Integrated annual report 2018

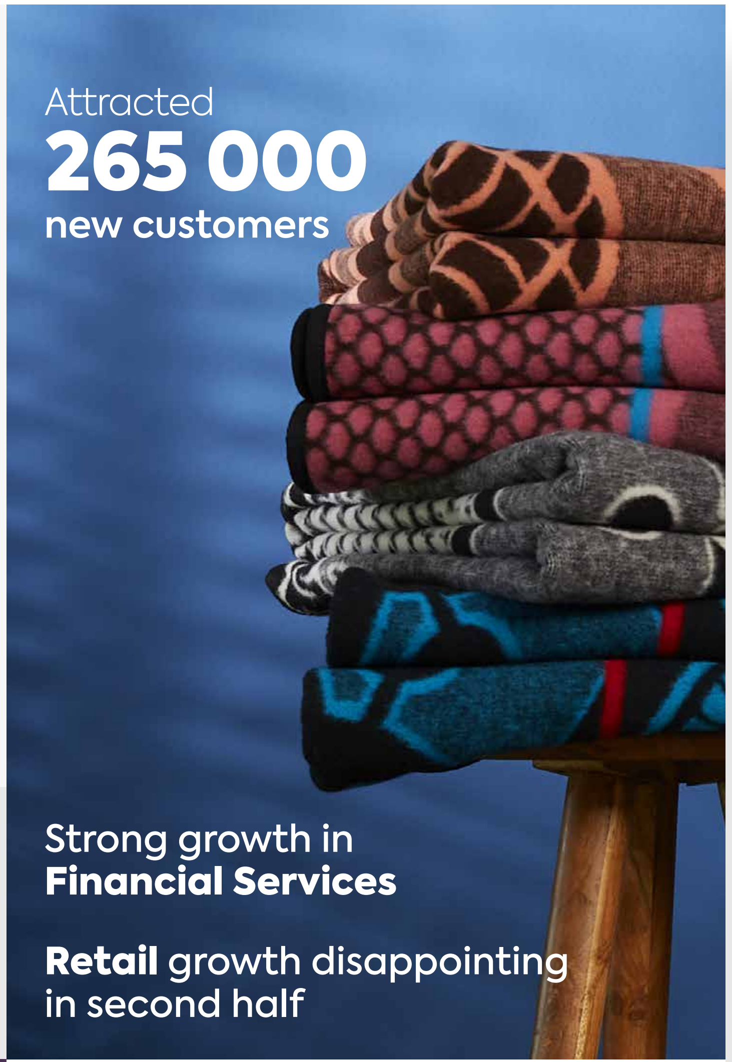
HOMECHOICE INTERNATIONAL PLC

STEADY GROWTH IN A DIFFICULT RETAIL ENVIRONMENT

Revenue
+8.5%
to **R3.2 billion**

Credit extended on digital channels at
38.5%
to **R1.6 billion**

Cash generated from operations
+32.0%
to **R474 million**



Attracted
265 000
new customers

Strong growth in Financial Services

Retail growth disappointing in second half

Operating profit
+2.6%
to **R763 million**

Earnings per share
+2.1%
to **506.8 cents**

Final dividend 99.0 cents/ total dividend
+1.6%
to **194.0 cents per share**

OUR
INTEGRATED REPORT

We are committed to providing shareholders with accurate, balanced and transparent reporting, and to continually enhance financial disclosure to meet best practice standards in the listed company environment.

This integrated annual report aims to demonstrate how our leading position in omni-channel retailing and financial services in southern Africa contributes to value creation in the short, medium and longer term for our financial stakeholders and the broader stakeholder base.

Reporting suite

The group makes the following documents available to stakeholders:

01 **Integrated annual report**

02 **Annual financial statements report, including Notice of annual general meeting**

03 **Investor presentations**

04 **King IV application register**

These documents are made available on the company's website, www.homechoiceinternational.com.

Scope and boundary

This report covers the performance and activities of HomeChoice International (HIL) and its subsidiaries (the group) for the period 1 January 2018 to 31 December 2018.

While the holding company is based in Malta, the group currently operates principally in South Africa where it derives the majority of its revenue and profit, with 8% of Retail revenue generated from the neighbouring countries of Botswana, Lesotho, Namibia and Swaziland. The report focuses on the group's business operations in South Africa.

There has been no material change in the comparability of reporting from 2017. The group has adopted *IFRS 9, Financial Instruments*, effective 1 January 2018 and applied *IFRS 15, Revenue from Contracts with Customers*. The financial results have been restated for IFRS 15.

IIRC Framework

The group aims to adopt the guidelines outlined in the International Integrated Reporting Council's (IIRC) Framework as appropriate.

The Framework includes reporting in terms of the six capitals of value creation, being financial, intellectual, human, manufactured, social and relationship, and natural capital. While the group has chosen not to structure the report around the capitals, the performance and activities relative to these capitals are covered throughout the integrated report.

Materiality has been applied in determining the content and disclosure in this report, ensuring the report is both concise and relevant to our shareholders. Material issues are considered to be those that may impact on the group's ability to satisfy customers' needs, improve financial returns and deliver sustainable growth.

The material issues are covered in more detail on pages 34 to 37.

Assurance

The group's external auditor, PricewaterhouseCoopers, has provided assurance on the annual financial statements and expressed an unqualified audit opinion.

The financial statements have been prepared under the supervision of Paul Burnett CA(SA), the finance director of HIL. The content of the integrated report has been reviewed by the directors and management but has not been externally assured.

Forward-looking statements

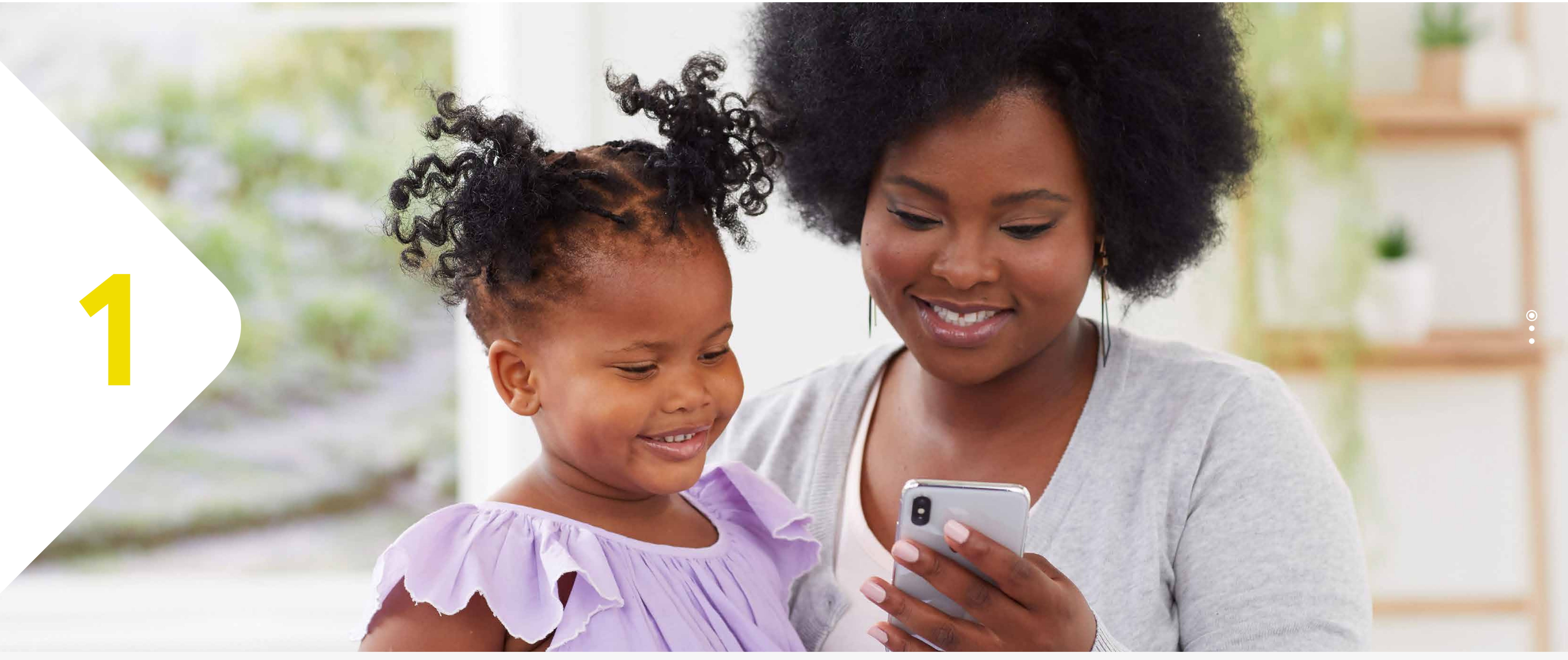
The integrated annual report contains forward-looking statements relating to the operations, financial position and anticipated performance of the group. These are not statements of fact but rather statements by the group based on current estimates and expectations of future performance. No assurance can be given that forward-looking statements will prove to be correct and shareholders are cautioned not to place undue reliance on these statements. These forward-looking statements have not been reviewed or reported on by the group's external auditor.

APPROVAL

The audit and risk committee, which has oversight responsibility for integrated reporting, has confirmed that the report fairly represents the integrated performance of the group and has recommended the report for approval by the board of directors. The report has been prepared using the IIRC Framework. The board approved the 2018 integrated annual report for release to shareholders on 29 March 2019.

Stanley Portelli
Independent Non-executive Chairman

Gregoire Lartigue
Chief Executive Officer



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GROUP OVERVIEW

GROUP OVERVIEW

"Offering innovative retail and financial services through digital platforms"

GROUP **PROFILE**

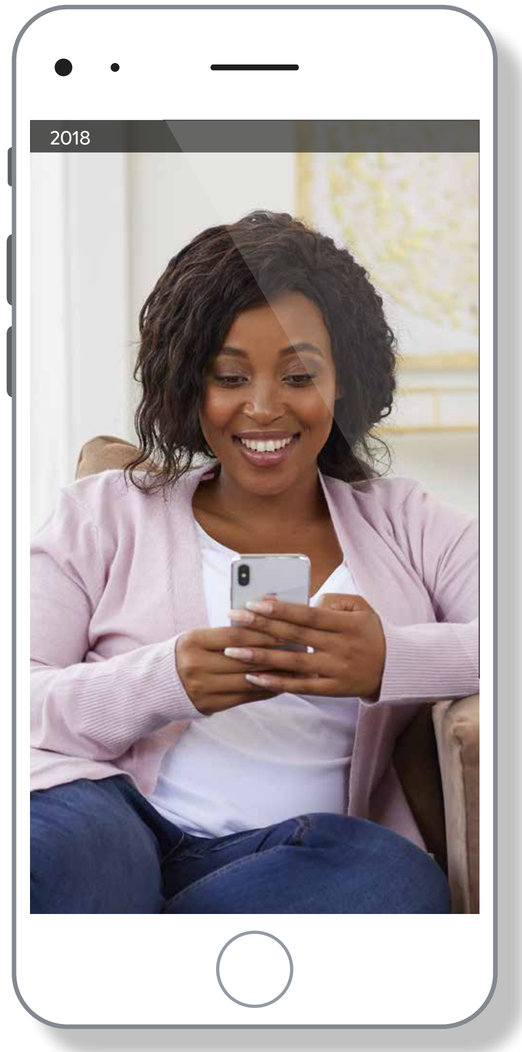
HOMECHOICE INTERNATIONAL PLC

Investment holding company with interests in retail and financial services.

Incorporated in Malta, and listed on the Johannesburg Stock Exchange.

Operations targeted at the mass middle market.

Based primarily in southern Africa with expanding operations in Mauritius.



GROUP

Vision

"to offer innovative Retail and Financial Services products to the growing African middle class through digital platforms"

Values

Our values underpin the philosophy of the business, an expression of commitment to responsible business conduct and achieving the goal of sustainable growth.

- KEEP INNOVATING – **we have the courage to contribute new ideas and turn these ideas into reality**
- THINK LIKE AN ENTREPRENEUR – **we treat the business like it's our own**
- KEEP IT REAL – **we are mindful of the impact of our words and actions**
- RAISE THE BAR – **we strive to deliver excellence in everything we do**
- WOW OUR CUSTOMERS – **we are passionate about delighting our customers**
- PLAY AS A TEAM – **we collaborate and build relationships based on trust**

RETAIL

homechoice
for the home you love

"to be a leading omni-channel retailer, delighting our loyal and growing customer base with an innovative range of curated products on personalised terms"

Omni-channel retail providing shopping convenience with home delivery

Curated range of **quality own-brand** textiles and homeware merchandise

Selected range of well-known **external brands** supplements private label

Affordable and accessible credit enables sales

Empowering customers to **create a home that they love**

Revenue	Segmental operating profit
R2.5bn	**R399m**
77%	57%

FINANCIAL SERVICES

finchoice
for when you need it

"to be our customer's favourite digital financial services provider, enabling her easy access to affordable products"

A **FinTech business** offering a range of personal lending, insurance and value-added financial products **primarily on digital platforms**

Customers **sourced from Retail customer base** with increasing external acquisition

Putting customers in **control of their financial well-being**

Revenue	Segmental operating profit
R0.8bn	**R292m**
23%	42%

* 1% operating profit attributable to Property segment

What differentiates us

Consistent focus on **female mass market** for more than 30 years	Rapidly growing **digital channels** leveraged from well-established contact centre	**Mobi-first** digital mindset and execution	Extensive behavioural, attitudinal and transactional **data-rich customer database**	Proprietary customer credit and response **knowledge** and history	**Omni-channel retailing** enables customers to shop in the way that they want	Integrated single-item direct-to-home logistics **delivery channel**	**Entrepreneurial spirit** delivers sustainable organic growth

OUR CUSTOMERS

Our customer relationships are managed at every stage of their life cycle, from acquisition to delivery. Attracting new customers and retaining quality customers through repeat business, is key to the group's sustained performance.

GROUP

The group has **874 000** active customers

PREDOMINANTLY FEMALE **84%**

16% MALE

TARGET FOCUSED ON MASS MIDDLE MARKET
with an average monthly income of
R10 000

APPEALING TO WOMEN OF ALL AGES

18 – 29:	**12%**
30 – 39:	**35%**
40 – 59:	**45%**
60+:	**8%**

CUSTOMERS REGISTERED FOR DIGITAL ACCESS

RETAIL **24%**

FINANCIAL SERVICES **86%**

30.3k CUSTOMERS ENGAGE ON INSTAGRAM

807.0k FACEBOOK COMMUNITY

RETAIL

Her preferred shopping channel

DIGITAL **24%** (2017: 23%)	CONTACT CENTRE **62%** (2017: 64%)
SALES AGENTS **12%** (2017: 12%)	SHOWROOM **2%** (2017: 1%)

HER PREFERRED DIGITAL ACCESS

SMARTPHONE	SIMPLE PHONE	WEB
50% (2017: 41%)	**19%** (2017: 24%)	**31%** (2017: 35%)

APPEALING TO MORE CUSTOMERS

+8%
739 000
(2017: 684 000)

MULTI-CHANNEL APPROACH TO NEW CUSTOMER ACQUISITION

- Television: **39%**
- Targeted mailing: **21%**
- Sales agents: **15%**
- Contact centre: **13%**
- Digital: **9%**
- Showroom: **3%**

FINANCIAL SERVICES

Her preferred financial channel

DIGITAL **81%** (2017: 69%)	CONTACT CENTRE **19%** (2017: 31%)

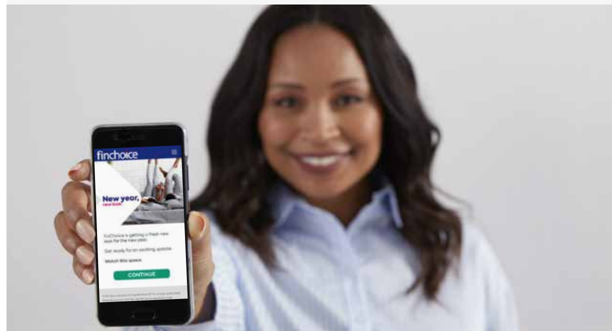
"everything comes on your cell phone, I love that ... I have FinChoice in the palm of my hand"

HER PREFERRED DIGITAL ACCESS

SMARTPHONE	SIMPLE PHONE
62% (2017: 43%)	**38%** (2017: 57%)

APPEALING TO MORE CUSTOMERS

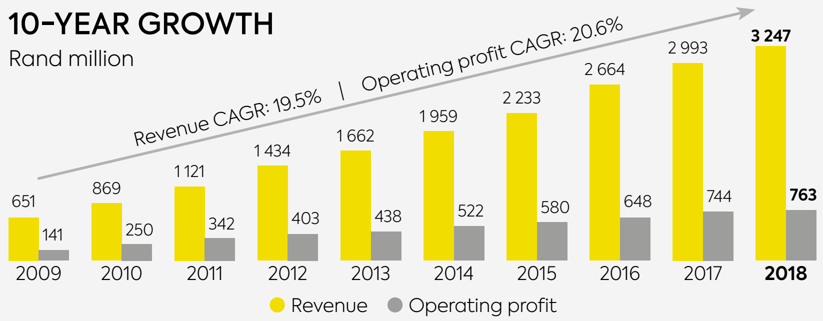
+10%
176 000
(2017: 158 000)



OUR
INVESTMENT CASE

01 A track record of sustainable and profitable growth

10-YEAR GROWTH
Rand million



- 10-year revenue CAGR of **19.5%**
- 10-year profit CAGR of **20.6%**
- Proven organic growth strategy to gain market share
- Innovation-driven business expansion

02 Positioned in sizeable and growing mass market

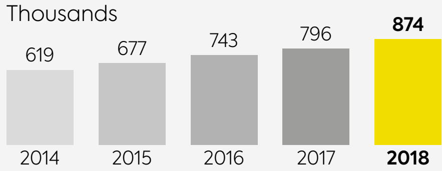
- Aspirational retail and financial services product offering attracts new customers
- Strong heritage, trust and desirability in HomeChoice brand driving customer loyalty
- Digitally enabled personal loans and insurance products

homechoice for the home you love
finchoice for when you need it

03 Proven ability to leverage the customer base

- Unique and rich database of behavioural, attitudinal and transactional data
- Retail customer base leveraged for financial services and insurance offerings

GROUP CUSTOMER BASE
Thousands



04 Convenient customer engagement

- Multiple selling channels provide customer convenience
- Digital engagement through mobi and web
- Retail showrooms provide brand exposure, customer experience and access to breadth of product

05 Proven growth through product innovation

- Positioned on heritage textiles private label ranges
- Price tiering, affordability and differentiated value
- External brands provide choice and enhance private label offering
- Innovation driven through long-standing supplier partnerships
- Financial Services innovation driven through mobi technology

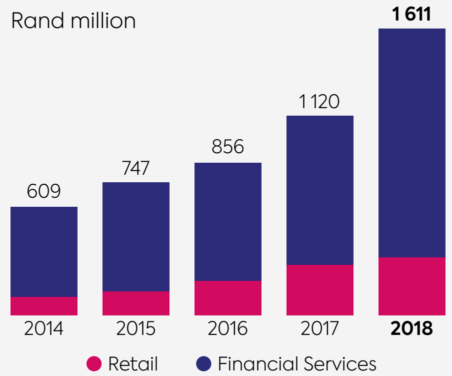
06 Mass market credit expertise

- More than 30 years' experience in mass market credit management
- Suite of credit options on terms provide customers access to credit
- End-to-end credit management utilising proprietary technology
- Centralised credit function with automated decision-making
- Conservative credit extension and provisioning maintained
- Specialised fraud and collections teams

07 Digital-led transformation

- Proprietary mobi Financial Services platform
- Mobi technology supporting smartphone and "simple phone" access
- Proprietary technology systems enhanced by world-class digital platforms and telephony systems
- Progressing digital self-service functionality
- Agile development process driving innovation and speed to market

CREDIT EXTENDED VIA DIGITAL CHANNELS
Rand million



08 Logistics expertise

- E-commerce enabled distribution infrastructure
- "Single item" logistics operations support digital with strong back-end processes managing customer returns and reverse logistics
- Click and collect capability provides customer convenience
- ChoiceCollect container hubs provide convenient pick-up and return collection points close to home

09 Talent

- Entrepreneurial spirit that launched the business – a core value underpinning culture
- Evolving structures positions teams to deliver future growth
- Technology resources attracted to new architecture and agile system development
- SETA accreditations supporting learnerships

OUR HISTORY

Over the past 30 years the group has grown from a mail order start-up company into an omni-channel retailer and financial services group, well positioned to transform into a digital business.

1980s

1985 HomeChoice established in South Africa as a mail order retailer of homeware products to mass market consumers on credit

35 employees

1990s

1994 Contact centre and telemarketing introduced to support mail order catalogue

1995 Developed the first credit scorecard

1996 Independent home delivery network launched to all regions of South Africa

1997 HomeChoice website launched

Head office located in Claremont

291 employees

2000s

2003 HomeChoice Holdings delisted from JSE in order to restructure business operations after experiencing challenging financial performance

2006 HomeChoice Development Trust launched to address charitable support for early childhood development in local communities

2007 FinChoice established to offer financial services products to HomeChoice customers

402 employees

2010s

2011 FinChoice develops and launches KwikServe® USSD, a mobi self-service transaction channel for loan products

FoneChoice established to offer personal technology and computer products

2013 Retail mobi site launched and website revamped

World-class 200 000 m³ centralised distribution centre completed at investment of R150 million

2014 Establishment of HIL group to drive global strategy with listing on JSE

2015 State-of-the-art 1 000-seat contact centre built at investment of R100 million

FinChoice mobi site launched

First HomeChoice showroom opened in Wynberg, Western Cape

2016 HomeChoice introduced range of well-known brands

Introduced TV as a customer acquisition channel

Launched Retail credit facility product – affordable and quick

Mauritius operations commenced

Personal insurance business launched

ISO 9000 certification for Cape distribution centre

2017 Financial Services launched three-month credit facility product, MobiMoney

Additional 42 brands launched

Launched group sustainability programme

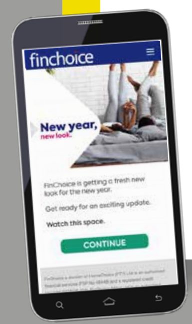
New values introduced in the business

2018 Four showrooms opened

Financial services operations in Botswana launched

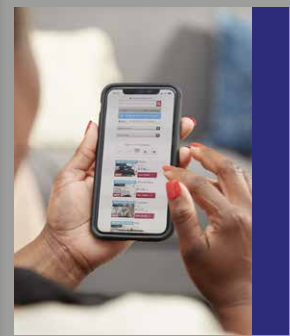
Financial value-add services launched

Two ChoiceCollect container hubs opened



1 913 employees






EXTERNAL ENVIRONMENT **AND MACRO TRENDS**

The external environment in which the group operates, and the manner in which we respond, has a strong bearing on the value-creation process.

The group considers these macro trends in their strategy formulation process.

Increased competitor landscape

As more retailers enter the market, the number of available options along cost, service, quality and style to consumers increases. With the shift in the use of digital technology, the number of options becomes exponential. Consumers are also more exposed to international trends and adjust their tastes and expectations of local companies to deliver on those trends at the same time.

There are a number of start-up FinTech players entering the local South African market with simple, easy-to-understand, competitively priced products disrupting the well-established traditional financial services industry. The increasing availability of aggregator or comparison sites in the insurance industry makes it easier and simpler for customers to "shop around" for the best deal. In this environment it is critical that companies have brand differentiation and ensure that their total price consideration is competitive in the marketplace.

2018

Digital transformation

Customers expect delivery, speed, convenience and good service. They want their transactions to be simpler, faster and easier to use. With the continual innovation in smartphone technology, mobile phones become a key tool in the hands of customers for data-rich communication from companies while providing easy access to information and trends.

WhatsApp is the most widely used application in South Africa, with Youtube a close second.

Online security

Increased threats from scammers and hackers have made customers wary of providing personal information online. They would prefer their first transaction with a human being and then, after trust has been built up, are more comfortable to transact online. This is borne out by the fact that even trusted digital platforms have been subject to hacking.

With most companies using some form of digital transactions, cybersecurity is being viewed not only as a critical IT risk but has rapidly been elevated to becoming a strategic business risk.

Social media

Social media has put the power in the hands of the consumer. It provides many platforms for customers to be heard, and to be kept up to date with communication from companies. Word of mouth is happening on an increasingly larger scale. Communication can be good or bad and many companies are experiencing the result of particularly negative communication, with consequences to their reputation and trust.

Tailoring communication is becoming more important and being aware of individual customers' communication preferences is critical to ensure that the communication lands correctly and marketing investments are maximised.

Data protection

There has been a number of data protection regulations implemented, formalising the use of consumers' personal information. The EU has implemented General Data Protection Regulations (GDPR), Mauritius has implemented a Data Protection Act (DPA) and in South Africa the final regulations for the Protection of Personal Information Act (POPI) have been published in advance of the Act being finalised.

Customers are demanding that corporates take better care of their data. They want to understand what their data is being used for, and how and when they would like to be contacted by companies. Consumers expect companies to keep their personal data safe and how and when they can be contacted for solicitation of business.

Big data

Big data – data from traditional and digital sources internal and external to a company – is the next big transformation. Companies will need the right technology, tools and expertise to leverage their vast databases to deliver valuable insight to create value for the future.

Businesses are now transitioning from merely collecting customer data, to leveraging and analysing it for better decision-making, informing organic growth strategies and gaining valuable insights into customers' needs and wants.

Omni-channel and 21st century retailing

Consumers are more attracted to retailers who provide a multi-faceted experience based on a quality/value perspective. Channel management and delivering a common and consistent brand experience across all channels becomes a critical differentiator. Multiple touchpoints provide customers with convenience to choose when and how they engage with the brand.

