HomeChoice HOLDINGS LIMITED

INTEGRATED ANNUAL REPORT 2011

Another year of growth

contents

2011
integrated annual report
distributions to shareholders up
70%
to 85c per share
net asset value per share up
25%
to 830c
cash generated by operations before working capital changes up
25%
to R347m

> The strong results that were achieved in 2011 are a direct result of the loyalty of our customers, the support of our suppliers, the insight, focus and hard work of our directors, management, specialists and employees.
>
> Rick Garratt, Chairman

About our 2011 integrated **annual report**

Creating value through sustainability

HomeChoice Holdings has pleasure in presenting its first integrated annual report to shareholders for the 2011 financial year.

The directors and management are committed to the philosophy of integrated reporting which enables stakeholders to assess a company's ability to create and sustain value in the short, medium and longer term. The enhanced disclosure resulting from integrated reporting should allow shareholders to make more informed investment decisions.

While integrated reporting is only a requirement for listed companies in terms of the King Code of Governance in South Africa (King III), the publication of the group's integrated report comes ahead of our potential listing on the JSE.

We are committed to providing both current and prospective shareholders with accurate, balanced and transparent reporting, and continually enhancing financial disclosure and aligning governance standards with best practice. We also plan to make incremental improvements in our integrated reporting in subsequent years to give greater insight into the group's viability and sustainability.

The integrated report has been expanded to provide the investment community with an understanding of our business model, strategies and targets, as well as the major risks facing the business. The operational reviews in the report focus on our key stakeholder groups, notably our shareholders, customers, employees and the community. In particular we have tried to show how we manage relationships with our customers by meeting their needs for quality merchandise and innovative financial services, manage the risk of credit, and enhance the customer experience on an on-going basis.

HomeChoice recognises that the sustainability of the business is based on our ability to create value for shareholders, customers and employees and by contributing to the sustainable development of communities and the environment.

Our sustained operational and financial performance in recent years has created exciting prospects for the business. The potential listing on the stock exchange will herald a new growth phase as we seek to entrench the group's position as a leading direct marketer in the country's retail and financial services markets.

RE Garratt
Chairman

A Kirsten
Chief Financial Officer
16 March 2012

group overview

"HomeChoice Holdings Limited is a leading direct marketer in consumer finance, offering retail and financial services to the middle income market."

2011 integrated annual report

group history

26 years of evolution from mail order start-up to multi-channel direct marketer

1986

first print advertisement

1987

first homewares catalogue

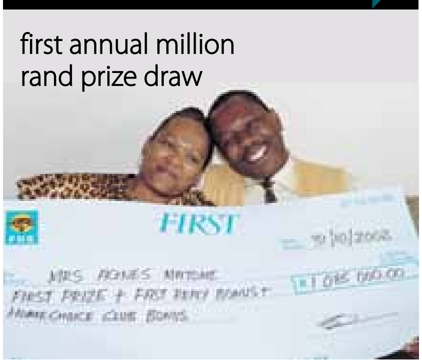
1994

established telemarketing

2000

1 millionth bedding set sold

2002



first annual million rand prize draw

2006

establishment of HomeChoice Development Trust

2011

100 000th web order placed

2011

account management via cell phone

2011

>R1 billion revenue generated

our new home since 2009

1995

developed first credit scorecard

1996

established independent home delivery network

1997

launched website

2007

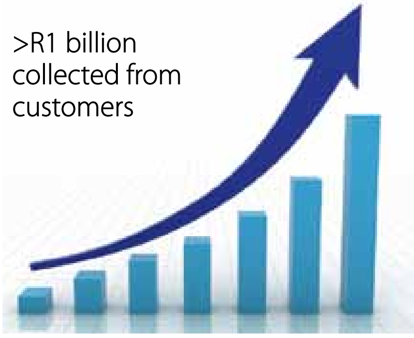
launched financial services

2010

launched retail mobi site

2010

>R1 billion collected from customers



From our humble beginnings in 1985 selling cast iron cookware through a print advertisement in Keur magazine, the HomeChoice Group has evolved to establish itself firmly as a leading direct marketer in southern Africa.

group
at a glance

HomeChoice Holdings is a direct marketing retailer selling home décor and financial services products to the rapidly expanding middle income market in southern Africa.

The group's heritage is in marketing homeware merchandise on credit through the HomeChoice retail business and this was expanded to selling financial services products through the establishment of FinChoice in 2007.

Unique business model

As a direct marketer, the HomeChoice retail business is distinct from traditional 'brick and mortar' retailers.

A defining difference is that the relationship with customers is long-distance, with the primary 'shop' being the catalogue which is mailed to customers monthly. While conventional retailers invest in making stores more appealing, HomeChoice invests in catalogues and other marketing channels to allow customers to browse through the 'shop' at their comfort and convenience at any time.

