOAN TO EMPLOYEE SHARE TRUST		
Balance at the beginning of the year	13 964	31 521
Amount repaid during the year	(3 307)	(17 557)
Balance at the end of the year	10 657	13 964

The loan is unsecured, interest-free and repayable on demand.

NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2012 (continued)

	2012 R'000	2011 R'000
4. LOANS TO/(FROM) SUBSIDIARIES		
Wholly-owned subsidiaries' loans		
Operating companies		
HomeChoice (Pty) Ltd	(91 071)	(151 782)
HomeChoice Property Company (Pty) Ltd	16 499	15 415
HomeChoice Investments (Pty) Ltd	(2)	(2)
FinChoice (Pty) Ltd	319 194	247 089
Odvest 189 (Pty) Ltd	17 666	18 266
Matyana van der Merwe (Pty) Ltd	45	45
Dormant companies		
HC Direct (Pty) Ltd	(2 559)	(2 559)
	259 772	126 472
Non-current assets	319 194	247 089
Current assets	34 210	33 726
Current liabilities	(93 632)	(154 343)
	259 772	126 472
The loans are unsecured, interest-free and repayable on demand, except for the FinChoice (Pty) Ltd loan, which carries interest at prime plus 2%.		
5. CASH AND CASH EQUIVALENTS		
Cash at bank	1 057	349
Money market investments	–	14 256
	1 057	14 605
6. STATED AND SHARE CAPITAL		
Authorised		
200 000 000 ordinary no par value shares (2011: par value of 1 cent each)	2 000	2 000
Issued		
103 869 438 ordinary no par value shares (2011: par value of 1 cent each)	30 982	1 039
7. SHARE PREMIUM		
Balance at the beginning of the year	29 943	97 458
Amount repaid during the year	–	(67 515)
Converted to no par value shares	(29 943)	–
Balance at the end of the year	–	29 943

8. OTHER RESERVES

The group has established a share option incentive scheme in terms of which options to acquire shares in HomeChoice Holdings Ltd have been granted to employees of subsidiaries. All share options have been granted with an exercise price equal to the prevailing market price of the shares on the date of the grant, and are conditional on the participant remaining in service with the group's subsidiaries. The group has no legal or constructive obligation to repurchase or settle the share options in cash.

	2012 R'000	2011 R'000
Balance at the beginning of the year	545	295
Share-based payment	539	250
Balance at the end of the year	1 084	545

Details regarding the number of share options outstanding and their exercise prices are more fully set out in note 15 to the group annual financial statements.

9. OTHER TRADING EXPENSES

Auditor's remuneration	825	–
Consultation fees	2 048	–
Legal fees	2 817	–
Staff costs	685	–
Other costs	270	–
	6 645	–

10. TAXATION

South African normal income taxation – current year	(8 445)	(6 718)
Deferred taxation	–	(242)
	(8 445)	(6 960)

	%	%
Reconciliation of effective taxation rate:		
Standard taxation rate	28,0	28,0
Non-deductible expenditure	1,1	–
Exempt income	(24,3)	(7,9)
Secondary tax on companies	–	0,8
	4,8	20,9

NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2012 (continued)

11. RISK MANAGEMENT AND FINANCIAL INSTRUMENT DISCLOSURE

The board is accountable for the process of risk management, establishing appropriate risk and control policies and communicating these throughout the company.

The company's risk management policies are designed to identify risks faced by the company and establish appropriate controls and limits to mitigate the risk to acceptable levels. The audit and risk committee oversees how management monitors compliance with these risk and control policies.

This note discloses information about the company's capital risk management and exposure to risks from its use of financial instruments.

11.1 Capital risk management

The company's objectives when managing capital are to sustain the company's ability to continue as a going concern while enhancing returns to shareholders. The company primarily makes use of equity for capital management purposes. Equity consists of ordinary share capital and reserves as disclosed in the statement of changes in equity.

In addition to share capital and reserves, the company's capital structure also consists of debt, which includes the borrowings disclosed in note 4.

The directors meet regularly to review the capital structure. As part of this review the directors consider the availability of funding within the company to fund the company's capital requirements. The directors also consider the cost of capital and the risks associated with each class of capital.

From time to time the company repurchases its own shares or reduces share premium. The timing of these repurchases or share premium reductions depends on the availability of shares to be repurchased and available funding. The decision to repurchase shares or reduce share premium is made on a specific transaction basis. The company does not have a defined share buy-back plan. During the year, the share premium was reduced by nil cents per share (2011: 65 cents).

There were no changes in the company's approach to capital management during the year. Neither the company nor its subsidiaries are subject to externally imposed capital requirements.

11.2 Financial risk management

The company's activities expose it to a variety of financial risks arising from the use of financial instruments, including credit risk, liquidity risk and market risk.

In assessing risk the company classifies financial assets and liabilities as follows:

	Loans and receivables	
	2012 R'000	2011 R'000
Assets		
Loan to employee share trust	10 657	13 964
Loans to subsidiaries	353 404	280 815
Cash and cash equivalents	1 057	14 605
	365 118	309 384
	At amortised cost	
	2012 R'000	2011 R'000
Liabilities		
Trade and other payables	709	307
Loans from subsidiaries	93 632	154 343
	94 341	154 650

11.3 Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the company. Potential concentrations of credit risk consist principally of loans to the employee share trust and subsidiaries, cash and cash equivalents and credit guarantees. The company's maximum exposure to credit risk at the reporting date in respect of financial assets is set out in note 11.2.

The company did not consider there to be any significant credit risk exposure which has not been adequately provided for.