Online retailers are increasingly finding it important to develop a physical presence in addition to their primary online presence. This has led to the introduction of "showrooms", where a customer can see and experience the product first-hand. Customers can browse, get advice and assistance with queries from trained consultants and still enjoy the convenience of product delivered to their homes.

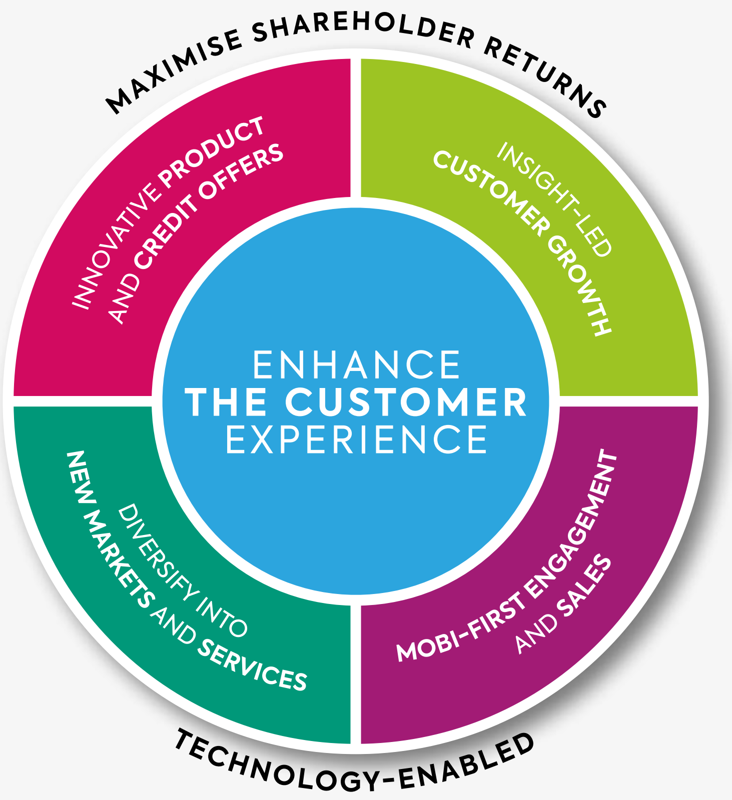
Attract and retain talent

The millennial workforce has resulted in the need to review companies' employment offering and value propositions used in the past to make them more relevant and appropriate for the present-day. Companies need to ensure that the talent they recruit for today, also delivers the talent and expertise that will take them forward into the future.

As digital transformation permeates the external market, training and development will need to take place in the format best suited to those employees of the future – they expect and demand more alignment with external digital transformation to digitally enabled internal processes.

OUR **STRATEGY**

Customers are at the core of the group's strategy. The strategy is focused on five key pillars, enabled by technology to maximise shareholder returns.

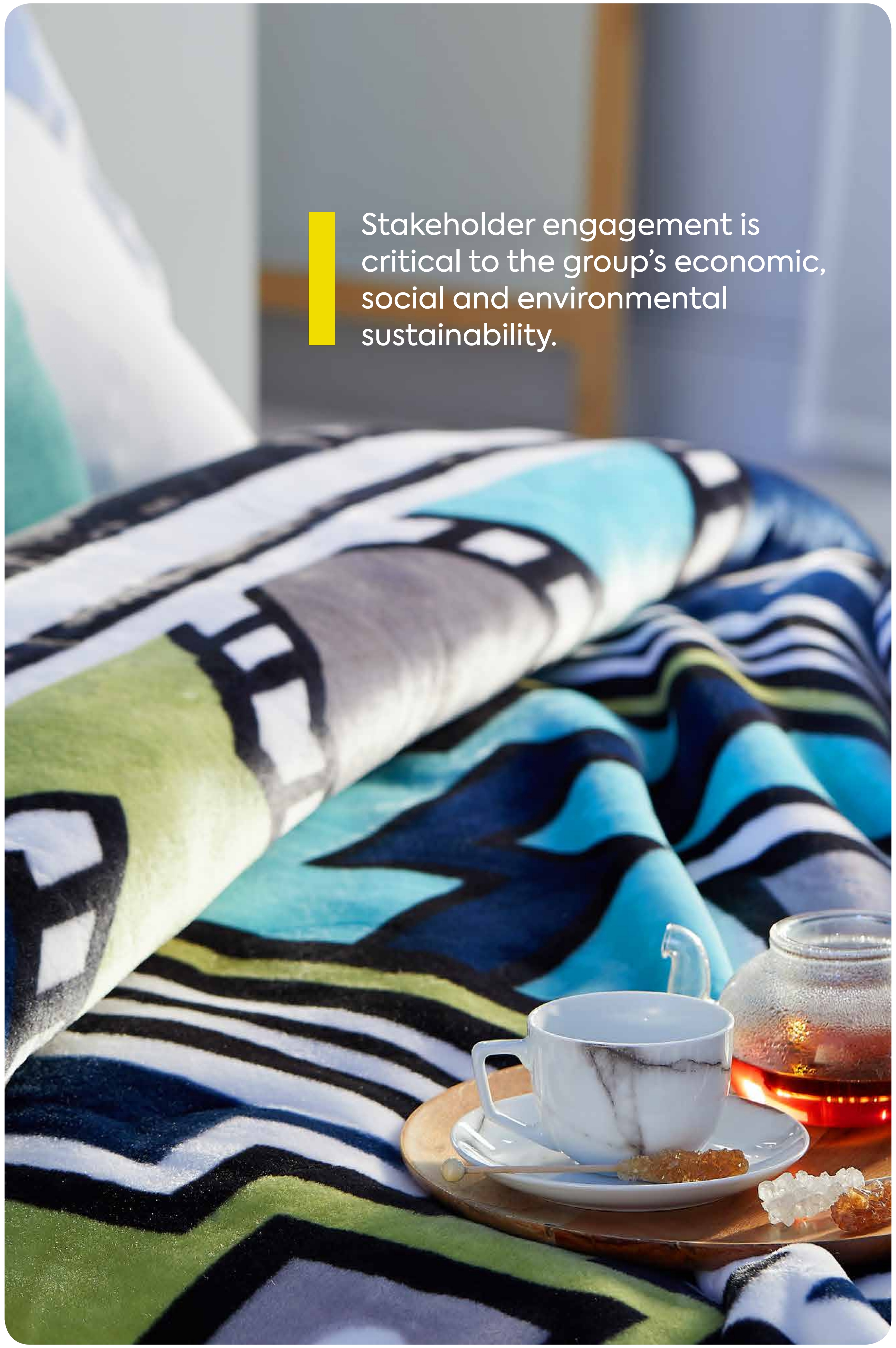


MEDIUM-TERM TARGETS

		Target	**2018***	2017**	2016	2015	2014
Retail gross profit margin	(%)	48 – 52	**49.6**	51.2	49.3	50.7	49.8
Operating profit margin	(%)	25 – 30	**23.5**	24.9	24.3	26.0	26.6
Return on equity	(%)	25 – 30	**20.9**	23.3	22.5	23.7	24.8
Net debt to equity	(%)	<40	**27.6**	28.3	28.7	26.2	14.8
Dividend cover	times	2.2 – 2.8	**2.6**	2.6	2.6	2.6	2.2
Digital credit extended	(%)	>60%	**38.7**	32.4	27.4	27.9	26.0
Customer experience	(delivery days)	<4	**6.4**				
Net promoter score***	(%)	tbc					

* IFRS 9, Financial Instruments, *adopted effective 1 January 2018. IAS 39 applied for 2017 and prior financial years.*
** *Restated based on the application of* IFRS 15, Revenue from Contracts with Customers.
*** *Target to be confirmed in 2019.*

	Group's operating context	Strategic initiatives
INNOVATIVE PRODUCT AND CREDIT OFFERS	Knowledge of our customer's buying patterns allows us to provide a carefully curated range of well-known products and brands to satisfy her needs. Customers require affordable and accessible credit options to facilitate their purchases.	• Innovation in market-leading bedding and textile categories • Expand range of external brands suited to our customers' needs, providing customers access to a digital department store • Reposition the retail credit offering to provide customers with more affordable and flexible options to suit their purchasing requirements • Transition from financial services loans business to FinTech business selling innovative financial services and insurance products designed to meet the needs of our customers • Develop value-added financial services products and services using mobi-wallet functionality
INSIGHT-LED CUSTOMER GROWTH	We have more than 1.6 million customers on our database and 874 000 active customers. Our catalogue and digital channels have enabled us to collect richer data than traditional bricks and mortar retailers.	• Invest in data analytics to further develop our customer segmentation models to drive personalisation • Risk and response propensity models to acquire new customers • Data allows us to reduce fraud and manage potential financial stress • Strong partnerships with industry experts support our internal investment in data teams and technology platforms • Primary customer acquisition channel driven from the retail business supported with targeted use of financial services affiliate and aggregator sites
MOBI-FIRST ENGAGEMENT AND SALES	Digital shopping and financial services technology-driven offerings are becoming more mainstream in South Africa. Our customers have embraced the use of mobile phones as their primary digital technology tool. The group provides functionality for a smartphone with more advanced applications or a simple device using USSD technology. As a technology-enabled business, the group is well positioned to take advantage of the benefits of digitalisation to re-engineer and replatform its technology applications.	• Digital mindset and design for mobi-first execution • Increase digital Retail sales contribution • Migration of Financial Services customer journeys to mobile self-service • Migrate from contact centre selling to digital enablement and customer support • Develop Retail digital-exclusive product ranges
DIVERSIFY INTO NEW MARKETS AND SERVICES	Showrooms provide an opportunity to display the breadth of the product range, providing first-hand experience for customers to touch and feel the product. They also serve as convenient locations for customers to collect their merchandise, deal with queries and, when required, facilitate the returns process. The group is able to leverage its customer base to diversify its product offering by introducing additional value-added financial services and personal insurance products, which appeal to our customers' needs.	• Launch additional Retail showrooms • Roll out ChoiceCollect container strategy • Drive expansion into neighbouring countries to South Africa • Introduce additional insurance products offering and develop new digital sales channels with key partners • Introduce value-added services which are supported by FinChoice MobiMoney™
ENHANCE THE CUSTOMER EXPERIENCE	As an omni-channel retailer and digital financial services offering, we have a unique relationship with our customers. A customer's experience must be consistent across all channels in the group. A positive customer experience is an important factor to drive strong retention of the customer base.	• Refresh brand appealing to customer of the future • Provide consistent experience by channel • Develop digital processes to empower customers to manage their service requirements • Reduce days to deliver, enhancing customer experience • Use of real-time technology to improve customer experience in digital channels



HOW WE **ADD VALUE**

Stakeholders

Stakeholder engagement is critical to the group's economic, social and environmental sustainability. Engagement aimed at establishing and maintaining mutually beneficial relationships not only manages risks to the business, it creates opportunities to enhance performance, ensuring longer-term sustainability.

The primary stakeholders who are most likely to influence the sustainability of the business are customers, employees, and shareholders and funders, with secondary stakeholders including suppliers, regulatory bodies and the communities served by the business. In support of the group vision, the vision for the engagement with each of the primary stakeholders of the group was defined and is an integral part of the group's values and business model.

SHAREHOLDERS AND FUNDERS

VALUE-CREATION INDICATORS

AIM OF ENGAGEMENT

Source of sustained growth

HOW WE ENGAGE

- Investor presentations, site visits and conferences and meetings
- Integrated Report and Annual Financial Statements
- HIL website

WHAT WAS RAISED

- Future strategic direction
- Understanding of business model
- Digital transformation for mass market
- Impact of credit regulations on business model

HOW WE RESPONDED

- Regular engagements with executive
- Presentations at meetings and conferences

VALUE CREATED FOR GROUP

- Access to equity and funding
- Open dialogue to understand and address concerns

VALUE CREATED FOR STAKEHOLDER

- Understanding of business strategy
- Continued sustained growth in capital and distributions
- Ability to pay interest and repay debt

55.7% Five-year total shareholder return

191 cps full-year dividend distribution

R89m interest payment

Ten-year sustainable profit growth of **20.6%** CAGR

EMPLOYEES

VALUE-CREATION INDICATORS

2018 saw a review of our employee value proposition with the aim to reduce attrition and improve tenure across the business.

Improvements were made to existing benefits such as the inclusion of children in the funeral benefit and amounts available for long-service awards. New benefits include reflection rooms that allow staff quiet spaces to meditate and honour their respective belief systems, an on-site grocery store and wellness clinics specifically focused on the large female population were introduced. A housing loan facility was made available and a financial wellness programme was introduced aimed at helping employees to manage their finances.

AIM OF ENGAGEMENT
Employer of choice

HOW WE ENGAGE
- Annual Staff pulse survey
- One-on-one interactions
- Annual awards ceremony
- Incentivisation to achieve business goals
- Six-monthly key performance assessments
- Training and development, learnership and leadership development programmes
- Employee value proposition

WHAT WAS RAISED
- Regular training
- Communication of strategy
- Non-financial recognition
- Additional benefits in employee value proposition

HOW WE RESPONDED
- Communication programme
- Digital e-learning programmes
- Rewards and recognition programme
- Internal employee promotions where suitable, and encourage internal career growth

VALUE CREATED FOR GROUP
- Engaged employees who live the values and contribute to deliver business strategy, and operating plans
- Brand ambassadors
- Talent recruited today will take group forward into the future
- Addressing transformation issues

VALUE CREATED FOR STAKEHOLDER
- Market-related remuneration
- Recognising diversity
- Opportunities for learning, development and growth
- Culture which supports and rewards good performance
- Opportunity to make valuable contributions and personal fulfilment and satisfaction

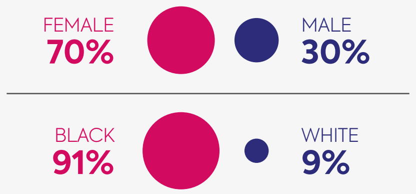
“
TRAINING
‘e-learning platform
has transformed our training and development methodology from the traditional classroom training to a blended-learning methodology’

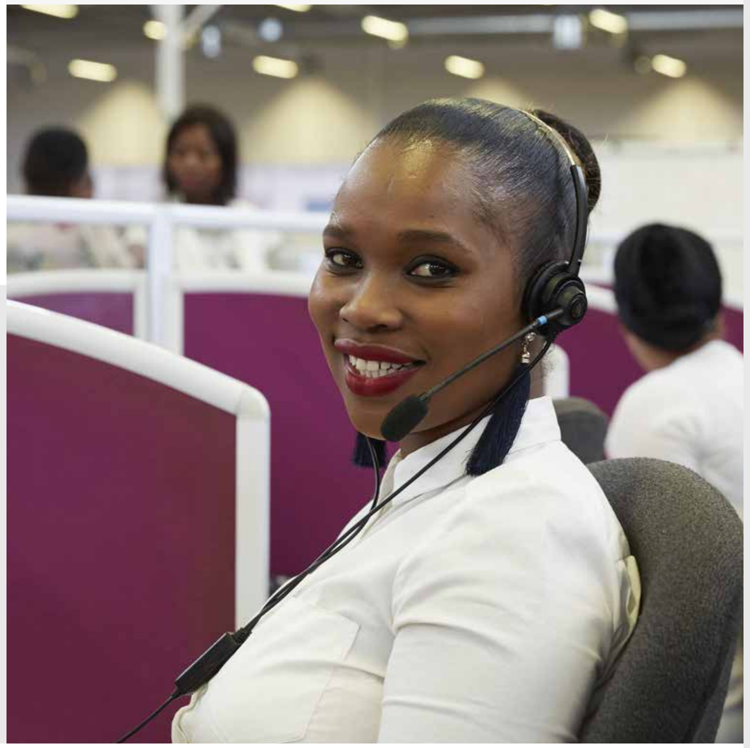
Investment in training **R6.6 million**
(2017: R5.5 million)

Number of interventions **17 547**
(2017: 11 694)
- Digitally provided 52%
- 10 interventions per operations employee

Bursaries provided **16** (2017: 22)
”

EMPLOYEES REPRESENTATIVE OF OUR CUSTOMER BASE
Supporting our customers' experience



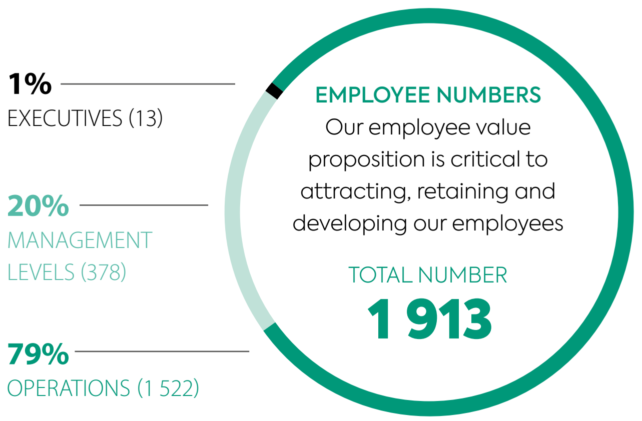


TRAINING PROVIDER ACCREDITATION

We are an accredited Training Provider with SETA

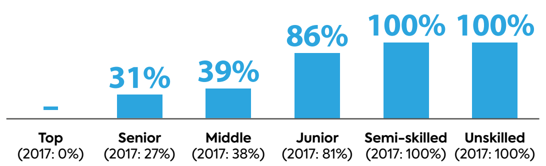
Learnerships increased from 9 to **50 learners**

DEVELOPING LEADERS OF THE FUTURE
9 senior managers
participating in our in-house Executive Development programme



South Africa **99%** | Mauritius **1%**

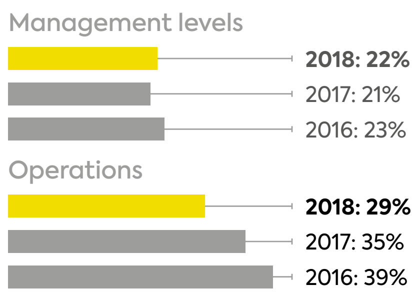
EMPLOYMENT EQUITY DRIVING TRANSFORMATION



82% of all promotions during 2018 were made to black employees

OUR STAFF ARE STAYING WITH US FOR LONGER

Reducing labour turnover



Annual Pulse Survey score

Improving from 74% to **77%**

Doing well in Communication and need to do better in Recognition

The weekly “Wow Our Employee” communication introduces new employees, learning and development achievements, promotions and celebrates personal accomplishments outside of the workplace, recognising employees' other talents.

CUSTOMERS

VALUE-CREATION INDICATORS

AIM OF ENGAGEMENT
Provider of quality differentiated value products

HOW WE ENGAGE
- Easy to use, convenient digital channels
- Direct telemarketing
- Social media platforms
- Face-to-face sales agents

WHAT WAS RAISED
- Quality differentiated products
- Continuous innovation
- Free access to digital services
- Ability to access digital – smartphone and simple phone
- Flexible credit offerings
- Convenient business processes
- Contact customers at more convenient times

HOW WE RESPONDED
- Deliver consistent customer experience across all channels
- Free access for digital offerings on Vodacom network
- Digital access in showrooms
- Right-time-to-call
- Easy and convenient collection

VALUE CREATED FOR GROUP
- Sustainable growth
- Increase in market share
- Brand loyalty
- Retailer of choice
- Financial services provider of choice

VALUE CREATED FOR STAKEHOLDER
- Range of innovative private label and external branded retail products
- Suite of personal loans and credit facility products
- Enabling customers to manage their financial requirements in an easy and affordable manner
- Multiple customer engagement channels

5 showrooms | 2 ChoiceCollect containers

GROUP

15 million
digital visits

3 million @ e-mail addresses | 30.3k | 807.0k

RETAIL

650k catalogues per month

10 unique product adverts
>6 500 flightings

67% NPS SCORE

Implemented right-time-to-call

FINANCIAL SERVICES

Quicker new loan application times

Mobi 40% quicker

Contact centre 20% quicker

90% CX DIGITAL INDEX

Positive customer experience

Move from SAPO to **home delivery**

ISP training focus

"Service has been excellent, I like the fact that you don't need to talk to anyone, I can do all my transactions on the phone."

"I opened my account in the 70s and haven't looked back – thank you for the wonderful service"

DISTRIBUTION NETWORK PARTNERS

VALUE-CREATION INDICATORS

An efficient logistics and distribution network capability is a key enabler for digital retailers to provide customers a quick, convenient and efficient process to receive their orders.

The group has three main delivery options available to Retail customers – direct-to-home, click and collect at more than 250 locations in South Africa, and counter pick-up using the South African Post Office (SAPO).

Three categories of business partners support the delivery process – third-party courier companies, SAPO and "owner-drivers" or independent service providers (ISPs). SAPO is the main business partner providing a delivery option to the more out-of-town areas and supporting a broader network reach for customers. During the year SAPO faced a number of operational challenges, including a strike, which negatively impacted their service and resulted in a poor delivery experience for our customers. While the group was able to divert some of the deliveries during this period to other partners, the delivery of our catalogues was severely impacted. Working closely with SAPO, we were able to deliver our pre-sorted catalogues directly to hubs, bypassing the mail centres which were dealing with the major backlogs. The ability to receive purchases at local post offices is a convenience for many customers and we are committed to SAPO for this option. We hope that the funding support and commitment that SAPO has received from government will have a positive impact on their service delivery.

Deliveries in 2018

>1 m

- **64%** HOME DELIVERIES (2017: 65%)
- **23%** SAPO (2017: 25%)
- **6%** CLICK AND COLLECT (2017: 3%)
- **7%** AFRICA (2017: 7%)

Reduction in time to deliver to her home to
6.4 days from 7.2 days

Convenient click and collect from five showrooms, two ChoiceCollect containers and third-party sites. More than 80% of showroom orders are click and collect.

INDEPENDENT SERVICE PROVIDERS

> "ISPs work very closely with the group and are an integral part of the group's enterprise development initiative. They are key business stakeholders who deliver 63% of all our direct-to-home deliveries."

Average annual earnings **R1.2m** pa

The ISP relationship provides a more cost-effective distribution network and provides flexibility to quickly adapt to new product requirements, ensuring a more personalised delivery service particularly with our furniture deliveries.

Training is provided for all ISPs and a comprehensive delivery manual ensures that delivery standards are maintained.

While it is beneficial to the business, meaningful employment is provided to 18 small business enterprises, who in turn employ a further 130 drivers and support staff.

AIM OF ENGAGEMENT
Effective and efficient customer delivery experience

HOW WE ENGAGE
- One-on-one interactions between ISP and managers
- Regular scheduled meetings

WHAT WAS RAISED
- Delayed catalogue and parcel deliveries
- More locations required for click and collect
- Increased opportunity to expand business

HOW WE RESPONDED
- Direct engagement with SAPO to expedite catalogue delivery
- Switch SAPO parcel deliveries to ISP and courier partners
- Ongoing assessment of delivery areas allocated to ISPs
- Opened two ChoiceCollect containers in townships

VALUE CREATED FOR GROUP
- Ability to provide deliveries direct-to-home in townships and more rural areas
- Greater coverage of distribution network
- Small enterprise development opportunities

VALUE CREATED FOR STAKEHOLDER
- Support from large corporate to enable consistent growth
- Training and development to enhance customer service

18
Independent Service Providers with 61 vehicles/drivers

More than **430 000** deliveries

Transport 63%
of home deliveries in South Africa

COVERAGE

- **56%** Gauteng based
- **22%** Western Cape based
- **22%** Rest of South Africa

DIRECT SALES AGENTS

VALUE-CREATION INDICATORS

The direct sales agent channel is an important component in the Retail omni-channel strategy.

It plays a strong role in generating brand exposure and sales of the HomeChoice brand in South Africa, Botswana and Namibia.

More than 4 000 agents are registered with HomeChoice, with some deriving a significant amount of their monthly income selling on a full-time basis and may earn in excess of R20 000 per month. Other agents use the commission they earn to supplement their income, working on a part-time basis. Commission is earned on a tiering structure – bronze, silver, gold and platinum.

A key strategy for 2018 was a focus on improving the support provided to existing sales agents, empowering them to earn additional commission income.
The 1st Saturday meetings, used for training, motivation and sharing learnings, were expanded from six to 15 venues incorporating South Africa, Botswana and Namibia, providing a direct reach to more agents. Through the use of WhatsApp, agents keep in contact with fellow team members, are advised when meetings are held and receive support from head office. The order capturing process was streamlined and automated, enabling agents to be in a better position to provide customer support. Additional training for the agent adviser team allows for improved support to agents' queries, resolving them quickly and more efficiently.

Regular rallies are held during the year, to celebrate the agents' successes, focus on training and development to assist them in establishing their own network of clients, and engage with them on changes of processes which may impact them.

Sales agents may also purchase subsidised marketing materials such as gazebos and personalised banners to assist them in driving sales.