HomeChoice's customer database presents a variety of options for selecting the most responsive customers for marketing activities. Marketing selection strategies also consider factors such as the affordability of products and the propensity of targeted customers to pay, allowing the business to sell quality merchandise to customers with an acceptable credit risk.

The multi-channel direct marketing approach offers customers multiple convenient ways to order products, ranging from traditional mail and telephonic ordering to the more contemporary channels such as the internet and the mobile phone.

Another advantage of direct marketing is that all order sources are channelled into one centralised operation. While the customer base is widely dispersed, the group's operations are consolidated in a head office in Wynberg, Cape Town,

a warehouse and distribution centre in Blackheath, Cape Town, and an additional warehouse in Gauteng.

The financial services business, FinChoice, markets only to the best HomeChoice retail customers who are responsive to credit offerings and have good credit records. The relatively low acquisition costs due to cross-selling as well as a lower bad debt experience compared to traditional financial services businesses presents a substantial cost saving to the group.

Once a HomeChoice customer receives a FinChoice loan, FinChoice continues to build on the one-to-one relationship with targeted communication.

Customer profile

Customer relationships are managed at every stage of their life cycle, from acquisition until long after the products have been delivered. Attracting new customers and retaining quality customers through repeat business is key to the group's sustained performance.

Customers are predominantly in the LSM 4 to 8 categories spread across South Africa and the neighbouring countries of Namibia, Botswana, Lesotho and Swaziland. The typical HomeChoice customer profile is:

- a black, urban female,
- between the ages of 25 and 45,
- employed with a monthly household income of between R 3 000 and R 8 000, and
- residing in southern Africa.

	2011	2010
Group in total		
Employees	**740**	579
Revenue (R'000)	**1 121 060**	869 442
Operating profit (R'000)	**341 591**	249 695
Profit for the year (R'000)	**239 996**	172 334
Net asset value (R'000)	**837 335**	669 216
Retail		
Employees	**662**	517
Revenue (R'000)	**939 002**	743 901
Operating profit (R'000)	**229 888**	188 775
Profit for the year (R'000)	**161 623**	134 597
Net asset value (R'000)	**583 643**	436 943
Financial services		
Employees	**78**	62
Revenue (R'000)	**181 503**	121 454
Operating profit (R'000)	**92 855**	57 186
Profit for the year (R'000)	**49 704**	28 276
Net asset value (R'000)	**83 263**	36 260

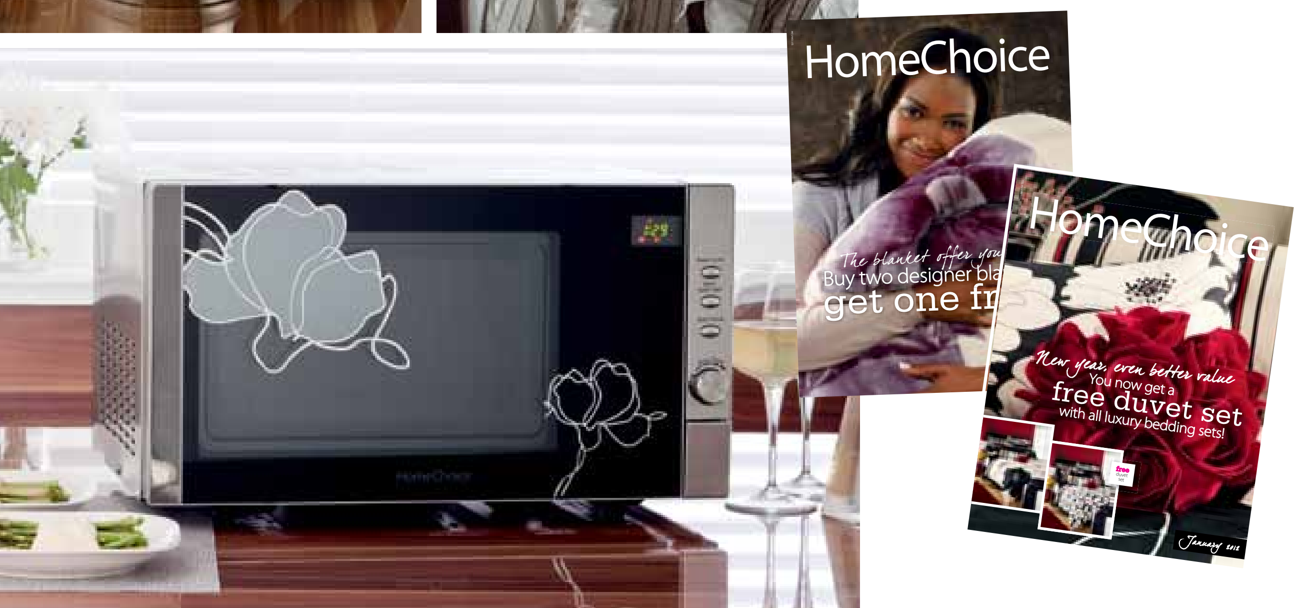
> HomeChoice vision: To be our customers' most trusted and exclusive homewares retailer, helping them to realise their décor dreams with ease.