Loans to the employee share trust and subsidiaries

These related party loans are unsecured and repayable on demand, except for the FinChoice (Pty) Ltd loan, and are therefore recorded at cost.

Cash and cash equivalents

The company only deposits short-term cash surpluses with F1+ and F1 national short-term rated financial institutions.

11.4 Liquidity risk management

Liquidity risk is the risk that the company will not be able to meet its financial obligations as they fall due. The company's approach to liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risking damage to the company's reputation. The risk is managed through regular reviews of cash flow projections and ensuring that appropriate borrowing facilities are in place.

The trade and other payables balance is interest-free and repayable on demand.

11.5 Market risk management

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of market prices. The only market risk to which the company is exposed is interest rate risk in respect of interest-bearing loans to certain subsidiaries and cash and cash equivalents.

The company measures sensitivity in interest rates as the effect of a change in the Reserve Bank repo rate on the profit after taxation based on the company's exposure at the reporting date. The company regards a 100 basis points (2011: 100 basis points) change in the Reserve Bank repo rate as being reasonably possible at the reporting dates.

	Movement in basis points	Effect on profit after taxation	
		2012 R'000	2011 R'000
Loans to subsidiaries	+100	2 298	1 779
	-100	(2 298)	(1 779)
Cash and cash equivalents	+100	8	105
	-100	(8)	(105)

NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2012 (continued)

12. RELATED PARTIES

The following entities are regarded as related parties:

Subsidiaries

Subsidiaries are listed in note 1.

Associates of a subsidiary company

En commandite partnerships.

Balances and transactions

Related party balances at the reporting date are set out in notes 1 and 3. The company has provided, in favour of the group's bankers, unlimited suretyship to HomeChoice (Pty) Ltd and suretyship limited to R1,000 million to FinChoice (Pty) Ltd. During the year, the company entered into the following transactions with related parties:

	2012 R'000	2011 R'000
Dividends received from related parties		
HomeChoice (Pty) Ltd	151 781	–
HomeChoice Investments (Pty) Ltd	–	8 069
Interest received from a related party		
FinChoice (Pty) Ltd	30 454	25 291
Share premium distributed to a related party		
The HomeChoice Share Trust	–	1 841
Dividends paid to a related party		
The HomeChoice Share Trust	1 485	–
Directors' emoluments	16 292	14 117
Non-executive directors		
Fees	1 019	1 045
Executive directors		
Remuneration	9 255	6 689
Bonus	5 579	5 708
Retirement, medical, disability and death benefits	439	675

DEFINITIONS

Adspend efficiency	Marketing material and telemarketing costs as a percentage of net sales value.
Adspend cost per new customer	The advertising spend (material, telemarketing, creative, mailing costs) incurred in attracting new customers over the period, divided by the number of new customers in the period.
Average retail sales per existing customer	Sum of the sales value (inclusive of tax, delivery and initiation fee) of all the goods despatched to existing customers over the period less goods returned, divided by the average number of existing customers over the period.
Cash flow per share	Cash inflow from operations for the period divided by the weighted average number of shares.
Credit active customers	All customers with a balance outstanding of > R0 that have not been transferred to legal.
Credit inactive customer	All customers who were previously active but have paid up their accounts, i.e. currently have a balance outstanding of < = 0, and have made a payment in the last 24 months.
Current ratio	Current assets divided by current liabilities.
Current stock ratio	Stock that is planned for marketing activity in the next 12-month period (and not considered obsolete or discontinued) as a percentage of all stock on hand.
Debt-equity ratio	Net borrowings expressed as a percentage of total equity.
Debtor costs	Bad debts written off, net of recoveries, plus the movement in provision for impairment.
Distribution cover	Basic earnings per share divided by share premium reduction and dividend declared per share.
Earnings per share	Profit for the period attributable to owners of the parent divided by the weighted average number of shares in issue for the year.
Existing customer base	Currently active customers plus recently inactive customers.
Finance charge cover	Operating profit before finance charges divided by interest paid.
Gross margin	Gross profit divided by retail sales.
Intake	Gross sales value for orders captured.
Inventory turnover	Cost of sales for the period divided by the average inventories on hand at the end of the current and prior reporting period.
LSM	Refers to the SAARF Universal Living Standards Measure. This is a means of segmenting the South African market into LSM groups, from 1 (lowest) to 10 (highest).
Name-gathering campaign	An acquisition campaign targeting customers whose contact information we have but who have not had an order completed before. Largest contributors are catalogue requests, names gathered by sales agents and customers whose previous orders have failed, been cancelled or returned.
New customers	Customers who had their first-item-ever despatch in the period.
Net asset value per share	Net assets divided by the total number of shares in issue, net of treasury shares
Notional interest	Interest recognised on a time apportionment basis using the effective interest rate implicit in the underlying transaction.
Operating margin	Operating profit divided by revenue.
Provision for impairment of receivables	Provision held against accounts and loans receivable for expected future losses, net of expected recoveries, discounted at the interest rate implicit in the underlying transaction.
Retail sales	Sale of merchandise and associated delivery fees from direct marketing and the head office clearance store.
Return on equity	Profit for the period divided by the average of the current and prior period's total equity.
Return on assets	Profit before interest and tax divided by the average total assets at the end of the current and prior reporting period.
Roll rate	The proportion of people whose arrears status increases each cycle.
Weighted average number of shares in issue	The number of shares in issue at the beginning of the period, increased by shares issued during the period, and decreased by share repurchases, weighted on a time basis for the period during which they were in issue, excluding treasury shares.