NUMBER OF SALES AGENTS

2018 **4 908**

2017 **5 674**

GEOGRAPHIC SPLIT

9% BASED IN NEIGHBOURING COUNTRIES

91% SOUTH AFRICA BASED

290 agents located in Botswana and Namibia, up from 67

INTEGRAL PART OF OMNI-CHANNEL

Generate **6%** of sales

Acquire **15%** of new customers

IMPORTANT SALES GENERATING TEAM

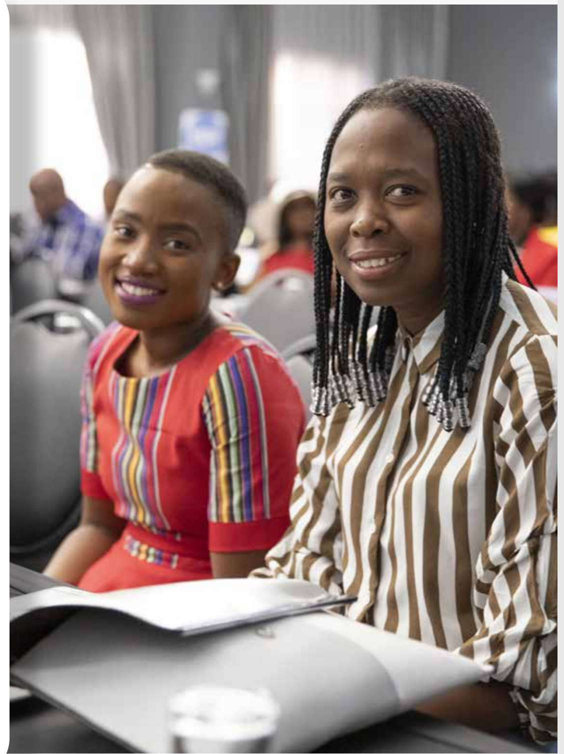
Avg sales per agent **R18k** pa

Sales generated by top agents up to **R2.5m** per agent pa

2018

CREATING MEANINGFUL EMPOWERMENT

Top 10 agents earn an average R280 000 pa



AIM OF ENGAGEMENT	HOW WE ENGAGE
• Reach customers in out-of-town areas with more personal interaction	• One-on-one interactions • Annual awards ceremony • Incentivisation to achieve business goals • Customer training and development programmes
WHAT WAS RAISED	**HOW WE RESPONDED**
• Capturing customers' orders are time consuming • Regular communication on current and important information	• Digital process for capturing orders implemented in 2019 • Expanded 1st Saturday meetings to additional venues
VALUE CREATED FOR GROUP	**VALUE CREATED FOR STAKEHOLDER**
• Brand exposure and revenue generation in townships and more rural areas • Expansion in neighbouring African countries • Greater coverage of direct marketing selling network • Small enterprise development opportunities	• Empowering women to support their families and improve their lifestyles by earning/supplementing income by selling Retail products • Exposure to other enabling resources

We asked some of the top sales agents to tell us about their success with the group.

Thabani
It all starts with passion! You need to be well presented, professional and confident when selling. I have already bought a car. I am going to work to keep my clients happy and when my clients are happy ... my bank will be happy too.

Queen
Present yourself well and know your products. If you are selling a product that costs R2 500, don't try to sell it to the guy whose budget is R250. Working for Homechoice has brought me the financial freedom I only used to dream about.

Maxwell
The customer comes first – always make sure you put yourself in the customer's shoes. Be honest, crystal clear and there to assist with any queries. This builds lasting relationships and your customers will refer you to their friends.

Puseletso
I was able to finish paying for my university fees and complete my qualification of which I was struggling to do so due to finances ... and was able to graduate!! I bought myself a car and was able to move out of my Mom's home.

COMMUNITY – HOMECHOICE DEVELOPMENT TRUST

VALUE-CREATION INDICATORS

As the group is based in Cape Town, community investment is targeted at the stakeholder community situated in the Western Cape.

The work in the community is channelled through the HomeChoice Development Trust (Trust). The Trust has long-standing partnerships with non-profit organisations who have long-term and sustainable plans in the Early Childhood Development (ECD) sector.

Vision

To improve the quality of education by providing a safe, nourishing, learning environment to pre-school children in disadvantaged communities

Mission

The upliftment of underprivileged communities through focusing on early childhood development

405 (2017: 268) **educare centres supported**

21 025 (2017: 14 606) **children under 6 received a quality start to education**

1 511 (2017: 936) **ECD practitioners trained**

Spent more than R26m to support ECD

AIM OF ENGAGEMENT
- Improve access to quality education in Western Cape communities
- Improve training of staff running ECD centres

HOW WE ENGAGE
- Partner with NGOs aligned with the Trust's strategy and have long-term and sustainable plans in the ECD sector
- Provide guidance and financial support
- Annual Mandela Day campaign
- Scheduled staff volunteering days
- Donations-in-kind

VALUE CREATED FOR GROUP
- Promote HomeChoice as a preferred employer and active responsible corporate citizen
- Fulfil B-BBEE requirements
- Build and maintain internal and external awareness of the group's social investment strategy

VALUE CREATED FOR BENEFICIARIES
- Providing women an opportunity for their children to receive a quality start to their education
- Trained confident educators
- Family involvement in child's early development

Integrated early childhood development project – Langa

In partnership with Rotary, the Trust is the only corporate donor for an exciting integrated ECD project to be launched in Langa. With significant fundraising undertaken by Rotary Newlands and nine Rotary districts in all five continents, including Rotary International, the project aims to create a community of ECD excellence in the Langa township.

Working in partnership with a broad range of stakeholders from the community and local government, the project targets the provision of quality early childhood education for all the Langa children in the 0 – 6 age group (a total of 7 500 children), of whom only 20% currently have access to any form of ECD service. The larger goal is to create a replicable community of ECD excellence model, for ongoing roll-out to other disadvantaged communities.

The project implementation will include:
- Training and mentoring
- Monitoring and evaluation of each participating ECD centre to improve the quality of their educational programmes as well as the health and safety standards of their infrastructures.
- Provision of relevant ECD indoor and outdoor educational materials and equipment
- Water, sanitation and other infrastructure upgrades

Training and upgrades will ensure that all current and planned new ECD centres meet the required government ECD criteria for Department of Social Development (DSD) government registration, enabling them to access the per child per month government subsidy, thus ensuring project sustainability. This will be supported by project ownership by the community, part of the project management team, and be trained using the United Nations Community Capacity Enhancement programme.

R5.8m financial commitments from the Trust in 2018

R31m donations made by the Trust since inception

Bringing the Trust alive

With the launch of the Retail showrooms, the Trust has been able to showcase their work to the group's customers. Rissik Street, Nelspruit and East London have dedicated spaces where the Trust is able to highlight the work undertaken by the Trust and partners in changing children's lives through early childhood development.

COMMUNITY – HOMECHOICE DEVELOPMENT TRUST

MEASURABLE IMPACT OF FUNDING

Mandela Day

Mandela Day continues to be the primary focus of our staff's involvement with the activities of the Trust.

In 2018 "Share the Joy of Giving Back" campaign went digital. A dedicated website, facebook page, hashtag and QR code were set up to make it easier for staff to get involved.

The main focus of the campaign was #HC67minutes where staff were encouraged to contribute 67 minutes to build DIY charity boxes. Staff were able to select from two "box builds", each designed by two nominated non-profit organisations to suit their requirements. 680 boxes were built and handed over to the charities together with a donation of R67 000 to each charity.

In addition to supporting the DIY charity boxes, staff could also enter one of three competitions where they could win money for their charities. In keeping with the digital theme, voting for the winners was done online.

> "Everything was digital, easily accessible on your PC and fun to participate in."

Shack-to-chic Programme – Mfuleni

The Trust has been in partnership with Starting Chance since 2013. Financial support is channelled into their shack-to-chic project (infrastructure builds and renovations of ECD centres) and the computer/tablet training project (teachers, Grade Rs and parents).

Four ECDs have benefited from the financial support with a further five in the medium term. Comprehensive computer training for teachers and principals are run on the 32 laptops and 90 tablets donated by the Trust to the programme.

	ECD CENTRES	TEACHERS	CHILDREN
ECDs	9	70	946
Training Teachers in Township ECDs	16	72	822
Computer training	6	65	750 Grade Rs

Community Chest

The Community Chest distributes the bulk of the Trust's donations-in-kind. Additional monetary donations are targeted into programmes which upgrade ECD infrastructures in Khayelitsha.

	ECDS	TEACHERS	CHILDREN
ECD upgrades	2	16	259

Site Learning Programme – Worcester and Atlantis

The Trust provided financial support to Grassroots NGO to assist in funding the DSD accredited Site Learning Programme for ECDs. The success of the programme developed into a further expansion in the areas of Worcester and Atlantis. Support for this programme has concluded in 2018. Registration of ECDs with the DSD remains an ongoing challenge. Pleasingly, around 80% of the ECDs have received either conditional or full registration.

	ECD CENTRES	TEACHERS	CHILDREN
Atlantis	98	197	3 716
Worcester	66	135	2 639

Rainbow and Development Programme – Vrygrond and Overcome Heights

The Trust has been in partnership with True North since 2013 and has funded several successful initiatives and pioneering projects.

A further three-year funding agreement was signed in 2018. This project, within the Rainbow Development Programme, will include skills development, capacity building and the new build of three ECD centres. Total investment into the project is estimated at R7 million with 15% allocated for skills development and capacity building, and 85% for infrastructure. True North is a beneficiary of donations-in-kind and runs a very successful community rewards shop with these donations.

	ECD CENTRES	TEACHERS	CHILDREN
ECDs' development	4	24	220
Estimated reach	30	220	2 500

Outreach Programme, Khayelitsha – Monwabisi Park

The Emthonjeni playgroup outreach programme reaches the poorest communities in Khayelitsha by offering free ECD access to children in those communities.

The Trust has explored various avenues to develop and build formal ECD centres for these outreach sites but has faced a number of challenges. Going forward support will be provided for alternative infrastructure build options such as containers, providing a safe and secure environment for the children.

	OUTREACH SITES	FIELDWORKERS	CHILDREN
Total reach	8	14	531

Knysna Educational Trust (KET)

KET, an organisation in the Garden Route area, focuses exclusively on the upliftment of early childhood development.

In 2018 the Trust donated towards the KET skills development, capacity-building and bursary programme. This funding will enable principals and teachers who have worked in ECD for years, but lack a formal qualification, to continue their teaching while completing their studies.

	ECDS	TEACHERS	CHILDREN
Estimated reach	50	200	2 120

SUPPLIERS

VALUE-CREATION INDICATORS

AIM OF ENGAGEMENT

Enable innovative, cost-effective products and appealing customer experience

HOW WE ENGAGE

- Regular meetings, on-site visits
- Business unit interaction and engagement
- Annual negotiations
- Merchandise vendor manual
- Information security requirements

VALUE CREATED FOR GROUP

- Innovation
- Differentiated customer product offerings
- Access to best practice, best-of-breed technology
- Ethical business practices
- Cost optimisation

VALUE CREATED FOR STAKEHOLDER

- Exposure to growing mass middle market customer base
- Job creation
- Long-standing relationships enabling long-term investments
- Commercial partnering on new technology systems

Continual business **Access to mass market**

REGULATORS AND GOVERNMENT

VALUE-CREATION INDICATORS

AIM OF ENGAGEMENT

Responsible corporate citizen in countries in which we trade

HOW WE ENGAGE

- Membership of business, credit and non-financial services regulators
- Timeous submission of regulatory information
- Participation in business and industry associations

VALUE CREATED FOR GROUP

- Positive and productive relationship with regulators
- Commitment to countries national priorities
- Sustainable business model reliance on valid licences

VALUE CREATED FOR STAKEHOLDER

- Contribution to the tax base
- Job creation programmes
- Compliance with applicable legislation under which the group operates

R156m paid in taxes **Compliance with regulations**

MATERIAL **ISSUES**

The group considers material issues as those factors which may impact on the ability to satisfy customers' needs, improve financial returns and deliver sustainable growth.

The board considers the material issues on an annual basis when the annual strategy process is undertaken and the key business risks are confirmed.

The group considered the key business risks and refined them to the six material issues which are critical to the group in the current and foreseeable trading environment. The material issues may have a negative impact on the group and may also present opportunities for the group to create value for its stakeholders.

Risks and opportunities

The risks included in the material issues are extracted from the business risk report tabled at the audit and risk committee. These are risks facing the business that could negatively impact the achievement of the strategic pillars if not effectively managed.

Opportunities have been identified for each material issue to highlight some of the strategies that the group intends to implement for 2019 onwards. More detail on the group strategy can be found on pages 16 and 17.

Credit risk management and regulatory compliance

Strategic context and stakeholder needs

In excess of 90% of Retail sales are transacted through the use of credit. The Financial Services business offers unsecured personal loans – consequently the management of group credit metrics is a material issue for the group. The granting of credit to support the growth strategy is actively managed within acceptable levels of risk.

In-house bespoke scorecards determine and monitor the level of credit granted. Credit bureaus are used to validate customer data in the credit-vetting process. Independent specialists review the scorecards and credit risk models on a regular basis. The group continues to introduce new systems and processes to enhance the origination and vetting of credit applications. A new anti-fraud tool designed to detect digital account takeover fraud was implemented in 2018.

Changes to the group's systems and processes are implemented for any changes in credit regulations. We continue to make it simpler and easier for customers to submit their necessary documentation when applying for a loan or entering a new credit agreement to purchase merchandise.

Further details on credit risk management can be found on pages 78 to 81.

Risks and mitigations

Inability to manage credit within acceptable risk levels and support targeted revenue growth	Use of credit bureaus and scorecards in vetting process Effective collections strategies – internal and external Use of specialised fraud detection technology Retail sales growth primarily driven through targeted direct marketing model aimed at reducing potential bad debts Financial Services' customer base preselected from low-risk Retail customers, with external customers introduced with shorter periods and lower credit limits
Affordability assessment regulations have a negative impact on granting of credit	Implemented tools and processes to streamline in-house processes Additional resources employed to chase and process customers' documentation

Opportunities

01 In-house scorecards and intellectual capital allow us to build up significant credit history and understanding of the middle mass customer market

02 Alternative data sources to be used as a predictor of risk

03 Use technology, including machine learning, to automate processes

04 Further leverage group opportunities to streamline and optimise credit-granting processes

Delivery network and customer experience

Strategic context and stakeholder needs

The quality of the delivery experience is a key component for any omni-channel retailer. Customers expect delivery times to be shorter, drop-off and pick-up points to be more convenient and processes to return goods to be simple and easy.

The Retail business is supported by two distribution centres in Cape Town and Gauteng and three categories of delivery providers (couriers, owner-driver ISPs and SAPO) to ensure that customers receive their parcels on time.

The South African Post Office (SAPO) is an important service provider to deliver catalogues to customers and provides a pick-up point for customers' orders in areas where there is limited home delivery infrastructure. SAPO experienced a strike in 2018 which resulted in significant operational backlog and the non-delivery or late delivery of catalogues and parcels. The group worked closely with SAPO to pre-sort catalogues and deliver them to the post office hubs, bypassing the mail centres which were experiencing the most severe backlogs. Delivery of parcels were diverted to more expensive couriers to ensure that customers' products were not delayed.

Our owner-driver independent service providers (ISPs), an enterprise development initiative, has provided us with the opportunity to expand home deliveries to more customers and provide employment for small black-owned driver operations.

With the roll-out of showrooms in 2018, customers now have the opportunity to use a click and collect option at five showrooms and two ChoiceCollect containers.

Further details on distribution network partners can be found on pages 24 and 25.

Risks and mitigations

Our parcel delivery experience does not meet our customers' expectations	Partnering with specialised courier networks in established metropolitan areas Independent owner-driver home delivery service with performance tracking and training Reduce reliance on SAPO to deliver parcels Click and collect options in showrooms and ChoiceCollect containers Use digital technology to engage with customer on delivery timing
Catalogues are not delivered timeously	Roll-out of showrooms and ChoiceCollect containers Drive collection and validation of customers' street addresses Trial on-the-street delivery partners Drive digital engagement
Our customer experience does not meet expectations	Map and refine customer journeys Provide customers with the ability to select her delivery option Use customer satisfaction measurement tools to identify pressure points

Opportunities

01 Expand click and collect delivery strategy

02 Technology to drive selection of delivery options to suit customers' needs

03 Drive speed and efficiencies in warehouse stock management in both Cape Town and Gauteng distribution centres

04 Reposition ISPs to enhance delivery experience

Trading environment

Strategic context and stakeholder needs

2018 has been a year of low GDP growth, continued high unemployment, modest increases in negotiated wages, higher fuel and electricity prices and an increase in value-added tax from 14% to 15%. The Rand continues to be volatile, impacting costings of imported products.

The Retail HomeChoice brand has a very loyal customer base in South Africa. They expect us to provide quality products at affordable prices. Through innovation and re-engineering our product offering we are able to provide them with quality value product and manage margin impact. Our long-standing relationships with key offshore suppliers help us to achieve that.

Most of our financial service offerings are conducted with repeat customers. This enables us to build up a strong relationship with those customers whom we understand and in turn they trust us to deliver on their requirements.

Risks and mitigations

Inability to deliver targeted financial performance	Revenue growth driven through targeted direct marketing model, supported by investment in customer acquisition Proactively manage product mix and componentry to limit impact of exchange rate movements Extension of retail product ranges and categories Diversify into additional insurance products and value-adding financial services Expand the customer base with specific targeted offers

Opportunities

01 Product innovation in key categories

02 Broaden range of external brands appropriate for product categories

03 Technology-enabled flexible credit options provide wider choice

04 Optimise supply chain to manage margin

Digitalisation

Strategic context and stakeholder needs

One of the strategic initiatives of the group is to drive mobi-first engagement as it provides convenience for the customer and improves efficiencies for the group.

81% of Financial Services' personal loans business is carried out on a digital platform and 16% of Retail sales are digital.

Our customer target market has embraced digital technology through their mobile phones; either using simple USSD technology or more content-rich functionality on smartphones. Mobile connectivity is a more convenient channel for customers to either shop for merchandise or manage their finances in the safety of their homes.

The expansion of Retail and Financial Services into new markets and services can be achieved more quickly through the deployment of digital technology.

The group's capital expenditure programme continues to be focused on technology, both in core infrastructure to deliver operational efficiencies and in "customer-facing" platforms to support the growth strategies of the group.

Risks and mitigations

Unable to execute the digital transformation of the group	Redefining architecture for easier and quicker implementation of application services Capital expenditure investment focused on technology Agile development process with product owners driving innovation Regular engagement with business to prioritise systems delivery and optimise resource utilisation

Opportunities

01 Implement best-of-breed technology business solutions with mobi-first thinking

02 Leverage new e-commerce engine

03 Allocation of technology capital expenditure to support digital transformation

04 Develop and roll out customer self-service options on digital platforms

05 Drive digitalisation of internal business processes

Talent management

Strategic context and stakeholder needs

Market norms indicate a relatively high labour turnover in a contact centre operation with attrition in the range of 35% – 45%. Our contact centre attrition rates have improved from 36% to 30%, with the tenure of more than half of the operational staff longer than 24 months.

The group's growth strategies require skilled, competent employees with expertise in digital engagement, information technology development, retail and financial services. Attracting and recruiting the right talent to execute the strategies is a key issue for the group.

The employee value proposition was reviewed during the year with additional wellness and ChoiceCare initiatives implemented.

E-learning has been successfully introduced into the business. More than 17 000 training interventions took place with 52% using e-learning functionality.

In 2018 the group's South African operations received Training Provider Accreditation by the Skills Education Training Authority and launched the Siyafunda Learnership Programme for the contact centre staff. 15 employees commenced their National Certificate in Contact Centre Support.

Further details on employees can be found on pages 20 and 21 and the Remuneration policy can be found on pages 84 to 87.

Risks and mitigations

Inability to attract, retain and develop employees with the necessary skills required by the group	Targeted retention strategy formalised, with a focus on leadership Regular market benchmarking to ensure competitiveness Accredited learnership programme Adoption of best-practice people policies and procedures

Opportunities

01 Enhance e-learning training programmes

02 Define career paths for critical roles with supporting development plans

03 Extend the National Certificate in Contact Centre Support up to 100 learnerships

Technology transformation, including cybersecurity

Strategic context and stakeholder needs

To support continuous and fast-moving business growth, the group must review and replace legacy systems. Systems and technology will take advantage of services-based methodology to enable new systems that are able to be deployed rapidly to meet customers' needs.

Technology-driven companies, that hold data-rich customer databases, may be more vulnerable to an increased risk of cyberattacks and breaches of their data security. A number of international companies have experienced breaches in their information security and their customer data compromised.

As the group continues to grow its digital offerings, the threat of cyberattacks also increases. Effective cybersecurity is a material issue for the group to ensure we are protected against unauthorised exploitation of systems, networks, technologies and customer data.

As we modernise our technology stack, we have the opportunity to ensure best practice around security protocols and closing vulnerabilities.

Risks and mitigations

Threat of breach of data security	Solutions developed and implemented in technology roadmap Proactive monitoring by external specialist companies Information security officer working closely with committed senior management team
Replacement of legacy systems diverts resources from day-to-day operations	Specific capital allocation and resources for redesign of legacy systems Focused team for replatforming legacy systems Legacy upgrades to be designed in application services for faster implementation

Opportunities

01 Use of leading software providers in the suite of technology

02 Training to create awareness and understanding of information security

03 Deployment of agile development processes and application services technology

2

THE YEAR UNDER REVIEW

"Steady growth in a difficult trading environment"

CHAIRMAN'S **REVIEW**

The HomeChoice group is a valued household name that has been embraced by generations of female customers. We provide much-loved homeware, and more recently branded goods, to a loyal and expanding customer base. Growing affluence in South Africa's middle market and increasing home ownership and lifestyle aspirations as a result of the government's housing and electrification efforts continue to benefit our customers.

We have used our considerable expertise in retail and credit, gained over more than 30 years, to curate an attractive and increasing product range to satisfy her needs. Convenience and flexibility are key to achieving success in this market and our omni-channel offering now also includes digital channels, showrooms and ChoiceCollect containers to deliver a great customer experience.

Stanley Portelli
Independent Non-executive Chairman

Financial results

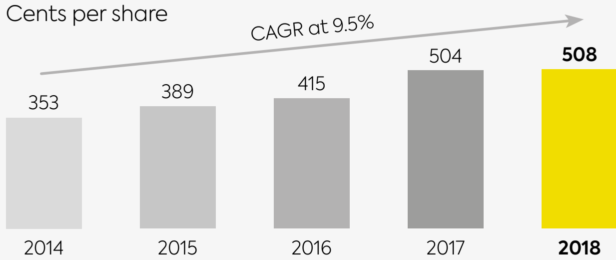
The group has delivered a resilient set of financial results amid exceptionally challenging economic and operating conditions. Headline earnings per share for 2018 grew by 0.7% to 507.7 cents per share (2017: 504.1 cents per share). The full-year dividend of 194 cents was up 1.6% on 2017, with the 2.6 dividend cover maintained.

The group has made good progress across a number of initiatives aligned to the delivery of our strategy. We are pleased with the advances made in the past year and look to continue this investment cycle to 2020.

Refer to our Strategy on pages 16 and 17 for further detail.

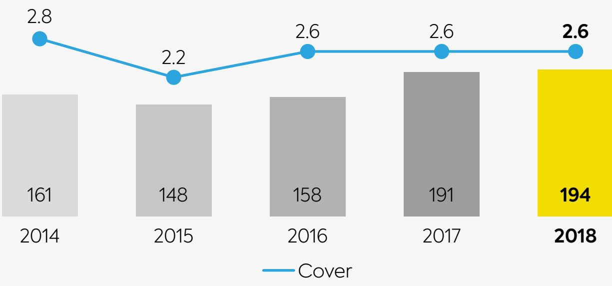
HEADLINE EARNINGS PER SHARE

Cents per share



DIVIDENDS PER SHARE

Cents



Governance

The boards of HomeChoice International and its subsidiaries fully endorse the principles and framework contained in the King IV Report on Corporate Governance.

The main board conducted a review of its governance framework and sub-committee structure against King IV in 2017 and implemented changes to closer align its practices to those espoused in King IV. A key component in that review was the group governance framework and a review of the board structure of the South African and Mauritius operations. Recommendations were made to introduce additional directors to bolster the independence and appropriate skills and diversity relevant for both operations.

The composition of the South African board was refreshed. Two independent non-executive directors were appointed during 2018 – Nkosinati Solomon and John Bester have joined the HomeChoice South Africa board. John has been involved with the group for several years, and is a non-executive director for a number of listed companies. Nkosinathi has previously held CEO positions in financial services, banking, and oil and gas industries. Jointly, they bring detailed knowledge and experience of managing companies in the South African environment.

The expansion of the Mauritius operations necessitated the appointment of an additional director to the board. Pierre Joubert was appointed as an independent non-executive director to the HomeChoice Mauritius board. Pierre brings a wealth of experience in the financial services industry and is a well-respected director in South Africa and Mauritius. We are also delighted that Pierre will be nominated for appointment to the HIL board at the upcoming annual general meeting. We look forward to the contribution and role that Pierre will add to the board deliberations.

A more detailed analysis of the application to King IV can be found on the group's website, www.homechoiceinternational.com.

Nkosinathi Solomon

Pierre Joubert

Equity capital raising

The group indicated at the beginning of 2018 that it was considering an equity capital raise to fund capital expansion projects. It was envisioned that the project would, at the same time, improve free float and share liquidity by introducing further investors into the company.
The board engaged with the company's major shareholders who are supportive of this initiative and who agreed to sell a portion of their own shareholding to augment a capital raise with a placement.
While market conditions were not conducive to a successful outcome for this project in 2018, we continue to believe both actions will be beneficial to the free float and liquidity in the company's shares.
Capital projects are ongoing and the group intends to approach the market for an equity capital raise when favourable conditions prevail.

Corporate citizenship and a sustainable business model

The group is mindful of its stewardship responsibilities as a corporate citizen and active participant in the South African economy. Our belief that we must lead from the front has driven us to implement a range of initiatives to advance economic transformation and environmental sustainability within our sphere of influence.

Transformation

The transformation of our society remains a key strategic imperative for the group and the operations in South Africa. Our social and ethics committee has approved a three-year broad-based black economic empowerment (B-BBEE) roadmap during the year, which covers initiatives and targets across a broad spectrum aimed at achieving compliance status by 2020.

Our total employment complement is reflective of our target market, with 91% of our employees from designated groups. Pleasing progress was achieved in the transformation of senior management during 2018, with close to a third of management now comprising designated individuals (30%, up from 27% in 2017) and middle management has improved to 38%. This progress is, in no small measure, the successful outcome of development programmes implemented within the organisation, bursary awards that make further studies more affordable for our staff, and our learnership programme that increases skills levels in the economy. The latter currently provides 15 unemployed youths with the opportunity to attain an NQF 4 National Certificate in Contact Centre qualification. The group will host 50 registered learnerships this year, up from 15 in 2018 and with an aim to increase to 100 in 2020.