HomeChoice

HomeChoice

HomeChoice is the group's direct marketing retailer which offers an exclusive range of luxury homewares to the urban mass market on cash or credit terms. Quality merchandise and a convenient shopping experience with home delivery has seen HomeChoice establish itself as the leading direct marketing retailer in southern Africa.

Products are offered on credit terms over 6 and 16 months, with selected higher value products on 24-month terms. As the depth and breadth of the product range is expanded, the company plans to extend instalment credit to longer terms on a broad range of products.



FinChoice

FinChoice

As the group's financial services company, FinChoice markets personal loan products to HomeChoice retail customers of good credit standing.

Multiple direct marketing channels, including a centralised call centre and mobile technology, are used to provide customers with low-cost, efficient access to products. Loan product terms range from 6 to 24 months and customers can access further credit over time. FinChoice has assisted over 87 000 customers with customised financial solutions since the business was launched five years ago.

> "FinChoice vision: To be our customers' most trusted and flexible financial partner, enabling easy access to affordable products."

interesting insights **about us**

680
Buckets of Love donated by our staff to the needy

28 900
hours invested on training our staff

9 marketing awards won in 2011

20 000
Facebook followers

412 tonnes
of materials recycled in 2011

At HomeChoice we understand that our performance with regard to social and environmental issues is as important as our financial sustainability. This page highlights some key non-financial metrics that underpin how we do business.

581 059

parcels despatched to our customers in 2011

R2,5m

donated to the HomeChoice Development Trust in 2011

1 241 441

customer calls answered

354 569

mobi visits in 2011

4 million

4 095 546

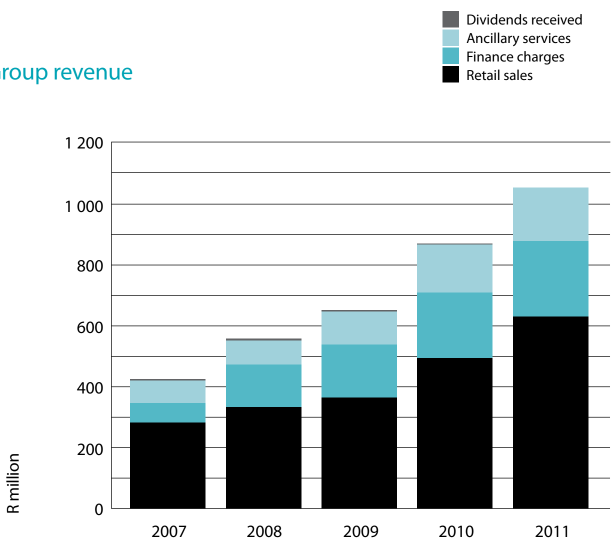
website visitors in 2011

group five-year review

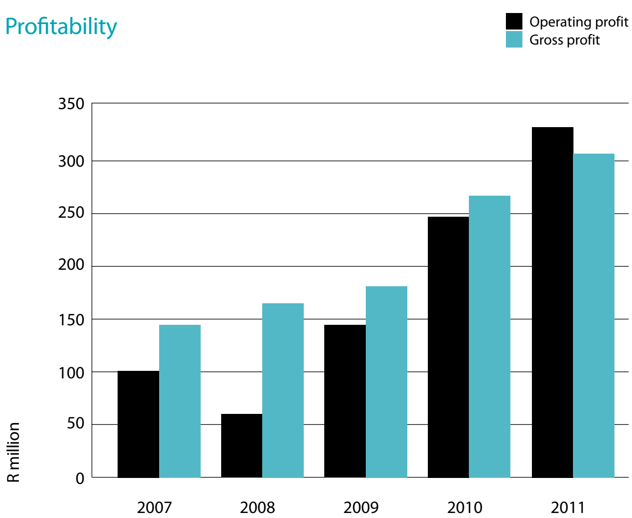
statement of comprehensive income

	2011 R000	2010 R000	2009 R000	2008 R000	2007 R000
Revenue	**1 121 060**	869 442	651 152	556 981	434 450
% growth in revenue	**28,9%**	33,5%	16,9%	28,2%	12,4%
Retail sales	**626 028**	493 008	363 555	332 567	281 107
Cost of sales	**(312 548)**	(226 080)	(182 089)	(167 263)	(136 535)
Gross profit	**313 480**	266 928	181 466	165 304	144 572
% gross profit margin	**50,1%**	54,1%	49,9%	49,7%	51,4%
Finance charges earned	**278 454**	215 221	174 054	139 027	65 595
Fees from ancillary services	**216 184**	158 153	108 859	80 221	83 276
Other net gains and losses	**4 123**	(16 281)	1 065	1 568	30 791
Debtor costs	**(148 087)**	(109 681)	(87 237)	(115 605)	(15 865)
Other trading expenses	**(322 957)**	(267 705)	(241 394)	(201 102)	(201 497)
Dividends received	**394**	3 060	4 684	5 166	4 472
Impairment of available-for-sale investments	**–**	–	–	(10 535)	–
Operating profit	**341 591**	249 695	141 497	64 044	111 344
% growth in operating profit	**36,8%**	76,5%	120,9%	(42,5%)	10,0%
% operating profit margin	**30,5%**	28,7%	21,7%	11,5%	25,6%
Interest received	**2 975**	3 530	4 484	5 937	8 734
Interest paid	**(6 156)**	(6 865)	(9 031)	(3 593)	(577)
Share of loss of associates	**(366)**	(1 449)	(523)	(3 150)	(2 471)
Profit before taxation	**338 044**	244 911	136 427	63 238	117 030
Taxation	**(98 048)**	(72 577)	(36 513)	(20 210)	(27 801)
Profit for the year	**239 996**	172 334	99 914	43 028	89 229