Aligned with our digital transformation strategy for our customers, we are also digitalising internal processes. Online training modules were made available from 2018, with 46% of operations training and 85% of specialist training being conducted online, at the convenience of the employee. More than 17 000 learning interventions were offered to our 1 913 employees during the year. In recent employee surveys both diversity and career development received a satisfaction rating of 75%.

Environmental sustainability

The group implemented a sustainability strategy in 2017 to provide the formal framework for proactive management of our natural resources – a process that we commenced several years ago. The drought that affected the Western Cape in 2017–2018 added further impetus to our efforts to reduce our water footprint as far as possible.

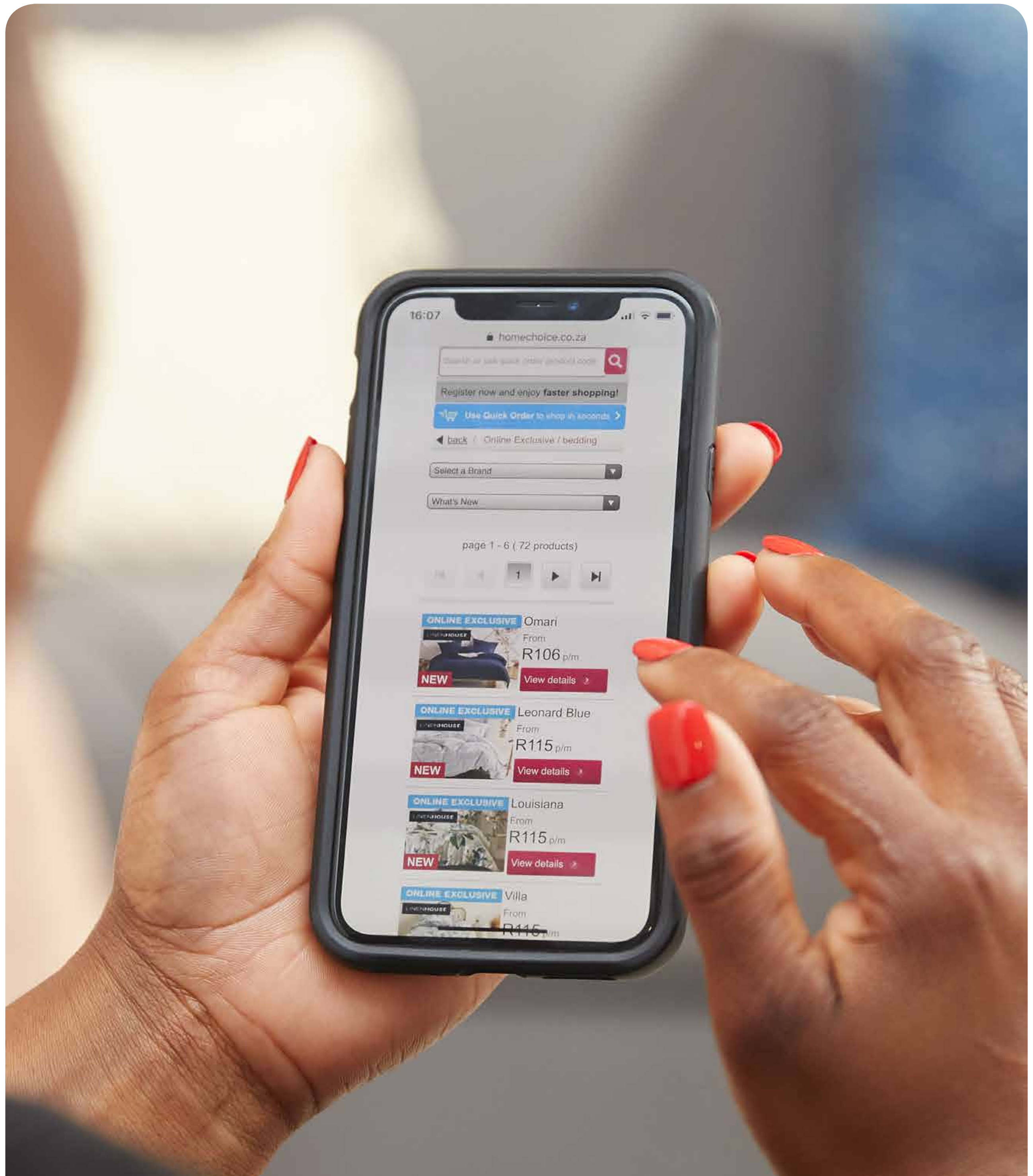
The building which houses our contact centre operations has successfully been taken off the water grid, by using storm water access, pumps and tanks for its daily requirements. Water storage tanks have been installed at the distribution centre in Cape Town, collecting water off the roof. Water-savings devices have also been installed in key buildings.

South Africa is currently experiencing electricity outages which negatively impact business operations. Our operations are able to continue using alternative energy sources, however 2019 will see a detailed focus to reduce consumption and manage our power requirements.

HomeChoice Development Trust

Our social investment strategy is managed through the HomeChoice Development Trust (Trust), the main vehicle utilised to make a tangible difference in our communities. The programme is aimed primarily at enabling early childhood development in the communities of the Western Cape.

The Trust receives an annual donation of 1% of the group's net profit after tax and earns a regular dividend income on 600 000 HIL shares donated to the Trust on the group's listing in 2014. The Trust has received a total of R55 million from the group since 2005 and has invested R31 million in communities over the same period. Since 2011 we have supported 405 educare centres, trained 1 511 educare practitioners and provided quality education to more than 21 000 children under the age of six years, among others. Financial commitments of R5.8 million were allocated by the Trust during 2018.



Acknowledgements

Our continued growth in client base and profitability could not have come about were it not for the hard work of the management team, our employees, and the support and input of our customers, suppliers and other key stakeholders. We would like to extend our thanks to them all. I would also like to acknowledge and appreciate the guidance and contribution from my board colleagues, and the continued faith shown in us by our shareholders.

CHIEF EXECUTIVE OFFICERS' **REVIEW**

Difficult conditions and challenging markets tend to induce well-run companies to deepen their efforts to understand and satisfy the needs of its customer base. It results in being better positioned to capitalise on the growth opportunities that exist and it enables resilience. In many ways this demonstrates the year that the group has experienced.

Trading environment

2018 has been a year of low economic growth, high unemployment, modest increases in negotiated wages, higher fuel and electricity prices and an increase in value-added tax, contributing to low consumer confidence and constrained spending. It was another volatile year for South Africa's currency with the Rand declining from its strongest point against the US Dollar of R11.55 in February after the new presidency, to its weakest point in September on confirmation that the country had entered a technical recession, closing at R15.41.

Consumers have continued to deleverage debt, with current household debt to income in South Africa significantly off the levels recorded in 2007/2008. The TransUnion SA Consumer Credit Index indicates reasonably cautious consumer credit behaviour, slow new debt growth and stable interest rates. Overall, TransUnion's tracking of consumer credit behaviour data shows relatively neutral consumer stress. However, household cash flow remains tightly constrained.

The sub-optimal performance of State-owned enterprises (SOEs) and the negative impact they have had on the South African economy has been top of mind for South African companies. The number of SOEs that are financially challenged has increased and this lack of funding has severely impacted their operational performance.

The South African Post Office (SAPO), currently a key distribution partner of the Retail business, has experienced such challenges in 2018 with a strike in July and a backlog of parcel processing for much of May – November. This has had a direct impact on the financial performance of the group.

In the meantime we continue to work with SAPO to ensure that the delivery of catalogues and merchandise are not compromised while exploring other delivery options available to the group.

More recently, load shedding has been put back in the spotlight again as a result of Eskom's poor performance. The government appears to be committed to dealing with the SOEs and we hope this support will lead to an improvement in their operational performance.

Financial performance

Group revenue increased by 8.5% to R3.2 billion, with a solid contribution from the Financial Services business, but which was somewhat diluted by weaker Retail sales of 6.3%.

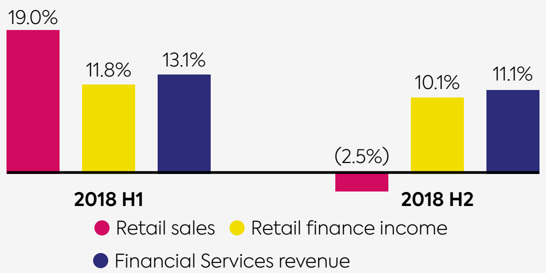
The financial performance was very much a tale of two halves. Retail sales grew 19.0% in H1 and the half saw Retail sales decline by 2.5% mainly as a result of the upheavals at SAPO. Financial Services' performance was relatively constant across both halves and the diversification of the group has managed to reduce the negative impact of the disappointing Retail performance.

EBITDA grew by 3.6% to R821 million and headline earnings increased by 1.3% to R529 million.

[More information on our financial performance is available in the Finance director's commentary on pages 48 to 55.]

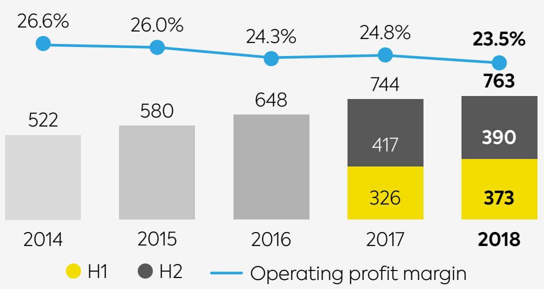
GROUP REVENUE GROWTH

Percentage



GROUP OPERATING PROFIT

Rand million



Progress against strategic initiatives

On average, we attract more than 20 000 new customers per month – a testament to our strong brand and range of products which have been carefully selected to satisfy the needs of our target market. The growth in total active customers accelerated from 7% in the prior year to 10% this year, culminating in 874 000 active customers by year-end. We are well on track to achieve our aim of growing the customer base to some 1.2 million customers by 2022.

Our omni-channel strategy is designed around convenience – allowing customers to shop how they want, where they want and whenever they want, 24/7. Our digital, and specifically mobile, roll-out over the past two years, as well as the launch of 120+ branded products in addition to her trusted HomeChoice brand, have paved the way for us to become a digital department store and her favourite digital financial services provider. Digital credit extended, a measure of our digital penetration, has increased to 38.5% (2017: 32.4%) at R1.6 billion. This has been driven by Retail's digital sales contribution of 16% (2017: 15%) and Financial Services' digital transaction contribution of 81% (2017: 71%).

This year we also embarked on another exciting phase in our omni-channel strategy with highly successful roll-outs of four showrooms in Soweto, Johannesburg, Nelspruit and East London. These have been welcomed by our customers and have shown us that customers will respond positively to different channels. Despite being known as a credit retailer, more than 30% of the sales are cash sales, and more than 80% of orders are click and collect from the showroom. We are currently reviewing our payment methods to capitalise on these learnings and see the opportunity for more locations to make the customer experience more convenient.

We are very excited about the trial of two ChoiceCollect containers. These containers bring us closer to our customers' homes, providing click and collect, ordering and support services right to where she lives. It is important to integrate and involve the communities where the containers are situated and in these trials we have already worked with communities to upgrade the surrounding areas to present a safe and secure space for customers. We aim to add more community involvement in the roll-out strategy, which could be up to 100 containers in the longer term.

Our Financial Services offering continues to expand and grow, diversifying our income streams and reducing risk. Our insurance products have shown good penetration and we will introduce more in 2019. Our MobiMoney digital-only product is making great strides with more than 86% of customers now registered for the product. It has proven very successful with robust payment performance. Our newly launched value-added services (electricity, airtime and data) has increased customer digital engagement. We expect to see this increase as we launch further services in the new year.

Our vision is to provide for our customers' lifestyle through digitally focused and innovative retail and financial services products. We are pleased with the traction that we have gained in 2018, despite difficult trading conditions.

[More detail on our strategic progress is available in the strategy section on pages 16 and 17.]

Gregoire Lartigue
Chief Executive Officer

Shirley Maltz
Chief Executive Officer (South Africa)

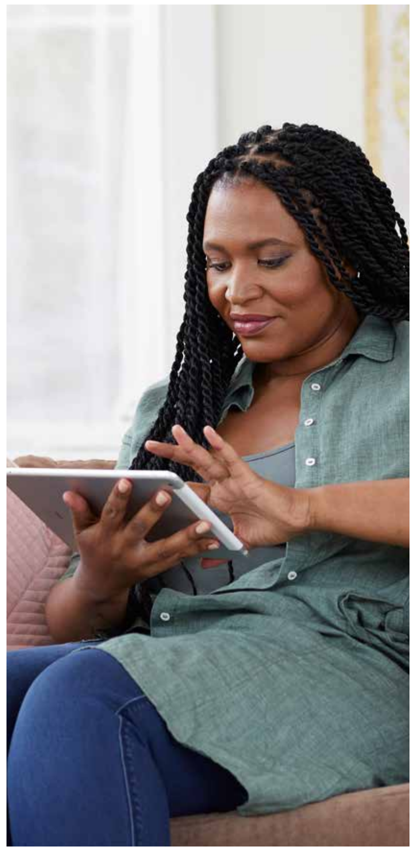
Renewing our brand

At HomeChoice we pride ourselves on our thorough understanding of our target customer, her mindset and lifestyle. We regularly engage with customers on many channels receiving their day-to-day feedback, and also conduct perception studies to identify changing trends, behaviours and desires. In the past year we conducted an extensive survey among our customer segments with a specific focus on developing insights for a customer engagement strategy and understanding their perception of the brand.

Our customer generally associates her home with her self-image. She is aspirational and highly conscious of the image her clothing, home and family portrays in the community. Socialising at home is a big shift that we are seeing across categories and she takes enormous pride in her home. The needs around her home falls squarely within the ambit of our product offering to her and we are excited about the potential to expand the offer.

Our brands are central to how we, and our customers, identify the HomeChoice group. Given that we continuously seek to improve the service and our connection with our key consumer segments, it is critical that we keep abreast of changing trends in how customers perceive our brands.

We will launch our new branding in the first half of 2019.



Investing for the future

We have commenced a medium-term strategic investment cycle focused on digitalisation, omni-channel, distribution and enhancing the customer experience.

Technology is a key enabler in our journey to become a leading digital retailer. In line with this vision, we will be migrating from our legacy systems over the next two years and will be replatforming our debtors' engine and merchandise planning systems, among others. Our digital shopping experience is continuing to advance. We delayed the implementation of a new e-commerce engine from Oracle while we made sure that our customer, who primarily use the phone to transact digitally, could have the best possible experience. The site will launch in H1 2019 and we expect to be able to capitalise on its extensive capabilities in 2019.

We have expanded our use of data insights and analytics with new marketing propensity models to inform the right number and time to call, as well as the product propensity and customer propensity models. It is early days for our new data science team and we expect to gain significant advantage from this over time.

Social interaction with customers has picked up notably in the past year. There is substantially more interaction on Facebook and Instagram, and customers have started to progress from product engagement to also require customer service on these platforms. We are working hard to ensure that we maximise these tools to connect with her. Systems have been implemented in our contact centre that enable a seamless integration and service across phone, social and digital platforms.

Regulations

The financial services industry in South Africa continues to be subject to a raft of new regulations. The following are the most critical ones which pertain to the group's operations.

National Credit Act (NCA) and Amendment Bill

Judgment handed down in a recent court case has meant that customers are no longer required to provide documentation as evidence of proof of income for affordability assessments. The group has elected to continue to take a conservative and credit responsible approach and have maintained the documentary requirements for proof of income.

The NCA Amendment Bill proposes debt relief for over-indebted consumers who earn less than R7 500 per month and have unsecured debt of less than R50 000 – these consumers currently fall outside the Debt Collection Act. Eligible consumers will be able to apply for debt intervention and could be allowed to rearrange their debts or suspend the credit agreements in part or in full for up to 24 months. In severe cases the debt may have to be written off by the credit provider. It is unknown when this Bill will be passed, but the group continues to lobby against its implementation and has amended the risk scorecards accordingly.

DebiCheck

In order to reduce abuse of unauthorised debit orders, DebiCheck is impending regulation from the Payments Association of South Africa (PASA). Customers will be required to authorise all debit order mandates via a direct interface with their bank.

All payments in the Financial Services business and 26% of new accounts in Retail are processed through debit orders. A dedicated project team has been set up to implement changes to processes and systems for this new requirement. Implementation has been delayed by PASA to 31 October 2019 with all orders required to be on the new system by 31 October 2020.

We welcome these changes to ensure that our customers are protected and will continue to build our DebiCheck capability, allowing time for thorough testing and customer education before the deadline.

Personal Protection of Information Act (POPI)

The protection of our customer database and managing their communication preferences forms an integral part of the group's operations. POPI aims to ensure that this is managed fairly and transparently. We have completed some initial work and continue to proceed whilst the Act is in the legislative process.

IFRS

The group has adopted *IFRS 15, Revenue from Contracts with Customers* and *IFRS 9, Financial Instruments* with effect from 1 January 2018.

[For more information on the impact of this adoption, please refer to the Finance director's commentary on page 49 of the annual financial statements on our website.]

Appreciation

It is encouraging to lead an organisation that is capable of such progress amidst challenges on every front. This is the direct result of the passion, dedication and hard work of our employees. It is their energy, attitude and commitment that ensures that our customers get a great experience and continue to shop with us for generations. The leadership from Leanne Buckham and Sean Wibberley, the CEOs of Retail and Financial Services and their teams, has enabled us to continue to build a solid foundation for growth. We thank you all for the hard work during 2018.

We also express our gratitude to all members of the board for their valuable input and guidance, and to our shareholders for their continued support and faith in the group.

Outlook

We expect the level of uncertainty in the environment to continue.

Consumers in the South African mass market have seen an improvement in their quality of life, benefiting from the roll-out of housing, sanitation, electrification and schooling over the past 30 years. The group has benefited and will continue to benefit from consumers who desire to improve their homes and quality of lifestyle.

We will continue to invest in product innovation, digitalisation, and enhancing the customer experience to deliver an engaging and consistent retail and financial services offering across all channels.

We are well positioned for growth.

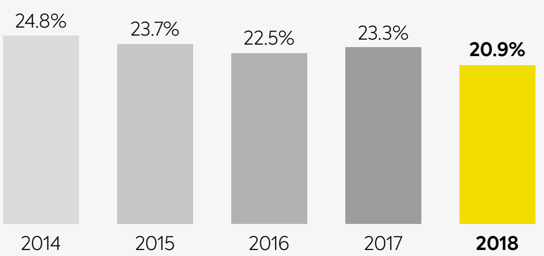
FINANCE DIRECTOR'S **COMMENTARY**

Performance review and targets

		Medium-term targets	2018*	2017**	2016	2015	2014
Revenue	(Rm)		**3 247**	2 993	2 664	2 233	1 959
Growth in revenue	(%)		**8.5**	12.3	19.3	14.0	17.8
Retail sales	(Rm)		**1 860**	1 749	1 498	1 197	1 083
Growth in retail sales	(%)		**6.3**	16.8	25.1	10.6	16.4
Gross profit margin	(%)	48 – 52	**49.6**	51.2	49.3	50.7	49.8
Operating profit	(Rm)		**763**	744	648	580	522
Growth in operating profit	(%)		**2.6**	14.8	11.7	11.3	19.0
Operating profit margin	(%)	25 – 30	**23.5**	24.8	24.3	26.0	26.6
EBITDA	(Rm)		**821**	793	701	632	542
Growth in EBITDA	(%)		**3.6**	13.1	11.0	17.0	20.3
Cash generated by operations	(Rm)		**474**	359	277	359	234
HEPS	Cents		**507.7**	503.8	414.6	389.1	352.8
Growth in HEPS	(%)		**0.7**	21.5	6.6	10.3	15.0
Dividend cover	times	2.2 – 2.8	**2.6**	2.6	2.6	2.6	2.2
Net debt to equity	(%)	<40	**27.6**	28.3	28.7	26.2	14.8
Return on equity	(%)	25 – 30	**20.9**	23.3	22.5	23.7	24.8

* IFRS 9, Financial Instruments, *adopted effective 1 January 2018.*
** *Restated based on the application of* IFRS 15, Revenue from Contracts with Customers. *IAS 39 applied for the 2017 financial year.*

RETURN ON EQUITY
Percentage



Paul Burnett
Finance Director

Financial commentary

The financial commentary on the performance for the twelve months ended 31 December 2018 should be read in conjunction with the annual financial statements available on the group's website, www.homechoiceinternational.com.

The complete summarised financial statements are available in the Appendices to this integrated annual report on pages 96 to 101. A summarised five-year review is shown on page 95.

2018 performance

The 2018 financial performance was characterised by a tale of two halves.

The first half experienced strong growth with revenue up 16.1% and operating profit up 14.4% to R373 million. Retail sales increased by 18.9%, driven by strong volume growth in homeware textiles and the roll-out of further external brands, which proved popular with customers. Financial Services grew revenue by 13.0%, supported by a 30.0% increase in loan disbursements, as well as insurance revenue.

A disappointing second half resulted in revenue growth of 0.3%, with a decrease in operating profit of 6.5% to R390 million. Group revenue increased by 8.5% to R3.2 billion, benefiting from a solid contribution from the Financial Services business, with loan disbursements up 21.5%. This was diluted by disappointing Retail sales of 6.3%. H2 Retail sales were impacted by significant delays in SAPO's delivery of catalogues and parcels resulting in lost sales and poor customer experience.

Gross profit was negatively impacted by high levels of promotional activity, higher fulfilment costs and Rand volatility in order to limit the negative impact of the SAPO strike.

Trading expenses were lower in H2, increasing by only 4.5% compared to H1's increase of 15.6%. Discretionary and non-strategic investment costs were reduced in order to mitigate the impact of lower H2 sales.

Debtor costs, a 10.9% increase, reflect an improvement in the quality of the books with higher legal write-offs, off-set with a reduction in the provision for impairments (on an IFRS 9 comparable basis).

The group continued with the strategic investment cycle and invested R126 million to deliver improved customer experience and future top-line growth.

All of the above resulted in lower profit conversion with EBITDA up 3.6% to R821 million and operating profit up 2.6% to R763 million.

Headline earnings per share (HEPS) showed marginal growth of 0.7% to 507.7 cents. The dividend cover of 2.6 was maintained, with a decrease in the final dividend of 99 cents from 109 cents, bringing the total dividend for the year to 194 cents per share (up 1.6% for the full year).

Application of International Financial Reporting Standards (IFRS)

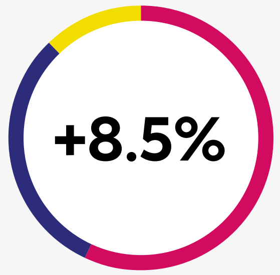
As required by IFRS, the group has adopted *IFRS 15, Revenue from Contracts with Customers* and *IFRS 9, Financial Instruments* with effect from 1 January 2018.

IFRS 15 aligns the recognition of revenue earned to the time period in which the transfer of the goods and services takes place to the customer. The impact of the adoption of IFRS 15 on revenue is immaterial for the twelve months ended 31 December 2018 and reduced revenue for the full 2017 financial year by R10 million.

IFRS 9 is the new standard for disclosure and measurement of financial instruments. IFRS 9 requires that the group classify and measure receivables at fair value, with any changes in that fair value recognised in the income statement as and when they arise. Using an expected credit loss model, the group determines the allowance for credit losses it would incur in various default scenarios on a discounted basis. Under IFRS 9 the group's provision for the impairment of trade and loan receivables has increased by 20% on a comparable basis from IAS 39. The new standard does not require restatement to prior periods and the increased provision is accounted for as an adjustment to opening retained earnings.

Statement of comprehensive income

	2018 Rm	% change	Restated** 2017 Rm
Revenue	**3 247**	8.5	2 993
Retail sales	**1 860**	6.3	1 749
Finance income	**1 016**	8.9	933
Fees from ancillary services	**371**	19.3	311
Cost of retail sales	**(938)**	10.0	(853)
Gross profit	**2 309**	7.9	2 140
Other operating costs	**(1 550)**	10.1	(1 408)
Credit impairment losses	**(557)**	11.0	(502)
Other trading expenses	**(993)**	9.6	(906)
Other net gains and losses	**(5)**		1
Other income	**9**		11
Operating profit	**763**	2.6	744
Interest received	**3**		7
Interest paid	**(89)**		(83)
Share of loss of associates	**(1)**		(9)
Profit before taxation	**676**	2.6	659
Taxation	**(148)**	(2.1)	(145)
Profit and total comprehensive income for the year	**528**	2.7	514
Earnings per share (cents)			
Basic	**506.8**	2.1	496.4
Diluted	**499.8**	1.6	491.7



Revenue

Revenue for the group increased by 8.5%, with a five-year compound annual growth rate (CAGR) of 13.5%. Financial services mix of revenue marginally increased to 23.0% (2017: 22.2%).

Retail sales

Retail sales grew 6.3%, impacted by the non-delivery of monthly catalogues and disruption experienced at the South African Post Office (SAPO). Digital contribution increased from 16.3% of sales and pleasingly external brands showed increased contribution to 16.0% of sales (2017: 12.0%) with 120 brands now on offer.

Finance income

Finance income earned was 8.9% up on 2017 to R1.0 billion. Loan disbursements in Financial Services showed strong growth with an increase of 21.5% to R1.8 billion. The average loan balance is R9 478, lower than 2017 of R10 444. The lower balance is as a result of good volume growth in the FinChoice MobiMoney™ three-month short-term facility product.

The average interest rate earned on Retail products is 20.7%, and 27.8% for Financial Services products.

Fees from ancillary services

The group continues to diversify income streams, increasing other forms of revenue. Fees from ancillary services increased 19.3% to R371 million (2017: R311 million) and now represents 12% of total revenue earned, up from 10% in 2017. A 70% increase in funeral insurance premiums was a key driver of the good growth.

Ancillary services fees include all insurance income from compulsory credit life and product-protection insurance, standalone funeral insurance products and service fees charged to manage credit facility accounts.

Gross profit

Gross profit margin was 49.6% for the twelve months ended December 2018, deteriorating by 160 basis points from 51.2% in 2017.

The deterioration was mainly in H2 with higher promotional activity to stimulate sales after the challenges with SAPO. The decision to move deliveries from SAPO to more expensive couriers, as well as once-off set-up costs for the second warehouse in Gauteng, resulted in higher warehousing and fulfilment costs.

The Rand deterioration to R14.20 from R13.40 in 2017 meant that foreign exchange gains in 2018 were lower than 2017. The group does not use hedge accounting.

Other trading expenses

The increase in trading expenses at 9.6% is above the revenue growth of 8.5%. Investments in digital, data analytics resources, higher television marketing expenses and roll-out costs for four showrooms were the key drivers of the higher costs.

Despite the slowdown in sales, the group was unable to cut costs sufficiently to adequately off-set the lower sales growth.

Interest paid

Interest paid of R89 million increased by 6.0%, reflecting the normalised long-term facility funding secured in 2017.

Profit for the year

Group profit before taxation for the year is R676 million, 2.6% up on 2017.

Balance sheet

	2018 Rm	% change	Restated** 2017 Rm
ASSETS			
Non-current assets			
Property, plant and equipment	**464**	8.2	429
Intangible assets	**116**	34.9	86
Investment in associates	**–**	<100	14
Financial assets at fair value through profit and loss	**24**	(20.0)	30
Deferred taxation	**1**	>100	–
	605	8.2	559
Current assets			
Inventories	**304**	18.3	257
Taxation receivable	**–**	<100	4
Trade and other receivables	**2 903**	9.9	2 642
Cash and cash equivalents	**108**	(16.9)	130
	3 315	9.3	3 033
Total assets	**3 920**	9.1	3 592
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Stated and share capital	**1**	–	1
Share premium	**3 005**	–	3 003
Reorganisation reserve	**(2 961)**	–	(2 961)
	45	4.7	43
Treasury shares	**(3)**	–	(3)
Other reserves	**18**	28.6	14
Retained earnings	**2 624**	13.2	2 319
Total equity	**2 684**	13.1	2 373
Non-current liabilities			
Interest-bearing liabilities	**756**	22.7	616
Deferred taxation	**66**	(45.0)	120
Other payables	**6**	–	6
	828	11.6	742
Current liabilities			
Interest-bearing liabilities	**92**	(44.6)	166
Taxation payable	**46**	>100	8
Trade and other payables	**267**	10.8	241
Provisions	**3**	(92.1)	38
Derivative financial instruments	**–**	<100	5
Bank overdraft	**–**	<100	19
	408	(14.5)	477
Total liabilities	**1 236**	1.4	1 219
Total equity and liabilities	**3 920**	9.1	3 592

Property, plant and equipment (PPE) and intangible assets

Capital expenditure, at R126 million, is a significant increase from the previous two years. The group has embarked on a medium-term strategic investment cycle rolling out additional showrooms and ChoiceCollect containers, providing a quicker, more convenient delivery process through a second distribution centre, and the replatforming and upgrading technology such as the origination engine and debtors' systems.

The R37 million new distribution centre was opened in Gauteng in January 2018. The 12 000 m² warehouse stores specific product categories and supports the group's primary warehouse in Cape Town.

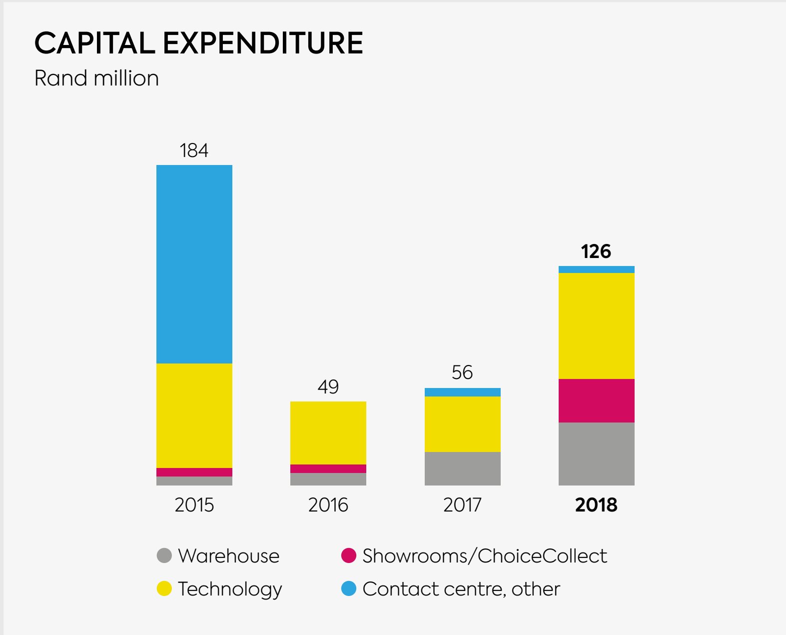
Four Retail showrooms were successfully launched to good customer response, with a further three to five expected to be launched each year. Two ChoiceCollect containers were trialled at the end of 2018, providing customers with a collection point closer to their homes.

R61 million, 48% of total capital expenditure, was allocated to the investment in information technology systems and infrastructure to support digital transformation and move from legacy to cloud-based systems.

Inventories

Stock has increased by 18.3% to R304 million, significantly higher than the full-year Retail sales growth.

The lower-than-expected H2 trade resulted in higher stockholdings at year-end which will be cleared in the first half of 2019. Pleasingly, the provision for stock obsolescence has reduced by 17%, as a result of the higher than normal clearance of stock during the year and an improvement in the ageing of stock on hand.



Interest-bearing liabilities

Interest-bearing liabilities increased by 22.7% to R756 million (2017: R616 million) as a result of the capital investment programme.

In 2017 the group entered into an R800 million commercial term loan facility and, as at 31 December 2018, has R150 million available to be drawn down. The Cape Town distribution centre was refinanced during the year at more favourable interest terms.

The net debt to equity ratio of 27.6% is well within the target range of <40%.

Trade and other receivables

Group trade and other receivables increased by 9.9% to R2 903 million (2017: R2 642 million).

The group continued to grow a quality credit book with gross trade and loan receivables increasing by 10.5% to R3.5 billion. Group debtor costs at 17.1% of revenue were marginally higher than 2017 (16.8%) and remain within the group's planned risk tolerances. Non-performing loans are stable across the Retail and Financial Services businesses with historically conservative NPL covers bolstered by the implementation of IFRS 9.

Retail trade receivables grew by 4.5%, lower than the revenue increase, due to the lower H2 sales. Financial Services' loans receivables grew by 18.3% as the group shortened terms without impacting customer demand.

The average term on the year-end Financial Services book decreased to 19.7 months (2017: 20.4 months) and the Retail book decreased to 18.3 months (2017: 18.7 months).

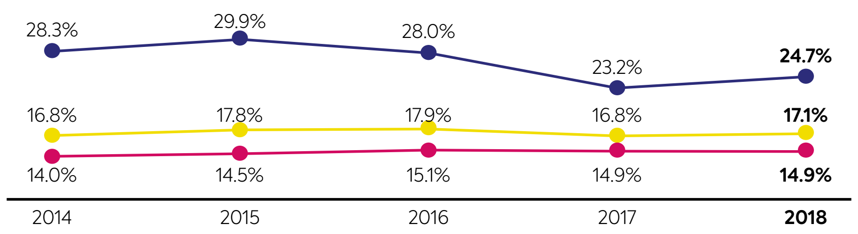
Debtor costs

		2018*	2017 (comparable)**	2017 (restated)***	% change on comparable
Group					
Gross trade and loans receivable	(Rm)	**3 464**	3 222	3 136	7.5
Debtor costs as a % of revenue****	(%)	**17.1**		16.8	
Retail					
Gross trade and loans receivable	(Rm)	**1 865**	1 829	1 784	2.0
Debtor costs as a % of revenue	(%)	**14.9**		14.9	
Provision for impairment as a % of gross receivables	(%)	**19.3**	21.0	17.9	
Financial Services					
Gross trade and loans receivable	(Rm)	**1 599**	1 393	1 352	14.8
Debtor costs as a % of revenue	(%)	**24.7**		23.2	
Provision for impairment as a % of gross receivables	(%)	**15.8**	16.3	14.0	

* IFRS 9, Financial Instruments, *adopted effective 1 January 2018.*
** *2017 assuming* IFRS 9, Financial Instruments, *adopted.*
*** *Restated based on the application of* IFRS 15, Revenue from Contracts with Customers. *IAS 39 applied for the 2017 financial year.*
**** *Debtors cost includes bad debts written off net of recoveries, as well as movements in provisions.*

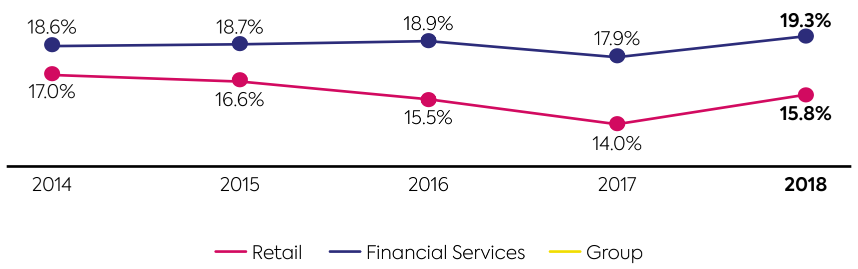
DEBTOR COSTS AS A PERCENTAGE OF REVENUE

Percentage



PROVISION FOR IMPAIRMENT AS A PERCENTAGE OF GROSS RECEIVABLES

Percentage



As highlighted earlier, the group has adopted IFRS 9 with effect from 1 January 2018. Under IFRS 9 the group's provision for the impairment of trade and loan receivables has increased by 20% on a comparable basis from IAS 39. The new standard does not require restatement to prior periods and the increased provision is accounted for as an adjustment to opening retained earnings.

Retail's debtor costs as a percentage of revenue was stable at 14.9% (2017: 14.9%). The introduction of a new fraud prevention tool, an additional credit bureau, risk tightening and the pre-scoring for TV campaigns, have translated into improved Retail vintages. Provision for impairment of trade receivables has decreased to 19.3% (comparable 2017: 21.0%) with a marginal decline in the NPL cover of 2.0 times, which remains conservative.

Financial Services' debtor costs as a percentage of revenue increased to 24.7% (2017: 23.2%). The increase is primarily attributable to higher write-offs arising from revenue booked early in 2018, off-set by improved recoveries from external debt collectors and a more profitable book sale of arrear accounts. The provision for impaired loans has decreased to 15.8% (comparable 2017: 16.3%) of the book, decreasing the NPL cover from 3.9 to 3.8 times.

Cash flow

Cash management and collections of the debtors' books are a key focus of the group.

Cash generated from operations increased by 32.0% to R474 million. This good growth was driven by lower Retail trade receivables in H2, good cash collections, an increase in the proportion of shorter-term loans and actively managing cash requirements in working capital. Consequently, the cash conversion rate (cash generated from operations expressed as a percentage of EBITDA) increased to 59.6% from 44.8% over the period. An analysis of the cash utilisation is shown in the graph below.

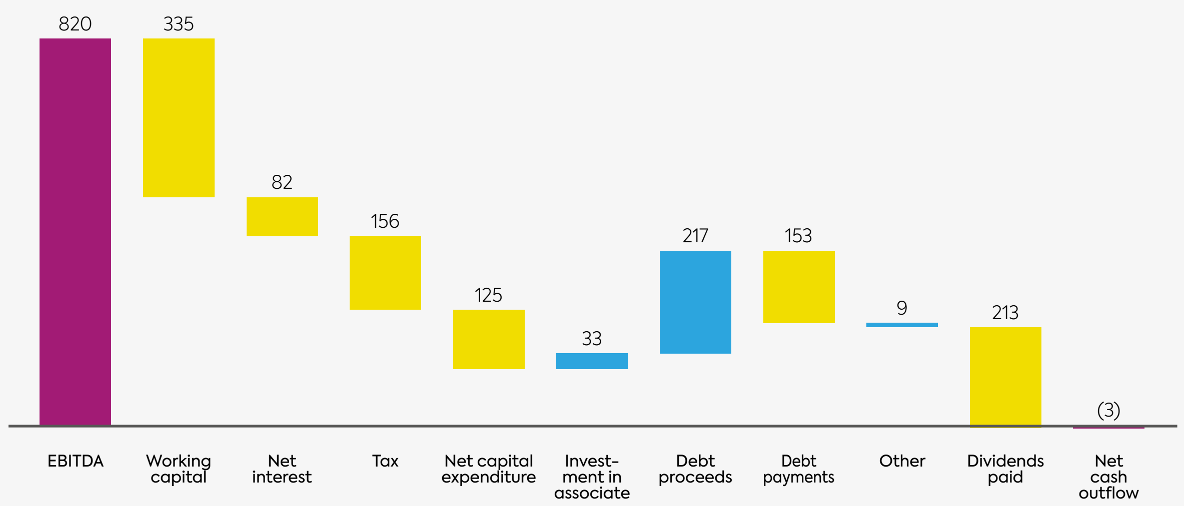
Tax payments in 2018 were impacted by changes in tax rulings for allowances for debtors' impairment provisions.

The group maintains a conservative gearing with the net debt to equity reducing from 28.2% to 27.6%.

Cash and cash equivalents decreased to R108 million (2017: R111 million) at year-end.

CASH UTILISATION

Rand million



Q&A WITH THE **RETAIL CHIEF EXECUTIVE OFFICER**

Retail sales grew by 6.3%, with a disappointing decrease of 2.9% in EBITDA for the year. Can you elaborate?

We had a year of two halves.

Sales increased by 19% in H1 and then disappointingly decreased by 2.5% in H2. The decrease in H2 was primarily due to three factors:

- a strike and operational backlog at SAPO which impacted the delivery of catalogues and parcels;
- poor execution of TV campaigns which resulted in overstocked bedding designs; and
- the delayed implementation of the Oracle e-commerce engine combined with few enhancements to the existing digital site, resulting in limited opportunity to potentialise sales.

In response to the challenges, a focus on engaging customers and driving sales necessitated higher promotional activity and additional marketing expenses which resulted in a lower gross profit margin of 49.6%.

While we reduced trading expenses where we were able, it was insufficient to protect the bottom line. Consequently, we closed the year with an EBITDA decrease of 2.9% to R399 million.

Leanne Buckham
Retail Chief Executive Officer

Deliveries of catalogues and parcels by SAPO were a significant factor in a disappointing H2. What was the impact and how you will mitigate this in 2019?

SAPO is currently a key business partner for the delivery of parcels (23% contribution) and is the sole delivery provider for our more than 600 000 monthly catalogues.

During the backlog we worked together with SAPO, assisting them to make sure the catalogues could be delivered. Catalogues were pre-sorted so that they could bypass the mail centres which were experiencing the major backlogs. The catalogues were delivered directly to SAPO's hubs and then relied on their processes to deliver to local post offices.

With regards to parcel deliveries, where we had customers' street addresses, we switched to direct-to-home deliveries, and contacted customers to determine if they would prefer to use the click and collect option. Diverting to direct-to-home deliveries resulted in higher courier costs which negatively impacted our gross profit margin, however ensured that customers received their parcels. SAPO's delivery contribution reduced from 23% to 15% during this period.

We are still committed to SAPO as a delivery partner but will look to reduce our exposure with them. The contribution of parcel deliveries will reduce to 10% as we make further use of our ISP delivery providers and courier partners. Costs have been renegotiated with courier partners to manage the impact on gross profit. The roll-out of showrooms and ChoiceCollect containers will provide additional collection points and customers will be encouraged to use that delivery option.

We intend to trial other '"on-the-street" providers for delivery of catalogues and alongside that we have undertaken a drive to obtain and validate customers' street addresses. As we drive our digital migration, online catalogues and browsing of the new e-commerce engine will also serve to reduce the reliance on SAPO for catalogue deliveries.

Consistently acquiring 20 000 new customers per month is excellent. How do you achieve this?

Growing our customer base is a critical part of our strategy and proven expertise as a direct marketer.

30% of new customers were acquired from television advertising, an important customer acquisition channel for us.

New customers from TV are typically brought on board using a low to grow strategy – with the average invoice value lower than existing customers'. Once these customers are more confident about managing their credit accounts we then offer them a wider range of products and release their available credit as they are able to afford it.

The sales agents in the field delivered 10% of new customers in the year. Our top sales agents have developed their own approach to bringing new customers on board and provide an important face-to-face interaction with potential customers in out-of-town areas.

What is pleasing is that the existing customer base is shopping more and is being retained for longer. We have introduced an RFM (response, frequency, monetary) customer segmentation model resulting in more targeted direct marketing to existing customers producing positive results.

Digital sales contribution has increased to 16%, with 24% of customers registered for digital. Do you see this increasing?

Digital transformation is a key component of our strategy and digital is becoming an increasingly important selling channel for the Retail business.

It is also becoming an important channel for customer acquisition with 7% of new customers acquired through the digital channels.

Our new Oracle e-commerce engine, delayed from H2, will act as a springboard to increase the digital sales contribution further. I am excited to launch the best-of-breed Oracle commerce engine as it will enable us to deliver improved customer functionality, providing preferred recommendations, to drive increased up- and cross-selling.

Digital allows us to showcase the full range of products as compared to a more limited offering in the catalogue. Extensive references to www.homechoice.co.za in the catalogues enables customers to engage with the site for the entire product range. We continue to have success with products that are only available on the web, and we will continue to pursue this strategy for 2019.

More than 120 external brands, across a range of product categories, supports our strategy to become a digital department store. Brands now contribute 16% to overall sales, with good growth in appliances, electronic and footwear categories.

Our social media presence has increased during the year and we are seeing good responses to products highlighted using these channels.

You opened a further four showrooms during the year. Is this part of the omni-channel strategy?

Yes, we now have five showrooms – Johannesburg CBD, Soweto, Nelspruit, East London and Cape Town.

Customers are enjoying the ability to experience our product first hand, bringing to life the catalogue that they are so comfortable with.

As well as showcasing the range, showrooms act as a location for "click and collect" and become a convenient access to solve customer queries, pay customer accounts and access the group's financial services brand. Pleasingly, we have seen that showrooms have a higher contribution of cash sales, 30% contribution, much higher than the other sales channels where cash is approximately 5% - 8%. This higher cash sales proportion will help us achieve our longer-term strategy to deliver a credit/cash mix of 80%/20%.

In addition to the showroom strategy, we have also commenced a trial for a ChoiceCollect container strategy. ChoiceCollect containers are all about bringing the HomeChoice brand closer to our customers' home. Containers have been opened in Khayelitsha and Mfuleni.

Currently the containers are providing an opportunity to place sales orders and collect parcels but as we learn from them we will incorporate them into the digital transformation strategy where customers can view the catalogue and website at the location. We also intend to make this an integral part of our enterprise development strategy.

You introduced "enhanced customer experience" as a strategic focus area in 2017. What have your achievements been this year?

Customer experience is about understanding, managing and delivering great consistent service across a customer's end-to-end journey no matter which channel they use.

We are focused on training our agents to ensure that the customer's experience is the same across all our channels from training contact centre agents, sales agents in the field to agents in the showrooms. Our digital training has been every effective in this regard, enabling us to provide training in short, easy-to-manage bites across the business.

Much of 2018 has been focused on improving the direct-to-home delivery experience. We have reduced the time for existing customers from the capture of order to home delivery from 7.5 days to 6.1 days. This has been achieved in a number of ways:

- The launch of our new distribution centre in Gauteng
- Productivity and efficiencies from the Cape Town distribution centre
- Introduction of delivery tracking with our courier partners, enabling customers to easily see where their order is in the delivery process

We still have some work to do on making our credit application process run smoother and quicker, and we will be implementing new technology in 2019 to drive that.

In addition, a focus on digital self-service has empowered customers to receive a quick response to their top queries and improved the engagement process through automation.

Your capex investment of R113 million in a difficult trading environment is impressive. Can you explain your rationale?

Our capex spend has been focused in expanding omni-channel and improving our technology. We started off 2018 with a clear understanding of our strategic focus areas and I am pleased that we have been able to execute the strategy despite the soft top-line sales growth.

Investment of R25 million in showrooms has progressed our omni-channel strategy and we expect to invest a further R25 million in additional locations in 2019. Our investment of R37 million in the Gauteng distribution centre has provided us with the infrastructure to support top-line sales growth and enhancing customer experience, particularly in the fulfilment and delivery leg of their journey.

As a technology-based business, we have invested R148 million (across capex and operating expenses) to deliver on our digital transformation strategy, most critically our new e-commerce engine. We have also invested in a new credit fraud prevention tool, enhanced our credit origination process, delivered self-service of customer queries and continue to manage the progression from legacy systems. We are moving away from proprietary systems to best-of-breed systems with a focus on cloud-based architecture and services layer structures.

Our capex programme will remain at these levels for the next few years as we reach critical mass in showrooms, ChoiceCollect containers and technology replatforming and implementing best-of-breed systems.

"
5 showrooms
2 ChoiceCollect containers
"

What are your KEY FOCUS AREAS for 2019?

01 Maintain our product ethos, and continue to deliver innovation, differentiated good value in our heritage textile business while enhancing our private label with additional external brands

02 Using data analytics, drive more from our existing customer base, increase customer retention and understand her needs and grow base through attracting more people

03 Quicker and more convenient delivery experience, easy-to-select delivery options, tracking and more click and collect points

04 Continue the digital transformation journey – both external customer-facing technology and internal process efficiencies

05 Further investment in showrooms and ChoiceCollect containers delivering increased brand exposure, customer awareness and customer experience

06 Increase our cash sales contribution

07 Further investment in technology with investment in a credit management system, credit origination and merchandise planning tools

08 Reinvigorating the HomeChoice brand by rebranding, making it more relevant and appealing to potential new customers

RETAIL STRATEGIC INITIATIVES

TARGETS MET ✓ ✗

Enhance the customer experience

2018 plans and focus areas

- Map customer journey and focus on opportunities to improve experience ✓
- Customer service and delivery experience focus ✓
- Development of additional distribution centre in Gauteng ✓
- Improve delivery service: speed and available options ✗

2018 achievements

Gauteng launched in Q1 2018

6.4 days average home delivery (2017: 7.8)

Counter delivery deteriorated from 14.4 days to 18.4 impacted by SAPO

Plans for 2019

01 Easy, quick experience across all channels

02 Process optimisation in order flows to improve speed

03 Increase direct-to-home delivery and click and collect

04 Improve NPS score

Curated product and credit offers

2018 plans and focus areas

- Curate external brands to develop "digital department store" ✓
- Innovation enable range differentiation and product offering ✗
- Define future debtors engine to provide flexible credit offers ✓
- Invest in credit decision engine and new fraud prevention tool ✓ ✗
- Implement "low to grow" credit limit strategy for new customers ✓

2018 achievements

Retail sales up 6.3%

Brands contribution of 16% (2017: 12%)

Debtor costs as a % of revenue maintained at 14.9%

Provision for impairment at 19.3% (comparable 2017: 21.0%)

Fraud prevention tool implemented

Decision engine deferred to 2019

Plans for 2019

01 Curated product range to develop "digital department store"

02 Commence development on best-of-breed debtors engine to provide flexible credit offers

03 Implement credit decision engine and improve origination decisions

04 Implement "low to grow" credit limit strategy for new customers

Insight-led customer growth

2018 plans and focus areas

- Television to drive customer acquisition ✓
- Enhance in-house data analytics capabilities ✓
- Implement segmentation strategy ✓

2018 achievements

New customers from television at 39% (2017: 31%)

Data analytics resourcing increased and data scientist teams

RFM (response, frequency, monetary) model implemented

Plans for 2019

01 Rebalance customer acquisition model

02 Increase retention of existing customers

03 Drive increased frequency and basket size

04 Use analytics to deliver improved services

Mobi-first engagement and sales

2018 plans and focus areas

- Mobi-first mindset ✓
- Marketing material to direct customers to digital channels ✗
- Implement e-commerce engine ✗
- Increase digital-only product offering ✓
- Develop social media strategy ✓

2018 achievements

Digital Retail sales up 12%

Digital sales contribution increased to 16% (2017: 15%)

E-commerce platform to launch in Q1 2019

Good response to social media strategy

Plans for 2019

01 Implement Oracle e-commerce engine

02 Enable additional self-service options

03 Drive digital engagement

04 Increase digital-only product offering

Expand new markets and services

2018 plans and focus areas

- Open two new showrooms ✓
- Expand click and collect delivery options ✓
- Expand sales agents' network in Namibia and Botswana ✗
- Utilise logistics opportunity to increase sales in neighbouring African countries ✗
- Introduce insurance products ✗

2018 achievements

Launched four showrooms and two ChoiceCollect containers

Higher growth in South Africa negatively impacted Africa's growth

Insurance products to be launched in 2019

Plans for 2019

01 Open three – four showrooms, with potential for Botswana

02 10 ChoiceCollect click and collect containers

03 Introduce insurance products

Q&A WITH THE FINANCIAL SERVICES CHIEF EXECUTIVE OFFICER

"

How did the FinChoice business perform in 2018?

I am pleased with the performance. Loan disbursements were up 21.5% to R1.8 billion and our funeral insurance premiums increased by 70%. Our top-line revenue grew by 12.2%, translating to a 13.7% increase in EBITDA to R357 million.

We made good strides in digital, with over 80% of our loan transactions concluded on our mobile channels. Our average term for loans reduced nicely to 19.7 months with the scaling of our shorter-term MobiMoney facility, cash collections were strong and the performance of our debtors' book was maintained within our usual tight tolerances.

"

"

Loans disbursements

up **21.5%**

"

64% of your loan disbursements now occur using digital channels, up from 50% in 2017. What has driven this?