Group revenue



Profitability

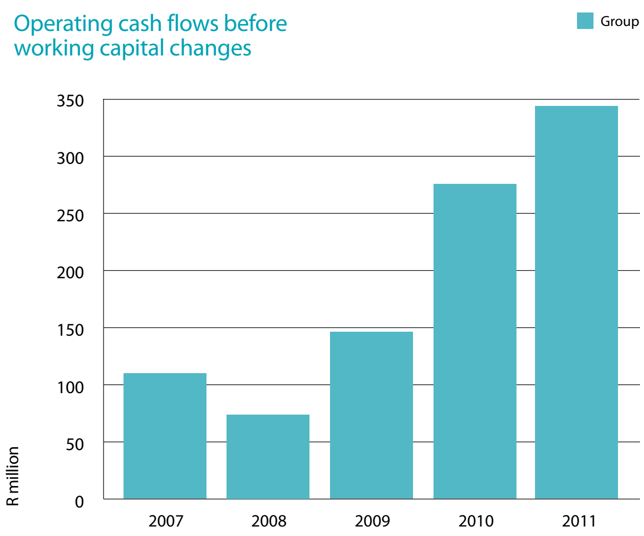


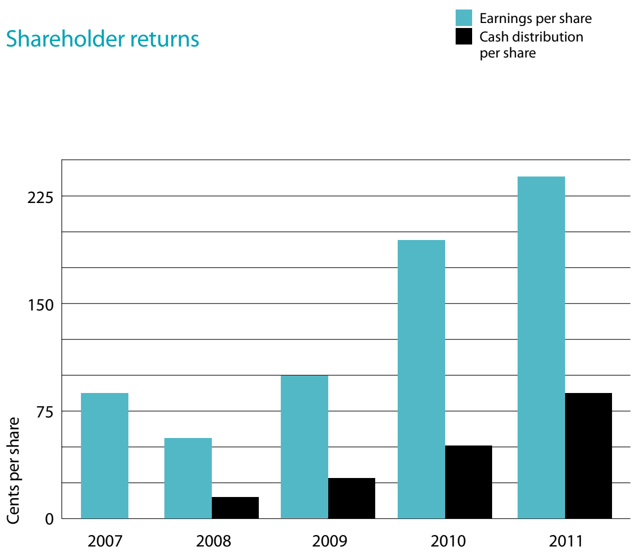
statement of financial position

	2011 R000	2010 R000	2009 R000	2008 R000	2007 R000
Assets					
Non-current assets					
Property, plant and equipment	**136 961**	119 865	168 710	117 251	46 856
Intangible assets	**20 913**	8 901	7 152	1 826	830
Loans to employees	**11 664**	13 177	8 848	6 790	–
Investment in associates	**1 677**	–	–	7 957	8 808
Deferred taxation	**12 878**	8 948	4 963	2 786	4 432
	184 093	150 891	189 673	136 610	60 926
Current assets					
Non-current assets held for sale	**–**	–	963	–	–
Available-for-sale investments	**–**	41 445	45 192	43 346	46 278
Inventories	**92 149**	69 846	37 786	45 669	36 084
Taxation receivable	**1 175**	1 075	915	59	53
Trade and other receivables	**749 713**	543 739	380 051	277 608	249 247
Trade receivables – HomeChoice	**420 933**	325 390	256 819	213 463	213 422
Trade receivables – Other retail	**21 344**	6 360	–	–	–
Loans receivable – FinChoice	**296 580**	206 873	119 563	57 733	27 748
Other receivables	**10 856**	5 116	3 669	6 412	8 077
Cash and cash equivalents	**46 069**	45 630	55 891	57 085	74 207
	889 106	701 735	520 798	423 767	405 869
Total assets	**1 073 199**	852 626	710 471	560 377	466 795
Ordinary shareholder's interest	**837 335**	669 216	522 527	437 334	386 459
Non-current liabilities					
Interest-bearing liabilities	**74 895**	51 340	85 293	162	804
Deferred taxation	**45 159**	35 201	25 084	15 277	20 202
Other payables	**3 450**	3 420	3 390	–	–
	123 504	89 961	113 767	15 439	21 006
Current liabilities					
Current portion of interest-bearing liabilities	**7 433**	6 279	7 458	535	815
Taxation payable	**2 409**	1 936	2 443	1 628	9 928
Trade and other payables	**85 454**	61 228	45 892	41 281	41 693
Provisions	**17 064**	17 400	11 200	700	6 894
Loan from non-controlling interest holder	**–**	–	7 184	–	–
Bank overdraft	**–**	6 606	–	63 460	–
	112 360	93 449	74 177	107 604	59 330
Total liabilities	**235 864**	183 410	187 944	123 043	80 336
Total equity and liabilities	**1 073 199**	852 626	710 471	560 377	466 795
% growth in HomeChoice trade receivables	**29,4%**	26,7%	20,3%	0,0%	15,4%
% growth in FinChoice loans receivable	**43,4%**	73,0%	107,1%	108,1%	>100%

statement of cash flows

	2011 R000	2010 R000	2009 R000	2008 R000	2007 R000
Operating cash flows before working capital changes	**346 761**	277 349	145 882	78 281	110 378
Movements in working capital	**(203 253)**	(175 421)	(76 549)	(45 325)	(46 175)
Cash generated from operations	**143 508**	101 928	69 333	32 956	64 203
Net interest (paid)/received	**(3 181)**	(3 335)	(4 547)	2 965	8 278
Net dividends received/(paid)	**394**	3 060	(8 415)	4 202	(5 166)
Taxation paid	**(91 647)**	(65 497)	(31 930)	(32 899)	(47 201)
Net cash inflow	**49 074**	36 156	24 441	7 224	20 114
Net cash inflow/(outflow) from investing activities	**1 571**	(5 115)	(17 518)	(77 249)	(35 228)
Net cash (outflow)/inflow from financing activities	**(43 600)**	(47 908)	55 343	(10 557)	(5 438)
Net increase/(decrease) in cash balances	**7 045**	(16 867)	62 266	(80 582)	(20 552)
Cash, cash equivalents and bank overdrafts at the beginning of the year	**39 024**	55 891	(6 375)	74 207	94 759
Cash, cash equivalents and bank overdrafts at the end of the year	**46 069**	39 024	55 891	(6 375)	74 207
% growth in operating cash flows before working capital changes	**25,0%**	90,1%	86,4%	(29,1%)	8,5%





financial ratios

	2011	2010	2009	2008	2007
Profitability					
Operating profit/average shareholder's funds (%)	**45,3**	41,9	29,3	15,5	31,8
Operating profit/average total assets (%)	**35,5**	31,9	29,5	15,5	31,8
EBITDA/revenue (%)	**31,4**	29,6	23,1	11,6	25,9
Profit for the year/revenue (%)	**21,4**	19,8	15,3	7,7	20,5
Effective taxation rate (%)	**29,0**	29,6	26,8	32,0	23,4
Earnings per share – owners of the parent (cents)	**237,4**	176,2	101,9	43,8	92,2
Fully diluted earnings per share (cents)	**234,2**	175,8	101,9	43,8	92,2
Headline earnings per share (cents)	**235,1**	195,9	102,2	54,9	92,3
Return on equity (%)	**31,9**	28,9	20,8	10,4	23,5
Return on assets (%)	**24,9**	22,1	15,7	8,4	20,7
Solvency and liquidity					
NAV per share including intangibles (total shares)	**829,9**	661,3	520,0	439,0	401,0
NAV per share excluding intangibles (total shares)	**809,1**	652,5	512,9	439,0	401,0
Current ratio (:1)	**7,9**	7,5	7,0	3,9	6,8
Acid test ratio (:1)	**7,1**	6,8	6,5	3,5	6,2
Inventory turnover (times)	**3,9**	4,2	4,4	4,1	4,0
Debt-equity ratio (:1)	**0,10**	0,09	0,18	0,15	0,00
Interest paid cover (times)	**55,5**	36,4	15,7	17,8	193,0
Weighted average number of shares (000)	**101 083**	100 896	100 556	98 199	96 776
Number of shares in issue (000)	**103 869**	103 869	103 869	103 869	104 644
Number of shares in issue, net of treasury shares (000)	**100 899**	101 199	100 479	99 609	96 379
Distributions to shareholders					
Distributions to shareholders (cents)	**85,0**	50,0	31,0	20,0	1,0
Interim distribution paid (cents)	**35,0**	20,0	11,0	11,0	0,0
Final distribution proposed/paid (cents)	**50,0**	30,0	20,0	9,0	1,0
Nature of distributions to shareholders (cents)	**85,0**	50,0	31,0	20,0	1,0
Reduction of share premium (cents)	**35,0**	50,0	17,0	10,0	–
Dividend proposed/paid (cents)	**50,0**	–	14,0	10,0	1,0
Distribution to shareholders cover (times)	**2,8**	3,5	3,3	2,2	92,2
Employee statistics					
Number of employees	**740**	579	544	436	402
Revenue per employee (R000)	**1 515**	1 502	1 197	1 277	1 085
Assets per employee (R000)	**1 450**	1 473	1 306	1 285	1 161
Average number of years' service	**3,8**	4,5	4,1	4,6	4,5