In Q4 2017 we launched our digital-only product, FinChoice MobiMoney™. We scaled the product in 2018 and this bolstered both the disbursements on this digital product as well as increased digital registrations and platform engagement. We now have two-thirds of our active customer base registered for our mobi site and 86% of our customers registered for digital, including our USSD platform (KwikServe).

MobiMoney is a short-term credit facility product, functioning much like a mobi credit card. Customers can choose from repayment terms of one, two or three months. Utilisation of MobiMoney was a significant driver in the increase of the percentage of loans to existing customers from 79.1% to 84.5%, a growth of 29% compared with the total loan disbursement growth of 21%.

Customers like the simplicity and convenience of the MobiMoney facility. We have designed the user experience (UX) to minimise the steps required for a withdrawal and hence it is significantly quicker to use than the previous USSD one-month loan product, KwikAdvance™. MobiMoney has more attractive pricing, with interest rates of 20.5% versus the 27.0% on the one-month loan. Additionally, data costs for our mobi platform are zero-rated for customers across all the major cellular networks.

The MobiMoney facility is a foundational product for us on which we intend to develop and introduce additional "mobi-wallet" functionality. During the year we launched airtime, data and electricity products as value-added services (VAS) on the mobi platform. These smartphone-only products have further bolstered digital adoption and engagement. While we do earn a modest margin on these VAS products, they are not big revenue spinners for us and our strategy is to continue to leverage the digital "stickiness" dynamics of these products.

I am excited that with our high levels of digital engagement and our MobiMoney foundation, we have the opportunity to deliver additional functionality on this platform into 2019 and beyond.

You brought 46 000 new customers on board this year, 30% from sources external to the group. Can you elaborate?

Acquiring good-paying Retail customers by leveraging the Retail customer base has always been our bread and butter – a straight-forward, cost-effective customer acquisition strategy for the Financial Services business. Over the past three years or so we have been exploring a programme of adding customers external to the group directly into the lending business, using stricter creditworthiness criteria to control the quality of those customers.

This year we successfully acquired 14 000 customers from digital affiliate sites of acceptable credit performance. In order to manage our credit exposure to this relatively new source of business, we employed higher creditworthiness thresholds, lower maximum credit limits and a maximum term limit of six months. Once these customers prove themselves with positive repayment behaviour our "low and grow" strategy kicks in to extend further good credit. Hence, while 30% of our new customers came from external sources, the disbursement mix to new externals was only 13%.

As these customers are generally sourced from digital affiliate sites via self-service, vetting processes are automated and we are acquiring more digital-ready customers into our base. Acquisition costs are significantly reduced as we leverage our current platform, credit systems and know-how to incrementally expand our opportunities outside of the group base.

"

Fees from ancillary services are up 17.6% to R214 million. Can you expand?

Revenue earned from the insurance business makes up the major portion of this and has performed well in 2018, with a 70% increase in gross written premiums over 2017. The good performance has been driven by increased penetration of the customer base across both telephonic and digital channels – currently 30% of our active loan customers have taken up a funeral policy with us.

We currently offer personal and immediate family funeral cover. We anticipated to expand our suite of insurance products in 2018 but agreed to defer the planned roll-out of parent and extended family member cover to 2019 as we ironed out some challenges with the digital selling of the product and compliance projects. I am optimistic about the growth prospects of diversifying our financial service income into long- and short-term insurance.

"

Can you comment on your loans business in new markets? You launched Botswana in Q1.

We are employing the same South African model of sourcing proven Retail customers for our lending business in Botswana. We have been very much in a pilot phase for most of 2018 in Botswana, streamlining and adapting our processes for the local in-country nuances and getting to grips with the regulatory environment.

The current book is relatively small and limited to six-month term loans only. What is pleasing is that the performance on this book is slightly better than currently experienced in South Africa, so we are happy with our credit approach. I believe that we are now set up to steadily ramp up volumes in 2019 and hope to get better traction.

Any roll-out to further countries, such as Namibia and/or Mauritius, will only commence after we have achieved good traction in Botswana.

Sean Wibberley
Financial Services Chief Executive Officer

Debtor costs were up 20.1% on 2017, and as a percentage of revenue were up to 24.7% (2017: 23.2%). How do you feel about your credit performance?

As explained in the Finance director's report, the group has implemented IFRS 9 with effect from 1 January 2018 – the 2017 figures are not restated.

I am pleased with the debtor costs; with the quality of the new and repeat business stable. Debtor costs were up 20.1% comparable to our loan disbursements growth of 21.5%. The write-offs were marginally higher than expected, mainly due to some higher-than-normal risk business we booked in late 2017. After observing this slight worsening in our performance vintages, we mitigated by adjusting our scorecards and revised credit limits were applied to the new accounts opened in 2018.

As mentioned previously, we take a more conservative approach in the credit vetting and acceptance of customers external to the group. Since we have less behavioural information at our disposal to assess the credit quality of non-group prospects, we adopt a "low and grow" strategy to limit the extent of any credit losses for these accounts. External disbursements represented just 13% of new acquisition in 2018; and only 2% of total loan disbursements since the majority (84%) of our loans were made to existing good-paying loan customers.

We are comfortable with our non-performing loans (NPLs) ratio which has reduced from 4.2% in 2017 to 4.1% in 2018. Our provisions held as a percentage of the gross loans book, based on the IFRS 9 accounting standards, reduced from 16.3% to 15.8% and our NPL cover ratio remains conservative at 3.8 times (2017: 3.9 times).

Customer experience is central to your strategy – can you tell us more?

Over 80% of our customers are female and our vision is to be her favourite digital financial services provider. This means we focus considerable effort on her customer experience (CX) – the convenience, speed and reassurance she experiences when engaging across our channels and product suite. We see her CX as being a combination of digital 24/7 convenience and the human touch provided in our contact centre.

We are a FinTech business that has evolved from telephone-based interactions to full self-service digital transactions. With now four out of five loan transactions occurring online, our contact centre is better able to focus on targeted sales efforts, higher order service queries and retention activities. Our digital transactions are considerably more cost-effective than in our contact centre – with the growth in digital we have been able to hold operational overhead despite the growth in our customer base and I expect this trend to continue.

Our consultants also offer digital support and reassurance to those customers who are new to digital engagement – we are cognisant that many of our customers are still taking their first step into smartphone internet usage. Customers have told us that they feel more comfortable speaking directly with a consultant for their initial transaction with the group, and thereafter they are happy and comfortable to manage their transactions online, which means that they can transact when and wherever they want to.

We measure our CX across three key metrics: (i) the time taken to complete key transaction journeys, (ii) the conversion ratio of customers successfully completing these journeys and, ultimately, (iii) the customer feedback after these transactions.

Customer journeys on digital channels have been shortened, with a focus on user-centric design. As an example, a new loan application previously took 15 minutes and it has now been brought down to 10 minutes merely by iteratively improving on our design. Our conversion ratios also improved from 33% to 47% for this digital journey. Similarly, we have managed to bring the time she spends on a new loan in the contact centre from 22 minutes down to 18 minutes and we believe that we can reduce this further. Our digital CX rating has improved from 80% to 90%, and our contact centre rating also improved from 75% to 79%.

Customer experience is at the heart of what we do at FinChoice and will continue as our core strategic theme.

FINANCIAL SERVICES STRATEGIC INITIATIVES

TARGETS MET ✓ ✗

Enhance the customer experience

2018 plans and focus areas

- Structure to drive collaboration on customer journeys ✓
- Implement real-time customer responsiveness ✓
- Balance digital self-service with human interactions ✓

2018 achievements

Improvement in digital funnel conversion rate to 47% from 33%

Contact centre empowered to salvage digital sales

Digital and telephone journey times significantly shortened

Plans for 2019

01 Further reduction in customer journey times

02 Continued improvements in digital funnel conversion rates

03 Additional self-service options introduced

Curated product and credit offers

2018 plans and focus areas

- Scale FinChoice MobiMoney™ facility account ✓
- Develop and grow fee income from value-added financial services ✗ ✓
- Reduce or maintain shorter-term mix ✓
- Drive improvement in cash yield from book ✓

2018 achievements

MobiMoney penetration at 65% of the active loan base

VAS products launched but with modest revenue contribution

Average book term reduced from 20.4 to 19.7 months

Cash collections improved

Plans for 2019

01 Broaden MobiMoney e-wallet functionality

02 Grow insurance suite to drive premiums

03 Reduce or maintain shorter-term mix

04 Drive improvement in cash yield from book

Insight-led customer growth

2018 plans and focus areas

- Drive growth in new customer acquisition ✓
- Maintain repeat loan mix >70% ✓
- Continue controlled acquisition of external customers ✓
- Increase penetration of Retail customers ✗
- Revamp brand towards female-centric positioning ✗

2018 achievements

Customer growth of 10.7% to 176 000

Repeat loans at 84% (2017: 79%)

Retail customer penetration maintained

14 000 external customers acquired, 30% contribution

Brand refresh deferred to Q1 2019

Plans for 2019

01 Launch brand refresh towards more relevant, FinTech positioning

02 Drive personalisation of product offers through data and machine learning

03 Continue penetration of Retail customers

04 Manage shift to external customer acquisition through targeted digital channels

Mobi-first engagement and sales

2018 plans and focus areas

- Increase mobi registration and engagement ✓
- Continue support of KwikServe platform with increased migration to mobi ✓
- Develop mobi App "wrapper" ✗
- Migration of systems to more agile services-orientated, cloud-ready architecture ✓
- Continue to migrate customers to mobile self-service functionality ✓

2018 achievements

65% (2017: 51%) mobi registration

39% of new customer acquisition done via mobi

Digital mix disbursements 81% (2017: 71%)

App launch deferred to 2019

System migration has commenced

86% of customers now registered on our digital platforms

Plans for 2019

01 Revamp mobi front-end design for improved user experience

02 Introduce mobi App

03 Continue replatforming of systems to more agile services-orientated, cloud-ready architecture

04 Explore digital loyalty programme

Expand new markets and services

2018 plans and focus areas

- Continue to grow FinChoice Africa business ✓
- Launch lending in Botswana and pilot in Namibia ✓ ✗
- Introduce additional personal insurance products ✗
- Include Financial Services' kiosks in Retail showrooms ✓

2018 achievements

Good growth of FinChoice Africa business in South Africa

Slower uptake in Botswana. Namibia parked

No new insurance products launched, focus on compliance and improving digital sales conversion

Kiosks in further four showrooms

Plans for 2019

01 Continue to grow FinChoice Africa business

02 Steadily ramp up Botswanan operations

03 Introduce additional personal insurance products

04 Include Financial Services' presence in Retail showrooms and ChoiceCollect containers

3

GOVERNANCE

"It is the role and responsibility of the board and sub-committees to provide effective governance oversight of the group"

DIRECTORS

International board

CHAIRMAN
Stanley Portelli

Independent non-executive director

Amanda Chorn

Independent non-executive director

Rick Garratt

Non-executive director

Eduardo Gutierrez-Garcia

Non-executive director

Robert Hain

Independent non-executive director

Charles Rapa

Independent non-executive director

Adefolarin Ogunsanya

Alternate non-executive director for Eduardo Gutierrez-Garcia

GROUP CHIEF EXECUTIVE OFFICER
Gregoire Lartigue

Executive director

GROUP CHIEF EXECUTIVE OFFICER – SOUTH AFRICA
Shirley Maltz

Executive director

FINANCE DIRECTOR
Paul Burnett

Executive director

South Africa board

John Bester

Independent non-executive director – Chairman

Nkosinathi Solomon

Independent non-executive director

GROUP CHIEF EXECUTIVE OFFICER – SOUTH AFRICA
Shirley Maltz

Executive director

CHIEF EXECUTIVE OFFICER – RETAIL
Leanne Buckham

Executive director

CHIEF EXECUTIVE OFFICER – FINANCIAL SERVICES
Sean Wibberley

Executive director

FINANCE
Duane Birkholtz

Finance director – HomeChoice

Mauritius board

Roderick Phillips

Independent non-executive director – Chairman

Pierre Joubert

Independent non-executive director

Paul Burnett

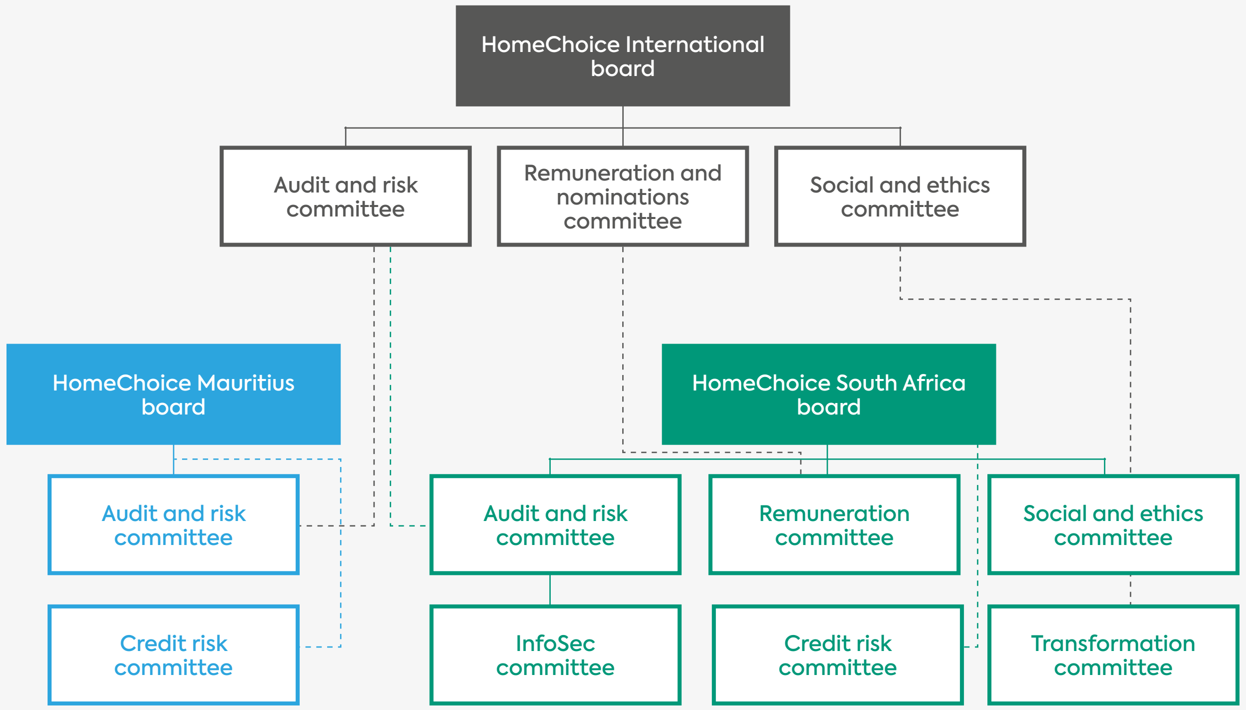
Executive director – Finance

Nominations committee
Remuneration committee
Audit and risk committee
Social and ethics committee
C Chairman

GOVERNANCE **REPORT**

The group has adopted the principles of the King IV report to guide and direct the governance of the group.

The company is an investment holding company of two main operating investments held in South Africa (HomeChoice South Africa or HSA) and Mauritius (HomeChoice Mauritius or HCM). The governance framework of the group is shown below:



It is the role and responsibility of the board and sub-committees to provide effective governance oversight of the group. Through its decision-making process the board should enhance the group's value-creation process for shareholders and stakeholders and result in strong governance outcomes.

As custodian of the group governance framework, the board reviewed the board structure of both the South African and Mauritius operations. Recommendations were made to bolster the independence and appropriate skills and diversity relevant for both operations.

The composition of the HSA board was refreshed in 2018 to ensure that it has the appropriate diversity, skills and expertise to manage and provide oversight for the SA operations and to be able to constructively challenge management to create value for all stakeholders. Two independent non-executive directors were appointed during 2018. The operations in Mauritius have been expanding and an additional director was appointed to the board in January 2019. The boards and sub-committees are chaired by independent non-executive directors.

The HIL board and the relevant committees have delegated the oversight relating to the implementation of group policies to the subsidiary operating boards. As the major part of the group's operations are in South Africa, group policies are prepared based on significant input from the SA operations. The group committees have approval of matters which impact the group. They rely on the operational board and committee structure to ensure that the oversight of the South African and Mauritius operations is in line with group policy. The independent non-executive chairman of the HSA committees provides detailed feedback to the HIL group committees and is available during the meetings to provide additional input if so required.

HomeChoice International

MEMBERS

4 independent non-executive directors
2 non-independent non-executive directors
1 alternate non-executive director
3 executive directors

MEETINGS **4** 100% ATTENDANCE

GENDER: Female 20% | Male 80%
RACE: Black 10% | White 90%
Target 30%

OTHER INVITEES

Divisional CEOs, HC finance director

Decisions made that enhance and support the group's value-creation process:

- The three-year strategy and financial plan consider and incorporate risks and opportunities facing the group and has been delegated to the group CEOs to execute
- The board charter and the sub-committees' charters have been reviewed and updated to ensure that they incorporate King IV principles and the JSE listing regulations
- The directors table a register of their personal financial interest and non-independent directors recuse themselves in matters that may impact them
- A separate sub-committee was set up to consider the equity funding process

Outcomes

- Strong governance and oversight
- A common view of where the group is heading, including targets to measure success
- Clarity of focus areas based on material issues for the group
- Appropriate delegation and oversight to qualified incumbents

HomeChoice South Africa

MEMBERS

2 independent non-executive directors
3 executive directors

MEETINGS **1** 100% ATTENDANCE

GENDER: Female 40% | Male 60%
RACE: Black 20% | White 80%

OTHER INVITEES

HC finance director

Reflects newly constituted board.

John Bester is the independent non-executive chairman of HSA and chairman of the audit and risk, remuneration and social and ethics committees. He is a well-experienced non-executive director of Clicks Group, Ascendis Health, Personal Trust International and Tower Property Fund and has been involved with the group for several years. John spent over three decades in commerce and industry, including serving as a partner of Ernst & Young and holding a number of financial directorships during that time.

Nkosinathi Solomon was appointed to the board effective 1 October 2018. Nkosinathi is a highly seasoned international CEO with over 20 years' experience spanning diverse industries including oil and gas, financial services, banking and management consulting. He is currently the managing director of Rentokil Initial Sub Sahara Africa.

Executive directors: Shirley Maltz, Leanne Buckham and Sean Wibberley

HomeChoice Mauritius

MEMBERS

2* independent non-executive directors
1 executive director

* *One appointed January 2019.*

MEETINGS **4** 100% ATTENDANCE

GENDER: Male 100%
RACE: White 100%

OTHER INVITEES

–

Roderick Phillips is the independent non-executive chairman of HCM and chairman of the audit and risk committee. He was appointed a director on the inception of HCM in March 2015. He is a qualified chartered accountant (South Africa, England and Wales) and heads up the Mauritius operations of Sanlam Trustees International, an independent trust services group owned by the Sanlam group. Rod was actively involved in start-up businesses in the United Kingdom and founded an outsourced provider of accounting services to the SME market in London.

Pierre Joubert was appointed to the board effective 1 January 2019. Pierre is a corporate finance and investment specialist residing in Mauritius. He is CEO of Universal Partners Limited, a private equity-focused investment holding company dual listed on the Stock Exchange of Mauritius and the JSE AltX in South Africa. Pierre was previously the chief investment officer of the Richmark group of companies, spent 13 years at Rand Merchant Bank (RMB) and is a member of the RMB investment committee and the Ashburton Private Equity Fund 1 investment committee. He is a qualified chartered accountant (South Africa).

Executive director: Paul Burnett

Board committees

Audit and risk committee

The committee is responsible for ensuring that the group's annual financial statements fairly reflect the financial results of the group. It also provides assurance on the adequacy and effectiveness of the group's financial controls.

HomeChoice International

MEMBERS
3 independent non-executive directors

MEETINGS **3** | 100% ATTENDANCE

OTHER INVITEES
Group chief executive officer, group finance director, head of internal audit, external auditors, chairman of HSA audit and risk committee

HomeChoice South Africa

MEMBERS
2 independent non-executive directors
1 executive director

MEETINGS **1** | 100% ATTENDANCE

OTHER INVITEES
Group finance director, head of internal audit, external auditors, senior members of finance team, head of technology

Reflects newly constituted board.

HomeChoice Mauritius

MEMBERS
1 independent non-executive director
1 executive director

MEETINGS **2** | 100% ATTENDANCE

OTHER INVITEES
External auditors

Decisions made that enhance and support the group's value-creation process:

- External auditors
  - Are independent of the group, the provision of non-audit services was within the allowed percentage of external audit fee and therefore did not impact their independence
  - Agreed that PwC is qualified and experienced to conduct the audit for the 2019 financial year and should be reappointed
  - Reviewed documentation as required by para 22.15(h)
- Financial statements
  - The interim and annual financial statements accurately reflect the financial position of the group
  - The reporting framework as guided by IFRS was applied for the 2018 financial year with specific focus on the implementation of IFRS 9 and IFRS 15 during 2018
  - Adequately reflect that the group is a going concern and the solvency and liquidity test indicated the ability of the group to pay shareholder dividends
  - The dividend cover is appropriate to provide an acceptable return to shareholders and allow capital reinvestment in the business
- Internal audit
  - The internal audit function is independent of the group and is performing at an acceptable level based on an independent external evaluation conducted in 2018
  - The annual audit plan was risk-based and provided sufficient coverage of the business operations to provide assurance over the financial controls and internal control process of the group
  - The material issues fairly reflect the risk profile of the group and the environment in which it operates
  - The internal audit charter provides guidance and direction for the responsibilities of the internal audit department
- Finance function
  - The group finance director has the appropriate qualification, expertise and experience for the group's requirement and is suitably qualified to oversee the preparation of the financial statements
  - The group FD is supported by a well-functioning, appropriately resourced and qualified financial team in both the South African and Mauritius operations
  - There are appropriate financial reporting procedures which are operating effectively
- Integrated annual report
  - The IAR reflects a balanced view of the business, the material issues and value-creation process of the group
- Information technology
  - The group is supported by a well-functioning information technology group that operates against an approved technology charter
  - An information security committee provides support to the audit and risk committee's deliberations

Outcomes
- Stakeholders can rely on the integrated report to understand how the group creates value for the short, medium and long term and have comfort that all material aspects of the group have been addressed in the report
- Group complies with material legislation
- Shareholders can be satisfied that the external auditors are independent of the group
- Shareholders and financial stakeholders can place reliance on the integrity of the annual financial statements

Remuneration and nominations committee

The committee has oversight of the group's remuneration policy and is responsible for the remuneration of the directors. The committee also ensures that the board has the appropriate composition to enable it to execute its duties effectively.

The group chief executive officers attend by invitation and are recused for all matters involving themselves.

HomeChoice International

MEMBERS
2 independent non-executive directors
1 non-independent non-executive director

MEETINGS **2** | 100% ATTENDANCE

OTHER INVITEES
Group chief executive officer – South Africa, divisional CEOs, group finance director, head of corporate finance

HomeChoice South Africa

MEMBERS
2 independent non-executive directors
1 executive director

MEETINGS **1** | 100% ATTENDANCE

OTHER INVITEES
Group chief executive officer – South Africa, divisional CEOs, HC finance director, head of corporate finance

Reflects newly constituted board.

Decisions made that enhance and support the group's value-creation process:

- Remuneration policy
  - The introduction of performance conditions for the long-term share scheme allocations aligns employee deliverables to shareholder expectations
  - The introduction of cash yield as an additional financial performance indicator for the short-term performance scheme will more closely align reward with operational and financial performance
  - Above-inflation adjustments were approved to the remuneration package of the group CEO – South Africa to reflect the responsibilities held in the group and in line with benchmarking
  - The trigger performance conditions for the 2018 short-term performance bonus were not achieved and the scheme did not qualify for payments
  - Approved the targets and performance conditions for the 2019 short-term bonus scheme
  - The disclosure of both executive directors' and non-executive directors' remuneration is in accordance with King IV and IFRS
- Board able to actively and effectively discharge the group's governance role and responsibilities
  - Refreshed the boards of HomeChoice South Africa and HomeChoice Mauritius to bring in new skills, more diversity, experience and knowledge to include additional independent non-executive oversight
  - Recognised the importance of well-functioning subsidiary boards who understand and can challenge the decisions made in the context of the South African and Mauritius strategies and operations
  - Composition, charter and membership of the board committee members are effective for the requirements of the three group sub-committees
  - The group is supported by the company secretary, George Said, and supporting subsidiary company secretaries who all are competent, qualified and experienced
  - The directors available for re-election at the annual general meeting and that of the group audit and risk committee are appropriate
  - The HIL board gender and race policies and medium-term targets provide stretch to progress transformation

Outcomes
- Board skills, experience and diversity appropriate for the group
- Appropriate oversight through committee structure
- Remuneration policy achieved significant support from shareholders at previous AGM
- Ensuring fair balance between fixed and variable remuneration within the group's financial constraints

Board committees (continued)

Social and ethics committee

The committee ensures that the group acts as a responsible corporate citizen in the countries in which it trades.

The group human resources executive attends by invitation.