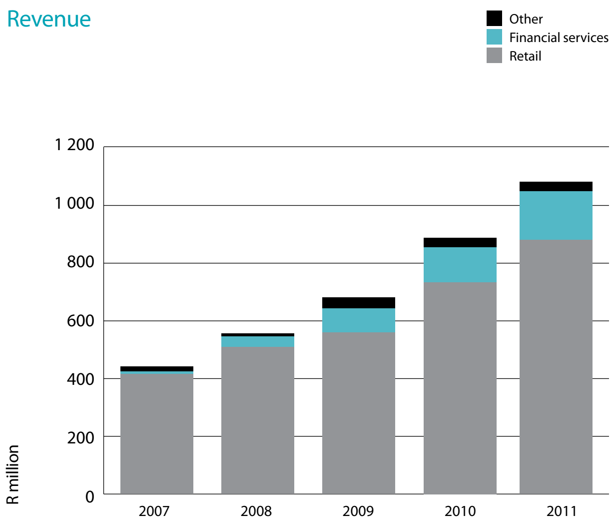
group five-year review

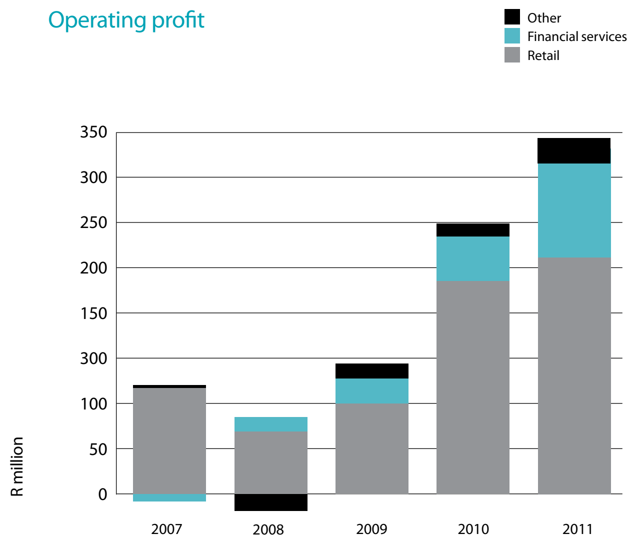
segmental analysis

	2011 R000	2010 R000	2009 R000	2008 R000	2007 R000
Segmental revenue	**1 146 686**	886 821	682 761	559 534	445 585
Retail	**939 002**	743 901	572 557	513 216	419 596
Financial services	**181 503**	121 454	72 847	37 677	10 382
Property	**17 435**	17 329	17 273	2 362	–
Other	**8 746**	4 137	20 084	6 279	15 607
Eliminations	**(25 626)**	(17 379)	(31 609)	(2 553)	(11 135)
Revenue from external customers	**1 121 060**	869 442	651 152	556 981	434 450
Segmental operating profit/(loss)	**350 684**	258 545	158 036	72 012	122 480
Retail	**229 888**	188 775	102 573	79 917	112 884
Financial services	**92 855**	57 186	28 370	8 303	(5 703)
Property	**15 107**	9 761	14 922	66	–
Other	**12 834**	2 823	12 171	(16 274)	15 299
Eliminations	**(9 093)**	(8 850)	(16 539)	(7 968)	(11 136)
Operating profit from external customers	**341 591**	249 695	141 497	64 044	111 344
Profit/(loss) for the period	**239 996**	172 334	99 914	43 028	89 229
Retail	**161 623**	134 597	75 483	55 659	82 564
Financial services	**49 704**	28 276	11 372	4 531	(5 281)
Property	**7 564**	1 875	7 536	(2 139)	7
Other	**30 197**	15 415	10 082	(1 533)	11 939
Eliminations	**(9 092)**	(7 829)	(4 559)	(13 490)	–
Cash flows before working capital changes	**346 761**	277 349	145 882	78 281	110 378
Retail	**238 502**	208 414	106 779	79 155	118 188
Financial services	**94 104**	58 360	28 230	8 034	(9 290)
Property	**16 253**	17 137	16 057	66	(232)
Other	**32**	1 091	(259)	(269)	(288)
Eliminations	**(2 130)**	(7 653)	(4 925)	(8 705)	2 000
Cash generated/(utilised) by operations	**143 508**	101 928	69 333	32 956	64 203
Retail	**120 547**	120 216	95 096	57 057	102 448
Financial services	**7 681**	(27 006)	(32 747)	(23 692)	(33 106)
Property	**16 312**	16 175	12 673	7 383	(232)
Other	**146**	1 101	(2 965)	(267)	(287)
Eliminations	**(1 178)**	(8 558)	(2 724)	(7 525)	(4 620)