HomeChoice International	HomeChoice South Africa
MEMBERS **1** independent non-executive director **1** non-independent non-executive director **1** executive director	MEMBERS **2** independent non-executive directors **1** executive director
MEETINGS **2** 100% ATTENDANCE	MEETINGS **1** 100% ATTENDANCE
OTHER INVITEES	OTHER INVITEES Divisional CEOs Talent executive HR representative B-BBEE *Reflects newly constituted board.*

Decisions made that enhance and support the group's value-creation process:

- Transformation
  - The 2020 targets for the B-BBEE strategy recognise the commitment to improve the transformation rating of the South African operations
  - The accreditation of the learnership programme indicates the group's responsibility to upskill existing employees and provide employment for unemployed individuals
- Sustainability
  - Water contingency plans were in place for the group's Western Cape operations and activities undertaken to reduce water consumption
  - The group is committed to receive a 5-star green rating for the head office buildings with a longer-term target to achieve a 6-star rating
- Social responsibility
  - The operations of the HomeChoice Development Trust (HCDT) continue to partner with key NGOs in the intent of the advancement of early childhood development
- Ethics
  - The code of conduct was amended to include anti-bribery, anti-money laundering, anti-discrimination and intimidation
  - The tip-offs line is managed by an independent external party and is being regularly used by employees

Outcomes
- Increase in company culture measure
- Improvements in employment equity
- Processes implemented to ensure operational business continuity and support for staff in the midst of water shortages in the Western Cape
- Awareness is created of key concerns from stakeholders and appropriate actions are determined

CREDIT RISK **MANAGEMENT**

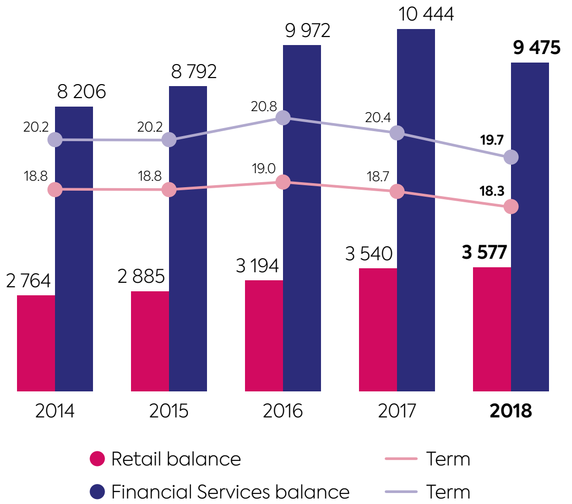
The group uses credit to facilitate merchandise sales which enables customers in the mass middle-income market to purchase products on credit. Retail credit is offered in South Africa, Botswana, Namibia, Lesotho and Swaziland while Financial Services loans are available to customers in South Africa and Botswana.

A suite of flexible credit products is offered with availability dependent on customers' previous credit payment behaviour. Credit terms are typically weighted towards shorter periods and lower values.

The average Retail credit account balance is R3 577 (2017: R3 540) with an average term of 18.3 months (2016: 18.7); the average Financial Services balance is R9 475 (2017: R10 444) with an average term of 19.7 months (2017: 20.4). The maximum term available in both businesses is 36 months.

AVERAGE ACCOUNT/LOAN BALANCE AND AVERAGE TERM

Rand/months



Credit policy

New customers to the group are primarily acquired through the Retail business. Experience has shown that the predominantly female customers, particularly those buying homeware products, have proven to have better credit risk than their male counterparts. The group follows a "low and grow" credit limit strategy, as for many new customers this may be the first time that they have had access to credit. This strategy enables customers time to orientate and understand how they should be able to service their accounts within their budget.

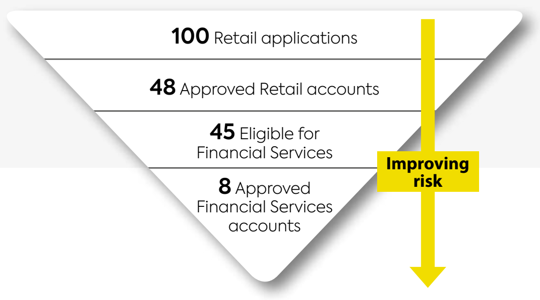
The Retail business has rolled out a new acquisition strategy aimed at customers that typically would not have qualified for credit due to lower risk profiles. These customers receive a very low, entry-level limit which is increased once they have proven payment behaviour. The group draws on its more than 30 years of experience and knowledge of the mass market customer in determining which customers are most likely to be able to service their debt.

Financial Services' loan products are offered primarily to Retail customers who have demonstrated good payment behaviour. This ensures that offers are marketed to relatively low-risk customers. The selection criteria allow Financial Services to select a profitable group of loan customers, with a stable and acceptable risk of bad debt, at a reduced customer acquisition cost – the risk-filtering process.

Over the past three years, Financial Services has undertaken a programme of acquiring new customers external to the group. Stricter credit policies are applied to these customers as the available data is not as rich as for Retail customers. Initially, higher credit thresholds, lower maximum credit limits and a maximum term limit of six months are applied. Once these customers are proven to the group the "low and grow" strategy is applied.

The Retail credit policy and debtors' book are managed independently of the Financial Services book. Although separate teams of analysts monitor the books and develop appropriate credit policies, the full group data on a customer is considered in each credit decision and learnings between the two teams are shared on a constant basis. The credit team has created a digital-specific credit strategy, with the aim to improve the digital conversion rate.

THE RISK-FILTERING PROCESS



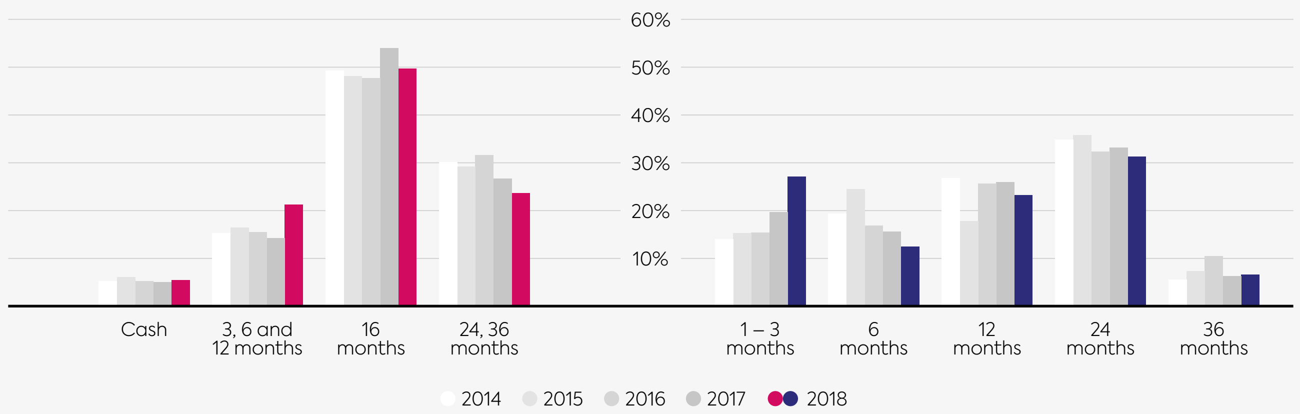
Credit origination

RETAIL					FINANCIAL SERVICES		
Interest-free	Revolving credit		Instalment credit		Revolving credit	Short-term credit	Unsecured credit
3 months	Flexi 3, 6, 12, 16 months	Advantage 24, 36 months	24, 36 months		MobiMoney 1 – 3 months	Flexi loan 6 months	Premier loan 12, 24, 36 months

RETAIL CREDIT TERM MIX

Percentage

FINANCIAL SERVICES DISBURSEMENTS MIX



Retail customers primarily purchase on revolving credit, either using a Flexi account or an Advantage account. We have introduced a three-month interest-free option, which has proven to be very successful. The strategy for 2019 is to drive cash sales and introduce other, innovative shorter-term credit options, primarily focused on our digital platforms. The roll-out of showrooms has proven to increase cash sales and shorten the average credit terms even more and with more showrooms being rolled out in the future we foresee further shortening of the Retail book. The Advantage account and Instalment credit options are only made available to customers after they have demonstrated good payment performance on their Flexi account.

Financial Services' MobiMoney account was launched at the end of 2017 and the book has grown at an expected rate. MobiMoney is a short-term, revolving credit facility, from which customers can make digital withdrawals against their credit limit. The strategy is to launch further MobiMoney functionalities during 2019 and grow the book in a controlled fashion.

Since the Retail business derives more than 50% of its sales by way of direct marketing to customers through the contact centre, it manages credit risk by preselecting potential customers to receive marketing offers. As part of the Retail digital strategy, new customers may apply for credit as part of the digital shopping process by completing the relevant information online.

The use of television advertising has been successful in exposing the brand to a wider customer audience, but this channel has, however, required adaptations to the credit origination processes. Using a simple and easy call-back mechanism for customers and pre-scoring tools, only those customers who would be eligible for credit are phoned by the contact centre. In this way the group can proactively manage the credit risk. All group data is scrutinised when a customer applies for credit. In this way, a customer in arrears with any group product will not be granted further credit for Retail or Financial Services.

Vetting

In assessing applications for credit, the group follows the NCA affordability assessment regulations. Additional affordability criteria are also applied, based on inhouse developed scorecards which are supplemented and strengthened with external credit bureau data – the group uses two credit bureaus in the vetting process.

In 2016 significant changes were made to the credit verification processes to cater for the NCA affordability assessment regulations. Investments were made in both people resources and technology to reduce the onerous process for the group and customers. During 2018 these processes have been optimised through automation and the use of new tools. As an example, the use of WhatsApp provides more convenient options for customers to submit proof-of income documentation. Document management systems and processes help to streamline the processes required to manage the one million documents processed annually. Membership of the Document Exchange Association has enabled a more efficient and quicker process to obtain customers' relevant banking information.

With limited face-to-face interactions with customers, the group uses several advanced anti-fraud detection tools and predictive models to manage application fraud. Great strides were made in fraud detection through the successful implementation of Instinct, an internationally acclaimed anti-fraud detection tool supplied by GBG Dectech. Instinct has considerably reduced existing account takeover fraud, improved detection on new business first- and third-party fraud and streamlining our anti-fraud processes. Mobile device detection tools, link analysis, fraud databases and in-house developed anti-fraud models identify potential fraudulent applications or account takeover activities. These are then either automatically declined or reviewed by a team of fraud specialists.

Collections

The group has an in-house collections team predominantly focused on the Retail business. Retail customers can make payments on their accounts at more than 6 000 payment points throughout South Africa and neighbouring countries.

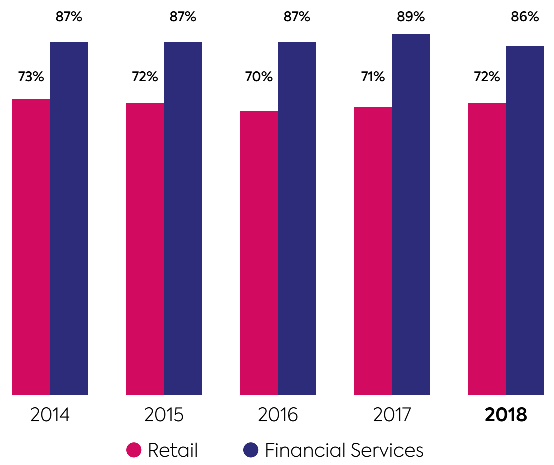
The convenient payment options include debit orders, selected retailers, SAPO and banks. We have had a major focus on the roll-out of digital payment methods and this will continue since our customers are showing a willingness to pay via secured and readily accessible digital platforms in the comfort of their home. Payments made against a Financial Services loan must be carried out by way of debit order payments. This reduces the need for a large collections team, relying on technology between the group and the banks to process customers' payments.

The use of proprietary telephony technology enables the collections team to be more efficient in when and how they contact customers to request payments.

External debt collection (EDC) agencies are used to assist in late-stage collections where recoveries from customers may be more onerous. EDCs are managed through agreed service-level agreements, with agreed collections targets monitored on a monthly basis. Monthly meetings are held with the EDCs to gain insight into the collections market and to ensure that the agencies perform in line with the targets set for them.

DEBTORS' BOOK CURRENT AGEING

Percentage



Risk management

		31 Dec 2018*	31 Dec 2017 (comparable)**	31 Dec 2017 (restated)***	% change on comparable**
Retail					
Gross trade and loans receivable	(Rm)	**1 865**	1 829	1 784	2.0
Active accounts		**600 789**		580 895	3.4
Debtor costs as a % of revenue	(%)	**14.9**		14.9	
Provision for impairment as a % of gross receivables	(%)	**19.3**	21.0	17.9	
Non-performing loans (NPL) (120+ days)	(%)	**9.6**	9.4	9.9	
Active account holders able to purchase	(%)	**70.3**		70.0	
NPL cover	times	**2.0**	2.2	1.8	
Financial Services					
Gross trade and loans receivable	(Rm)	**1 599**	1 393	1 352	14.8
Active accounts		**143 303**		126 140	13.6
Debtor costs as a % of revenue	(%)	**24.7**		23.2	
Provision for impairment as a % of gross receivables	(%)	**15.8**	16.3	14.0	
Non-performing loans (NPL) (120+ days)	(%)	**4.0**	4.2	4.2	
Active account holders able to purchase	(%)	**88.5**		88.4	
NPL cover	times	**4.0**	3.9	3.3	

* IFRS 9, Financial Instruments *adopted effective 1 January 2018.*
** *2017 assuming* IFRS 9, Financial Instruments *adopted.*
*** *Restated based on the application of* IFRS 15, Revenue from Contracts with Customers. *IAS 39 applied for 2017 financial year.*
**** *Debtor costs include bad debts written off net of recoveries, as well as movements in provisions.*

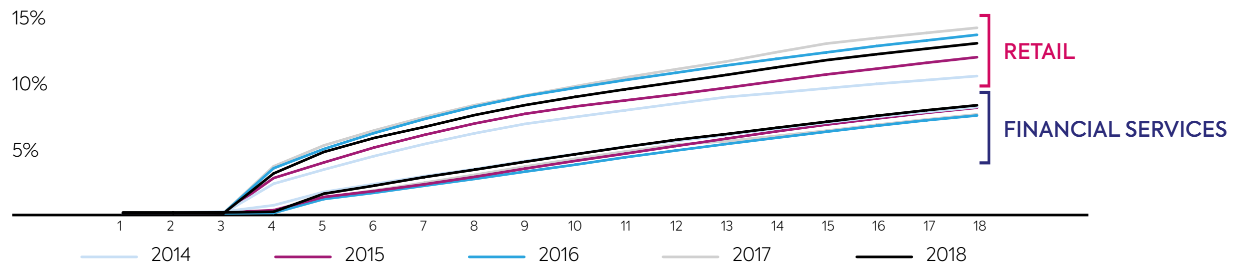
Credit risk committees are managed at an operating subsidiary level and meet on a quarterly basis. Feedback is provided to the HIL board on a regular basis.

The group maintains conservative debtors' impairment provisions which are determined and regularly reviewed during the year. The group has adopted the IFRS 9 provisioning approach with effect from 1 January 2018. The impairment provision is considered by the external auditors as a "key audit matter" and the manner in which it was addressed in the determination of the reasonableness of this provision is explained in the report of the external auditors on pages 8 to 13 in the annual financial statements. Further information on the provisions can be found in note 3.3 to the annual financial statements. The provisions consider any significant increase in credit risk (SICR) and forward-looking models have been developed to determine the impact of external, macro changes on the debtors' books. The auditors provided an unqualified opinion on the annual financial statements.

RETAIL AND FINANCIAL SERVICES VINTAGES BY YEAR

(120+ days in arrears and written off)

Cumulative % of original accounts reaching arrears status



REMUNERATION **REPORT**

SECTION 1:
Report from the chairman of the remuneration committee

The focus of the committee in 2018 was to review and amend the remuneration policy so that it will more closely align the remuneration of the executive directors to the delivery and performance of the strategic focus areas of the group.

The committee discussed the following key matters during the year:

Executive directors' remuneration

- A detailed benchmarking exercise, utilising data from independent external consultants, was conducted on the remuneration structure and guaranteed pay for executive directors and senior executives in the group.

  The review indicated that the guaranteed pay of the group CEO – South Africa was materially out of line with the market. The committee approved an adjustment of 21.7% to the guaranteed pay and increased the on-target short-term performance bonus allocation from 90% to 100%.

Short-term performance bonus scheme

2018 financial year

- The committee approved the 2018 group and divisional EBITDA target trigger for the short-term performance incentive scheme.
- As discussed in the group CEOs' report, the financial performance of the group fell short of expectations. The actual group EBITDA was below the threshold of 95% and the trigger for payment of short-term performance bonuses was not achieved.
- Consequently, no bonus payments were made for the 2018 financial year.

2019 financial year

- The committee agreed to introduce cash as an additional divisional performance measure for the 2019 short-term performance bonus scheme.

  The approved weighting and measures are:

	Measure	Weighting	Details
Group	EBITDA		Trigger of 95% acts as a gatekeeper
Division	EBITDA	60%	Trigger of 95%
	Cash	10%	Cash yield Disbursement term Cash generated less capex Naedo penetration
	Non-financial strategic focus areas	30%	Aligned to strategic focus areas of the group

Long-term share incentive scheme's performance condition

- Previous allocations of the group's long-term share incentive scheme did not have any financial and/or operating performance conditions. Participants merely had to be in the employ of the group at the vesting date to qualify for 100% vesting.

  The committee approved the introduction of profit after tax growth as a performance condition for annual rolling allocations of ESOS and FSP approved during 2018. A target of PAT growth >CPIX + 3% pa aligns the delivery and focus on longer-term metrics for both executives and shareholders.

Non-executive directors' fees

- The committee discussed and recommended to the board the non-executive directors' fees for the 2020 financial year. The fees for the non-executive directors of the subsidiary companies (HomeChoice South Africa and HomeChoice Mauritius) were approved.

The committee continues to consider the King IV recommendations contained in Principle 14. Disclosure of the remuneration at all levels of the group is included in Section 3, Implementation Report, and the executive directors' remuneration has been shown according to the single-figure remuneration methodology suggested by the South African Reward Association.

The group has not utilised any external independent remuneration consultants during the year, however it has utilised independently collated data in its deliberations.

SUMMARY REMUNERATION REPORT

For financial year ending 31 December 2018

Executive directors	Management	Operations
E = 3	M = 381	O = 1 476

Guaranteed pay (GP)

DESCRIPTION

Salary is based on competitive market value and adjusted in accordance with performance and contribution.

METRIC

- CPI
- Market conditions
- Peer benchmarking

APPLICATION FOR 2018 FINANCIAL YEAR

6.6% for management and operations

The remuneration committee agreed an inflationary-linked increase to GP.

Additional adjustments were made where there were changes in roles of key management.

Short-term variable remuneration

DESCRIPTION

- One-year performance period
- Group EBITDA acts as gatekeeper
- Divisional performance conditions: 60% financial and 40% non-financial

METRIC

- Group EBITDA
- Divisional EBITDA
- Divisional non-financial indicators

APPLICATION FOR 2018 FINANCIAL YEAR

E Rnil | M Rnil

Group EBITDA trigger not achieved. No bonuses awarded.

Commission

DESCRIPTION

- Variable commission available for operational staff

METRIC

- Sales
- Loan disbursements
- Collections

O R60.2 million

Annual payment based on achievement of targets.

Long-term variable remuneration

DESCRIPTION

- Four-year performance period with performance conditions from 2018 allocations

APPLICATION FOR 2018 FINANCIAL YEAR

Employee Share Option Scheme (ESOS)		Executive directors Number	Management Number	Operations
2014 allocations	No performance conditions	100 000	530 000	n/a
2018 allocations	Profit after tax	–	335 350	
Forfeiture Share Plan (FSP)				
2018 allocations	Profit after tax	55 800	143 000	
100% vesting of 2014 ESOS where participants still in the employ of the group at vesting date. Allocations made in line with policy.				

Shareholder voting

The group's Remuneration policy (Section 2) and Implementation report (Section 3) will be tabled at the annual general meeting to shareholders for a non-binding advisory vote.

The committee welcomes all questions on the Remuneration policy and the Implementation report. Questions should be directed to governance@homechoiceinternational.com

2017 AGM voting approval	
Remuneration report	94.2%
Implementation report	94.9%

SECTION 2:
Remuneration policy

The group recognises that employees are critical in meeting business objectives and contributing to the sustainability of the business.

The group's Remuneration policy is aimed at ensuring that the group attracts, motivates and retains exceptional talent, drives a high-performance culture which is closely aligned with the group's business objectives and strategy, and achieves the following objectives:

- internal consistency to ensure that all employees are remunerated fairly in relation to one another and that this remuneration is reflective of their value to the group and their performance;
- external consistency through participation in industry remuneration surveys to ensure that employees are remunerated fairly in relation to the market;
- responsible remuneration which serves to attempt to address any income disparities based on gender and race; and
- aligns employee interests with the board and shareholders through short- and long-term incentives and focuses energy on attaining short-term goals which are not at the expense of long-term objectives and sustainability.

Components of remuneration

The remuneration mix includes a combination of monetary and non-monetary rewards to employees for their efforts and performance.

The monetary remuneration structure is made up of three components:

- guaranteed pay (GP);
- short-term variable remuneration (STI); and
- long-term variable remuneration.

For the purposes of the Remuneration policy, employees have been categorised into three categories:

- executives – includes executive directors and senior executives in operating companies;
- management – primarily employees who are based in head office; and
- operations – employees in the contact centres, retail showrooms and distribution centres.

In addition to the GP, all permanent employees receive a component of variable remuneration, dependent on their level and role within the group.

Employee value proposition

The group's employee value proposition model is built on the following four pillars:

Rewards (Remuneration)	*Recognition*	*Growth*	*Care*
• Guaranteed pay • Related benefits • Short- and long-term incentive schemes • Operations commission schemes	• Biannual performance reviews • Discretionary recognition awards • "Wow" employee communications	• Talent development – career pathways and succession • Bursary and leadership programmes • Employment equity and skills development forums • Diversity transformation	• ChoiceCare wellness programme • Ergonomically designed workplace • "Green" building • Annual Employee Pulse survey • Restaurant facilities

Executive remuneration structure

The board has confirmed that there are no prescribed officers in the group.

The details of each component of the remuneration structure applied in the 2018 financial year are shown in the tables below.

Guaranteed pay

	Executive directors	Management	Operations
Rationale	Salary is based on competitive market value and adjusted in accordance with performance and contribution. A market-related suite of benefits is made available, which is included in the cost-to-company basis.		
Basic salary	Reviewed annually, benchmarked against the market and assessed against prevailing economic metrics. Annual increases are granted on 1 March.		
Benefits:			
Provident fund	Defined contribution provident fund is compulsory for all South African employees. Employees have the flexibility to elect from 6% to 20% of pensionable salary.		
Medical aid	Membership is encouraged but is not compulsory. Two approved schemes are available, providing flexibility in terms of affordability and benefit coverage.		
Discount	Product discount on merchandise sold by the group is available to all employees.		
Other	Expatriate staff in Mauritius receive additional benefits appropriate to the nature of their contract. Certain inclusions in guaranteed pay are dependent on in-country legislation.		
Contracts and notice periods	The notice period is three months for executives. Key executives have contracts that include restraint of trade conditions. No agreements provide for ex-gratia or other lump sum payments on retirement or severance from the group.	Market-related norms.	

Short-term variable remuneration

Short-term variable remuneration is based on one-year financial and non-financial performance.

Payment of short-term incentives are triggered based on the achievement of group EBITDA performance. STIs are dependent on "line of sight" and the areas of influence, with divisional executives also required to achieve targeted EBITDA for their respective divisions in order to participate in STI. The total STI pool is calculated in relation to group EBITDA. Individual performance determines the respective allocations from the pool. The allocations for the categories are depicted below, with further details provided in the table.

SHORT-TERM PERFORMANCE BONUS

RATIONALE

Rewards performance for short-term financial and non-financial performance.

Non-financial metrics are aligned to the five strategic focus areas.

PARTICIPANTS

- Executives
- Senior executives
- Management

PERIOD

One year

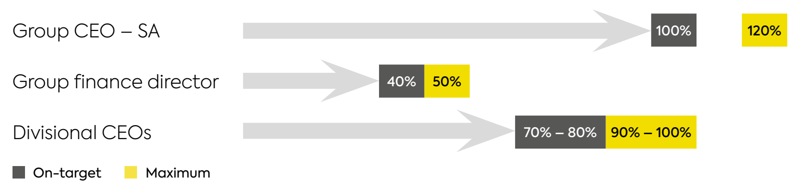
OTHER

Target agreed annually in advance.

Remuneration committee retains discretion on whether to award a bonus, and the quantum.

Payments made in cash post year-end.

ALLOCATIONS

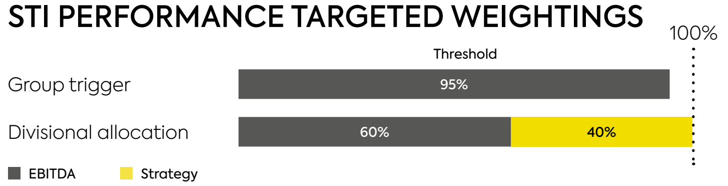


OTHER SALIENT FEATURES

Targets are agreed annually.

Individual annual performance assessment rating will modify overall % bonus.

STI PERFORMANCE TARGETED WEIGHTINGS



COMMISSION

RATIONALE

Drive and reward performance against targets.

PARTICIPANTS

Operational employees

PERIOD

Monthly

OTHER

Payments are made monthly in cash.

ALLOCATIONS

Dependent on pre-agreed targets.

METRICS

Sales
Loan disbursements
Collections

Long-term variable remuneration

The group has two operational long-term share incentive schemes: Employee Share Option Scheme (ESOS) and Forfeiture Share Plan (FSP). The FSP scheme is primarily utilised for executive directors and senior executive roles and ESOS is used to motivate senior employees and selected key and critical positions in management.

Details of the two schemes are shown below.

Employee share option scheme | Forfeiture share plan

RATIONALE: Attract, motivate, reward and retain employees who can influence the performance of the group.

PERFORMANCE PERIOD: Four years

PERFORMANCE CONDITION: 100% vesting: Profit after tax growth > CPIX

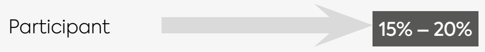
OTHER SALIENT FEATURES: Forfeiture on resignation. Performance condition for 2018 allocations onwards.

FSP: Participants entitled to receive dividends and have voting rights. Shares held in escrow until the vesting date.