segmental analysis *(cont)*

	2011 R000	2010 R000	2009 R000	2008 R000	2007 R000
Segment assets excluding group loans	**1 073 199**	852 626	710 471	560 377	466 795
Retail	**602 946**	446 841	329 652	289 327	290 746
Financial services	**319 928**	221 313	134 139	64 482	33 803
Property	**124 856**	107 312	108 816	103 701	42 249
Other	**27 946**	79 668	139 579	103 004	102 260
Eliminations	**(2 477)**	(2 508)	(1 715)	(137)	(2 263)
Segment liabilities excluding group loans	**235 864**	183 410	187 944	123 043	80 336
Retail	**152 480**	121 348	86 814	53 792	79 447
Financial services	**8 181**	5 451	3 110	478	676
Property	**77 281**	58 772	60 323	68 887	89
Other	**399**	347	39 412	22	124
Eliminations	**(2 477)**	(2 508)	(1 715)	(136)	–
Group loans receivable/(payable)	**–**	–	–	–	–
Retail	**133 177**	111 450	59 213	(4 754)	(27 180)
Financial services	**(228 484)**	(179 602)	(123 046)	(67 392)	(41 045)
Property	**(33 681)**	(42 210)	(44 037)	(36 940)	(42 147)
Other	**128 988**	110 362	107 870	109 086	110 372





wealth creation report

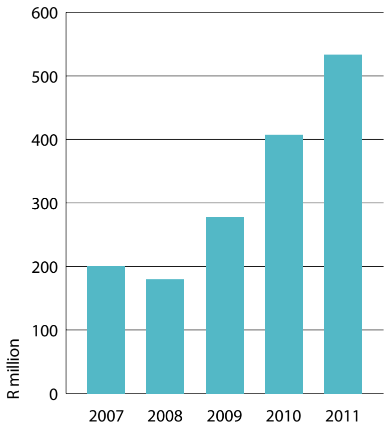
A measure of the wealth created by the group is the amount of value added by our retail and financial services businesses to the cost of products and services purchased.

The table below shows how the total wealth created by the group was distributed to stakeholders while retaining sufficient capital to fund future growth.

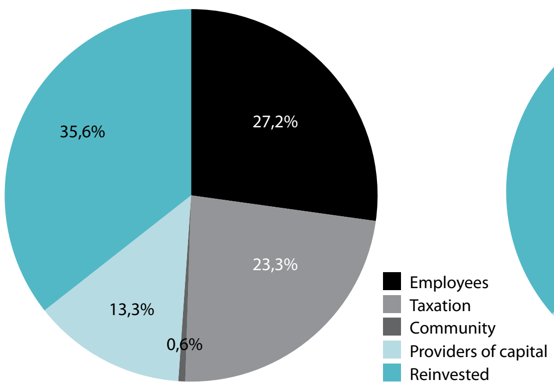
	2011 R000	%	2010 R000	%
Revenue	**1 121 060**		869 442	
Interest received	**2 975**		3 530	
Other net gains and losses	**4 123**		(16 281)	
Paid to suppliers for goods and services	**(589 328)**		(444 396)	
Wealth created	**538 830**	100,0	412 295	100,0
Distribution of wealth:				
Employees				
Remuneration to employees	**146 661**	27,2	122 507	29,7
Taxation and duties				
South African normal tax	**92 020**	17,1	63 808	15,5
Customs duty	**33 465**	6,2	26 504	6,4
Community				
The HomeChoice Development Trust	**2 500**	0,5	1 500	0,4
Other donations and bursaries	**744**	0,1	549	0,1
Providers of capital				
To lenders as finance charges	**6 156**	1,1	6 865	1,7
To shareholders as reduction of share premium	**65 674**	12,2	40 546	9,8
Reinvested				
Reinvested in the group to finance future growth	**191 610**	35,6	150 016	36,4
Total	**538 830**	100,0	412 295	100,0

Total taxation and duties, including value-added tax and employees' tax channelled through the group amounted to R185,0 million (2010: R136,5 million)

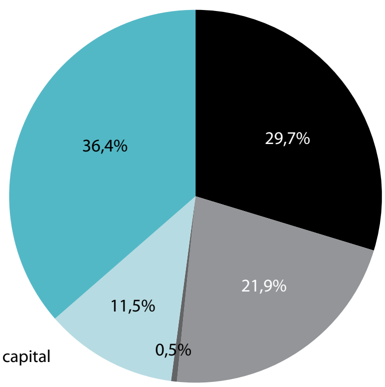
R1,6 billion wealth created over the last five years



Wealth created 2011



Wealth created 2010



strategy and targets

> The board is entrenching sustainability issues as primary drivers of the business strategy.