Employee share option scheme

PARTICIPANTS: Senior employees and selected key and critical positions

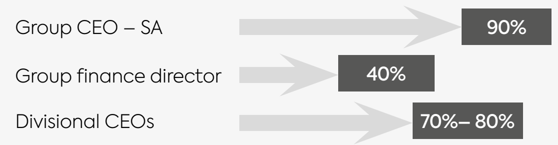
ALLOCATIONS: Expected % of guaranteed pay at vesting date:



Forfeiture share plan

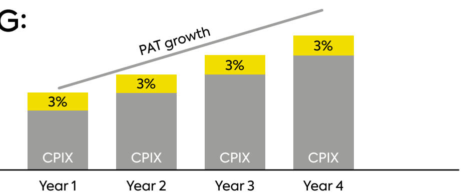
PARTICIPANTS: Executive directors and senior management

ALLOCATIONS: Expected % of guaranteed pay at vesting date:



PERFORMANCE CONDITION FOR 100% VESTING:

PAT growth > CPIX + 3% pa



Shares available for long-term incentive schemes

The company has shareholder approval to issue 15 million shares for the purposes of the long-term incentive schemes. The maximum number of unvested awards that may be held by any one participant across all share schemes is 1.5 million.

The number of shares available for utilisation by the share schemes is 8 902 365, being allocations made of 523 750, less forfeitures of 155 904. (December 2017 available: 9 270 211). This represents 11.8% of the issued share capital.

SECTION 3:
Implementation of Remuneration policy

The implementation of the Remuneration policy for the 2018 financial year is shown below.

Guaranteed pay

The remuneration committee agreed a 6.6% inflationary-linked increase to guaranteed pay.

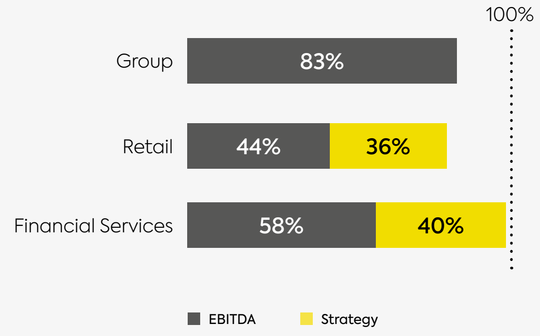
Details of the remuneration paid to executive directors can be found on page 91.

Short-term variable remuneration

As discussed in the remuneration committee's chairman's report, the actual group EBITDA of R821 million was below 95% of target and therefore the trigger was not achieved. There was no entitlement for the payment of STI for the 2018 financial year.

Financial performance indicators

STI PERFORMANCE TARGET ACHIEVED



STI PAYMENT AS % OF AVERAGE GP

Executive directors	0%
Management	0%

COMMISSION EARNED AS % OF AVERAGE GP

Operational staff earned R60.2 million in monthly commission payments during 2018.

Non-financial performance indicators

INNOVATIVE PRODUCT AND CREDIT OFFERS	• Top-line sales and loan disbursements • New product offerings • Credit risk management
INSIGHT-LED CUSTOMER GROWTH	• New customer acquisition • Retention of existing loyal customers
MOBI-FIRST ENGAGEMENT AND SALES	• Digital % contribution • Increased % self-service options
DIVERSIFY INTO NEW MARKETS AND SERVICES	• Showroom roll-out • Geographic expansion • Value-added financial services
ENHANCE THE CUSTOMER EXPERIENCE	• Net promoter score • Quick, convenient delivery period
SUPPORT SERVICES	• Technology infrastructure • Talent and transformation management • Balance sheet and profitability management

Divisional performance achieved

90% Retail
100% Financial Services

Long-term variable remuneration

2014 vesting

The vesting of the 2014 Employee Share Option Scheme allocations was agreed for all participants still in the employ of the group at the vesting date. There were no additional vesting requirements. Vesting for executive directors are shown alongside.

	Number	Value at vesting
Executive directors		
Group CEO – South Africa	**100 000**	**R3.1 mill**
Group FD	**–**	**–**

2018 allocations

These allocations attract a performance condition, being profit after tax growth greater than CPIX + 3% compounded annually. The four-year performance period will be tested based on 2022 financial results.

Employee Share Option Scheme

Annual rolling allocations of 335 350 for 2018 were approved to 84 management level participants. Allocations have a four-year vesting period and a performance condition of profit after tax growth greater than CPIX + 3% compounded annually.

Forfeiture Share Plan

2018 is the first year of annual rolling allocations made from the FSP scheme. 198 800 shares were approved to 11 participants made as follows:

	Number	Value at grant date
Executive directors	**55 800**	**R2.1 mill**
Group CEO – South Africa	48 300	**R1.8 mill**
Group FD	7 500	**R0.3 mill**
Senior management	**143 000**	**R5.4 mill**

Non-executive directors

Remuneration policy

The table below sets out the remuneration policies applied by the group for the 2018 financial year for non-executive directors. These policies are also applicable for the 2019 financial year and form the underlying basis for the fees tabled for shareholder approval.

Component	Details
Rationale	Market-related fees to attract and retain non-executive directors.
Fees	The non-executive directors receive fees for their services on the board and participation on the board committees. Fees are determined in Euros and may be paid in an alternative currency dependent on the country of residence. The fees recognise the responsibilities of non-executives to provide their expertise throughout the year on an ongoing basis and, therefore, a per meeting fee or per committee fee has not been adopted. Non-executive directors who perform a similar role for the main operating subsidiaries may be remunerated for those functions. Fees are proposed by executive directors and discussed by the remuneration committee. The remuneration committee recommends the fees to the board for final approval by shareholders.
Contracts	Non-executive directors do not have service contracts with the company but receive letters of appointment. Non-executive directors may have separate consultancy agreements with group operating companies. The agreements are considered in the categorisation of a non-executive director's independence. Any consultancy agreements awarded to non-executive directors are approved by the operating company's remuneration committee and tabled at the HIL remuneration committee.
Other	Non-executive directors do not receive any payments linked to organisational performance, nor are they entitled to participate in the long-term share incentive schemes.

The committee agreed to maintain a maximum annual fee of Euro 40 000 per non-executive director to be tabled for shareholder approval.

Application for 2018

Details of the remuneration paid to non-executive directors can be found on page 91.

Component	Details
Rationale	Market-related fees to attract and retain non-executive directors.
Fees	The proposed fees for the non-executive directors were tabled by the executive directors for consideration by the remuneration committee. The board approved a fee of a maximum of Euro 40 000 per annum for the financial year ended 31 December 2020.
Contracts	Richard Garratt has a consultancy agreement with the South African operating company and was remunerated for services and related benefits provided in terms of the agreement.
Other	No non-executive directors received any payments linked to the group's performance and did not participate in the long-term share option incentive schemes.

The committee is satisfied that the remuneration for 2018 has been applied in accordance with the Remuneration policy.

Directors' remuneration and shareholding

The remuneration and benefits paid to each director and directors' shareholding in the share incentive schemes are shown below.

							Short term	Long term		
	Notes	Directors' fees R'000	Fees earned from subsidiary companies R'000	Salary R'000	Benefits[1] R'000	Guaranteed pay R'000	Performance bonus R'000	Fair value of shares[2] R'000	Dividends received[3] R'000	Single-figure remuneration R'000
2018										
Executive directors										
Gregoire Lartigue		**–**	**–**	**329**	**–**	**329**	**–**	**–**	**–**	**329**
Shirley Maltz		**–**	**–**	**3 969**	**397**	**4 366**	**–**	**3 056**	**306**	**7 728**
Paul Burnett		**–**	**–**	**1 674**	**628**	**2 302**	**–**	**–**	**41**	**2 343**
		–	**–**	**5 972**	**1 025**	**6 997**	**–**	**3 056**	**347**	**10 400**
Non-executive directors										
Stanley Portelli		**164**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**164**
Amanda Chorn		**113**	**179**	**–**	**–**	**–**	**–**	**–**	**–**	**292**
Richard Garratt	4	**113**	**8 992**	**–**	**–**	**–**	**–**	**–**	**–**	**9 105**
Eduardo Gutierrez-Garcia	5	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Robert Hain		**113**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**113**
Charles Rapa		**133**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**133**
		636	**9 171**	**–**	**–**	**–**	**–**	**–**	**–**	**9 807**
Total		**636**	**9 171**	**5 972**	**1 025**	**6 997**	**–**	**3 056**	**347**	**20 207**
2017										
Executive directors										
Gregoire Lartigue		–	–	161	–	161	–	–	–	161
Shirley Maltz		–	–	3 325	338	3 663	3 528	5	123	7 319
Paul Burnett		–	–	1 490	679	2 169	579	–	16	2 764
		–	–	4 976	1 017	5 992	4 107	5	139	10 243
Non-executive directors										
Stanley Portelli		161	–	–	–	–	–	–	–	161
Amanda Chorn	6	106	174	–	–	–	–	–	–	280
Richard Garratt	4	–	10 000	–	–	–	–	–	–	10 000
Eduardo Gutierrez-Garcia	5	–	–	–	–	–	–	–	–	–
Robert Hain		106	–	–	–	–	–	–	–	106
Charles Rapa		129	–	–	–	–	–	–	–	129
		502	10 174	–	–	–	–	–	–	10 676
Total		502	10 174	4 976	1 017	5 992	4 107	5	185	20 966

Notes

1 *Benefits include retirement fund contributions and benefits appropriate to expatriate staff employed in Mauritius operations.*
2 *Fair value of share scheme awards at taxable value on vesting date.*
3 *Gross value of dividends received on unvested FSP shares.*
4 *Richard Garratt has a consultancy agreement with a South African subsidiary from which he earns consultancy fees and other related benefits.*
5 *Eduardo Gutierrez-Garcia, as a representative of ADP II 3 Limited on the HIL board, does not earn any directors' fees.*
6 *Amanda Chorn earned non-executive directors' fees from a South African subsidiary.*

Share-based incentives granted to executive directors which had not been exercised at 31 December 2018 are shown below.

					Share awards as at 31 Dec 2017		**Movement in 2018**			**Share awards as at 31 Dec 2018**		
	Share scheme	Award date	Vesting date	Expiry date	Number	Grant price (Rand)	**Awarded Number**	**Grant price (Rand)**	**Exercised Number**	**Vested**	**Unvested**	**Fair value[7] (Rand)**
Shirley Maltz												
	ESOS	23 June 2012	23 June 2016	31 March 2024	195 000	10.64				**195 000**		
	ESOS	27 Aug 2013	27 Aug 2017	31 March 2024	50 000	11.00				**50 000**		
	ESOS	31 March 2014	31 March 2018	31 March 2024	100 000	14.44				**100 000**		
	ESOS	20 March 2015	20 March 2019	20 March 2025	40 500	33.70					**40 500**	**1 553 985**
	ESOS	1 May 2016	1 May 2020	1 May 2026	52 000	28.00					**52 000**	**1 995 240**
					587 500		**–**		**–**	**345 000**	**92 500**	**3 549 225**
	FSP	4 May 2017	4 May 2021	4 May 2021	150 000	36.25					**150 000**	**5 755 500**
	FSP	23 Oct 2018	31 Mar 2022	31 March 2022	–		**48 300**	**38.00**			**48 300**	**1 853 271**
					150 000		**48 300**		**–**	**–**	**198 300**	**7 608 771**
					767 500		**48 300**		**–**	**345 000**	**290 800**	**11 157 996**
Paul Burnett												
	ESOS	20 March 2015	20 March 2019	20 March 2025	12 000	33.70	**–**				**12 000**	**460 440**
	ESOS	1 May 2016	1 May 2020	1 May 2026	12 000	28.00	**–**				**12 000**	**460 440**
					24 000		**–**		**–**	**–**	**24 000**	**920 880**
	FSP	4 May 2017	4 May 2021	4 May 2021	20 000	36.25					**20 000**	**767 400**
	FSP	23 Oct 2018	31 Mar 2022	31 March 2022	–		**7 500**	**38.00**			**7 500**	**287 775**
					20 000		**7 500**		**–**	**–**	**27 500**	**1 055 175**
					44 000		**7 500**		**–**	**–**	**51 500**	**1 976 055**

[7] *Fair value calculated based on 30-day VWAP at 31 December 2018 of R38.37 and 100% vesting probability for all unvested awards.*

APPENDIX

"A history of profitable growth"

APPENDIX

FIVE-YEAR REVIEW

		2018*	2017**	2016	2015	2014
Statements of comprehensive income						
Revenue	(Rm)	**3 247**	2 993	2 664	2 233	1 959
Retail sales	(Rm)	**1 860**	1 749	1 498	1 197	1 083
Retail gross profit	(Rm)	**922**	896	738	607	539
Other operating costs	(Rm)	**(1 550)**	(1 408)	(1 268)	(1 064)	(893)
Operating profit	(Rm)	**763**	744	648	580	522
Profit before taxation	(Rm)	**676**	659	585	550	499
Statements of financial position						
Non-current assets	(Rm)	**605**	559	578	563	418
Trade and other receivables	(Rm)	**2 903**	2 642	2 215	1 787	1 505
Inventories	(Rm)	**304**	257	214	170	166
Cash and cash equivalents	(Rm)	**108**	130	187	88	65
Other current assets	(Rm)	**–**	4	5	4	12
Total assets	(Rm)	**3 920**	3 592	3 199	2 614	2 165
Total equity	(Rm)	**2 684**	2 373	2 030	1 751	1 578
Non-current liabilities	(Rm)	**828**	742	719	282	363
Current liabilities	(Rm)	**408**	477	450	581	223
Total equity and liabilities	(Rm)	**3 920**	3 592	3 199	2 614	2 165
Statements of cash flows						
Cash generated from operations	(Rm)	**474**	359	277	359	234
Capital expenditure	(Rm)	**126**	56	46	187	57
Dividends paid	(Rm)	**213**	175	158	228	67
Returns and margin performance						
Gross profit margin	(%)	**49.6**	51.2	49.3	50.7	49.8
Operating profit margin	(%)	**23.5**	24.8	24.3	26.0	26.6
Return on equity	(%)	**20.9**	23.3	22.5	23.7	24.8
Net debt to equity ratio	(%)	**27.6**	28.2	28.7	26.2	14.8
Net assets value per share	(cents)	**2 573**	2 278	1 973	1 719	1 560
Share performance						
Headline earnings per share	(cents)	**507.7**	504.1	414.6	389.1	352.8
Dividends declared/paid	(cents)	**194.0**	191.0	158.0	148.0	161.0
Dividend cover	(times)	**2.6**	2.6	2.6	2.6	2.2
Weighted shares in issue, net of treasury shares	('000)	**104.2**	103.6	102.4	101.5	100.8

* IFRS 9, Financial Instruments, *adopted effective 1 January 2018. IAS 39 applied for 2017 financial year.*
** *Restated based on the application of* IFRS 15, Revenue from Contracts with Customers.

SUMMARISED GROUP **STATEMENT OF FINANCIAL POSITION**

	2018 Rm	% change	Restated* 2017 Rm
Assets			
Non-current assets			
Property, plant and equipment	**464**	8.2	429
Intangible assets	**116**	34.9	86
Investment in associates	**–**	<100	14
Financial assets at fair value through profit and loss	**24**	(20.0)	30
Deferred taxation	**1**	>100	–
	605	8.2	559
Current assets			
Inventories	**304**	18.3	257
Taxation receivable	**–**	<100	4
Trade and other receivables	**2 903**	9.9	2 642
Cash and cash equivalents	**108**	(16.9)	130
	3 315	9.3	3 033
Total assets	**3 920**	9.1	3 592
Equity and liabilities			
Equity attributable to equity holders of the parent			
Stated and share capital	**1**	–	1
Share premium	**3 005**	–	3 003
Reorganisation reserve	**(2 961)**	–	(2 961)
	45	4.7	43
Treasury shares	**(3)**	–	(3)
Other reserves	**18**	28.6	14
Retained earnings	**2 624**	13.2	2 319
Total equity	**2 684**	13.1	2 373
Non-current liabilities			
Interest-bearing liabilities	**756**	22.7	616
Deferred taxation	**66**	(45.0)	120
Other payables	**6**	–	6
	828	11.6	742
Current liabilities			
Interest-bearing liabilities	**92**	(44.6)	166
Taxation payable	**46**	>100	8
Trade and other payables	**267**	10.8	241
Provisions	**3**	(92.1)	38
Derivative financial instruments	**–**	<100	5
Bank overdraft	**–**	<100	19
	408	(14.5)	477
Total liabilities	**1 236**	1.4	1 219
Total equity and liabilities	**3 920**	9.1	3 592

* *Restated based on the application of* IFRS 15, Revenue from Contracts with Customers.

SUMMARISED GROUP **STATEMENT OF COMPREHENSIVE INCOME**

	2018 Rm	% change	Restated* 2017 Rm
Revenue	**3 247**	8.5	2 993
Retail sales	**1 860**	6.3	1 749
Finance income	**1 016**	8.9	933
Fees from ancillary services	**371**	19.3	311
Cost of retail sales	**(938)**	10.0	(853)
Other operating costs	**(1 550)**	10.1	(1 408)
Credit impairment losses	**(557)**	11.0	(502)
Other trading expenses	**(993)**	9.6	(906)
Other net gains and losses	**(5)**		1
Other income	**9**		11
Operating profit	**763**	2.6	744
Interest received	**3**		7
Interest paid	**(89)**		(83)
Share of loss of associates	**(1)**		(9)
Profit before taxation	**676**	2.6	659
Taxation	**(148)**	(2.1)	(145)
Profit and total comprehensive income for the year	**528**	2.7	514
Earnings per share (cents)			
Basic	**506.8**	2.1	496.4
Diluted	**499.8**	1.6	491.7

* *Restated based on the application of* IFRS 15, Revenue from Contracts with Customers.

SUMMARISED GROUP **STATEMENT OF CHANGES IN EQUITY**

	Stated and share capital Rm	Share premium Rm	Treasury shares Rm	Reorgan-isation reserve Rm	Other reserves Rm	Retained earnings Rm	Equity attributable to owners of the parent Rm
Balance at 1 January 2017 as originally presented	1	2 999	(3)	(2 961)	6	1 988	2 030
Change in accounting policy	–	–	–	–	–	(7)	(7)
Restated balance as at 1 January 2017	1	2 999	(3)	(2 961)	6	1 981	2 023
Changes in equity							
Profit and total comprehensive income for the year	–	–	–	–	–	514	514
Shares issued	–	4	–	–	–	–	4
Dividends paid	–	–	–	–	–	(175)	(175)
Share incentive schemes	–	–	–	–	7	–	7
Total changes	–	4	–	–	7	339	350
Balance at 1 January 2018	**1**	**3 003**	**(3)**	**(2 961)**	**13**	**2 320**	**2 373**
Change on initial application of IFRS 9	**–**	**–**	**–**	**–**	**–**	**(11)**	**(11)**
Restated equity at the beginning of the period	**1**	**3 003**	**(3)**	**(2 961)**	**13**	**2 309**	**2 362**
Changes in equity							
Profit and total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**528**	**528**
Shares issued	**–**	**2**	**–**	**–**	**–**	**–**	**2**
Dividends paid	**–**	**–**	**–**	**–**	**–**	**(213)**	**(213)**
Share incentive schemes	**–**	**–**	**–**	**–**	**5**	**–**	**5**
Total changes	**–**	**2**	**–**	**–**	**5**	**315**	**322**
Balance at 31 December 2018	**1**	**3 005**	**(3)**	**(2 961)**	**18**	**2 624**	**2 684**

SUMMARISED GROUP **STATEMENT OF CASH FLOWS**

	2018 Rm	% change	Restated* 2017 Rm
Cash flows from operating activities			
Operating cash flows before working capital changes	**809**	0.4	806
Movements in working capital	**(335)**	(25.1)	(447)
Cash generated from operations	**474**	32.0	359
Interest received	**3**		7
Interest paid	**(85)**		(78)
Taxation paid	**(156)**		(123)
Net cash inflow from operating activities	**236**	43.0	165
Cash flows from investing activities			
Purchase of property, plant and equipment	**(70)**		(28)
Proceeds on disposal of property, plant and equipment	**1**		–
Purchase of intangible assets	**(56)**		(28)
Investment in associates	**14**		(12)
Financial assets at fair value through profit and loss	**19**		(8)
Net cash outflow from investing activities	**(92)**	21.1	(76)
Cash flows from financing activities			
Proceeds from the issuance of shares	**2**		4
Proceeds from interest-bearing liabilities	**271**		715
Repayments of interest-bearing liabilities	**(207)**		(700)
Finance-raising costs paid	**–**		(9)
Dividends paid	**(213)**		(175)
Net cash outflow from financing activities	**(147)**	(10.9)	(165)
Net decrease in cash and cash equivalents and bank overdrafts	**(3)**		(76)
Cash, cash equivalents and bank overdrafts at the beginning of the year	**111**		187
Cash, cash equivalents and bank overdrafts at the end of the year	**108**	(2.7)	111

**Restated based on the application of* IFRS 15, Revenue from Contracts with Customers.

GROUP
SEGMENTAL ANALYSIS

		2018						2017 Restated*					
		Total Rm	Retail Rm	Financial Services Rm	Property Rm	Other Rm	Intra-group Rm	Total Rm	Retail Rm	Financial Services Rm	Property Rm	Other Rm	Intra-group Rm
Segmental revenue		**3 305**	**2 501**	**746**	**58**	**–**	**–**	3 049	2 328	665	56	–	–
Retail sales		**1 860**	**1 860**	**–**	**–**	**–**	**–**	1 749	1 749	–	–	–	–
Finance charges and initiation fees earned		**1 016**	**484**	**532**	**–**	**–**	**–**	933	450	483	–	–	–
Fees from ancillary services		**429**	**157**	**214**	**58**	**–**	**–**	367	129	182	56	–	–
Intersegment revenue		**(58)**	**–**	**–**	**(58)**	**–**	**–**	(56)	–	–	(56)	–	–
Revenue from external customers		**3 247**	**2 501**	**746**	**–**	**–**	**–**	2 993	2 328	665	–	–	–
Total trading expenses		**1 550**	**1 153**	**396**	**26**	**22**	**(47)**	1 408	1 061	361	24	7	(45)
EBITDA		**821**	**453**	**357**	**33**	**(22)**	**–**	793	467	314	33	(21)	–
Depreciation and amortisation		**(59)**	**(54)**	**(4)**	**(1)**	**–**	**–**	(58)	(53)	(4)	(1)	–	–
Interest received		**3**	**–**	**2**	**–**	**66**	**(65)**	4	–	4	–	61	(61)
Interest paid		**(62)**	**–**	**(63)**	**–**	**(64)**	**65**	(54)	–	(57)	–	(58)	61
Segmental operating profit		**703**	**399**	**292**	**32**	**(20)**	**–**	685	414	257	32	(18)	–
Interest received		**–**	**–**	**–**	**–**	**–**	**–**	3	3	–	–	–	–
Interest paid		**(27)**	**(5)**	**–**	**(22)**	**–**	**–**	(29)	(4)	–	(25)	–	–
Profit before taxation		**676**	**394**	**292**	**10**	**(20)**	**–**	659	413	257	7	(18)	–
Taxation		**(148)**	**(89)**	**(60)**	**(3)**	**4**	**–**	(145)	(99)	(46)	1	(1)	–
Profit after taxation		**528**	**305**	**232**	**7**	**(16)**	**–**	514	314	211	8	(19)	–
Segmental assets		**3 920**	**2 443**	**1 465**	**343**	**704**	**(1 035)**	3 592	2 137	1 387	341	1 015	(1 288)
Segmental liabilities		**1 236**	**583**	**816**	**278**	**594**	**(1 035)**	1 219	501	1 066	283	658	(1 289)
Operating cash flows before working capital changes		**809**	**444**	**354**	**33**	**(22)**	**–**	806	470	309	33	(7)	–
Movements in working capital		**(335)**	**(134)**	**(198)**	**–**	**(3)**	**–**	(447)	(263)	(180)	(4)	(1)	–
Cash generated/(utilised) by operations		**474**	**310**	**156**	**33**	**(25)**	**–**	359	208	130	29	(8)	–
Capital expenditure													
Property, plant and equipment		**70**	**68**	**2**	**–**	**–**	**–**	28	26	–	2	–	–
Intangible assets		**56**	**45**	**3**	**–**	**8**	**–**	28	20	8	–	–	–
Change in Retail sales	(%)	**6.3**	**6.3**					16.8	16.8				
Change in EBITDA	(%)	**3.6**	**(2.9)**	**13.7**	**(0.1)**	**6.3**		13.0	11.1	20.3	5.0	94.0	
Change in debtor costs	(%)	**11.0**	**6.9**	**20.1**				5.0	10.5	(5.4)			
Change in other trading expenses	(%)	**9.6**	**9.5**	**2.4**	**10.4**	**211.6**		14.7	11.7	27.3	7.7	(26.2)	
Gross profit margin	(%)	**49.6**	**49.6**					51.2	51.2				
Segmental results margin	(%)	**21.3**	**16.0**	**39.1**	**55.2**			22.5	17.8	38.6	57.1		

* *Restated based on the application of* IFRS 15, Revenue from Contracts with Customers.

ADMINISTRATION

Country of incorporation
Republic of Malta

Date of incorporation
22 July 2014

Company registration number
C66099

Company secretary
George Said
governance@homechoiceinternational.com

Registered office
93 Mill Street
Qormi
QRM3012
Republic of Malta

Auditors
PricewaterhouseCoopers
Republic of Malta

Corporate bank
Butterfield Bank (Jersey) Limited

JSE listing details
Share code: HIL
ISIN: MT0000850108

Sponsor
Rand Merchant Bank, a division of FirstRand Bank Limited

Transfer secretaries
Computershare Investor Services Proprietary Limited

SHAREHOLDERS' **DIARY**

Financial year-end
31 December

Annual general meeting
9 May 2019

Distributions to shareholders
April and September

Reports and profit statements
Publication of annual report: March
Interim report: August

HiL PLC