2011 integrated annual report



development of **sustainability** metrics

Background to strategic process

The group has been operating distinct strategic processes for its two main subsidiary companies, HomeChoice and FinChoice. These processes were closely aligned to the five-year financial planning process and two-year operating company key focus areas. These key focus areas then waterfall into departmental and individual key performance areas which are linked into the employee performance management process.

Following the introduction of integrated sustainability reporting, the group has embarked on a process to develop a sustainability strategy that will merge the strategic focus of the two operating companies into a single group view. This integrated report is the first step in what the board sees as a three-year project.

Over the past five years the group has identified its business philosophy as being driven by five values we felt were integral to how we do business:

1 customer delight
2 excellence
3 innovation
4 integrity
5 teamwork

In defining our values we identified three primary stakeholders in the business, namely customers, employees and shareholders. The vision for each of these primary stakeholders has been defined and entrenched in the company values and business philosophy.

Identifying material sustainability issues

King III requires companies to adopt a heightened focus on stakeholder engagement and the group has expanded its stakeholder groups to include suppliers, government and regulatory bodies, and the community and environment. These stakeholder groups formed the basis for a process that we followed to develop our sustainability issues.

The two operating company boards followed a process that defined the sustainability issues for their businesses and linked performance indicators to each. The sustainability issues are key issues that management believe could limit the ability of the business to endure over time.

In the following pages the two operating companies expand on their strategic objectives for 2011 and their performance against these objectives, highlight challenges encountered during the year as well as outline the 2012 strategic objectives.

Entrenching sustainability in the business

The sustainability issues will provide a platform for the development of the annual key focus areas for each operating company and the quarterly conferences. Equally the sustainability performance indicators will be entrenched in monthly reporting, departmental and individual key performance areas and quarterly operating conferences.

During the 2012 financial year the board will be further developing the sustainability road map, integrating the risk process and entrenching the sustainability issues as the primary drivers of the business strategy.

sustainability
material topics

1 Driving consistent financial performance

2 Expanding our customer database

3 Managing the risk of credit

4 Implementing leading information systems

5 Managing talent and driving transformation

6 Managing customer demand

7 Enhancing the customer experience

Driving consistent financial performance – group

1

2011 Focus areas

- Maintaining five-year financial forecasts that shape the strategic objectives of the business
- Ensuring responsible management of shareholder funds
- Ensuring consistent shareholder returns
- Balancing investment in growth with cash flow requirements

Performance in 2011

- Grew revenue by 28,9%
- Gross profit margin above target at 50,1%
- Increased operating margin from 28,7% to 30,5%
- Increased operating cash flow before working capital changes by 25,0%
- Increased return on equity from 28,9% to 31,9%
- Reduced dividend cover from 3,5 to 2,8

Challenges in 2011

- Rand fluctuation
- Increase in stock holding and provision for stock obsolescence

2012 Objectives and plans

- Ensure our preparedness for a potential listing in 2012
- Drive an increased focus on cost control within the group
- Improve returns to shareholders, targeting a dividend cover of 2,2 to 2,5 times
- Continue to develop our forecasting and financial analysis capabilities to support our long-term strategic objectives

detailed report page 49 - 52

2 Expanding our customer database
– group

detailed report page 54 - 59

2011 Focus areas

- Implementing inactive customer response model in order to optimise spend
- Further developing the five-year customer database model
- Re-segmenting the customer database
- Retaining existing customers by encouraging repurchase behaviour
- Growing new customer acquisition to meet group growth objectives

Performance in 2011

- Annual growth in the list of 14,9% to 424 000
- 116 295 new customers, up from 107 949 in 2010
- Repurchase rate of existing customers: 65,5% from 65,1%
- Cost of acquiring a new customer: R421 from R393

Challenges in 2011

- The direct sales agent channel acquired higher risk customers. Cut-backs in acquisitions from this channel were implemented which put pressure on new customer targets.
- The increased cost of acquiring new customers
- Delays experienced in re-segmentation of the customer database

2012 Objectives and plans

- Develop new customer segmentation to align with the customer relationship management module of the new enterprise resource planning (ERP) system
- Redevelop the five-year customer database model
- Increase acquisition activities to support customer database expansion
- Continue to focus on merchandise, marketing and credit offers to retain existing customers

Managing the risk of credit – retail

3

2011 Focus areas

- Managing risk through customer selection and credit policies
- Implementing new scorecards for new customers
- Developing credit structure for higher-priced range extensions
- Stabilising of sales agent business and reducing impact on bad debt

Performance in 2011

- Debtor costs as % of revenue stable at 10,0% from previous year's 9,9%
- Provision as % of book reduced to 17,4% from 18,1%
- % accounts in good standing reduced from 79,8% to 77,8% (measured as % of active accounts)
- Decreased new customer pass rate from 51,4% to 49,8%
- Implemented new scorecards in August 2011
- Developed and launched credit structure for high value items in October 2011

Challenges in 2011

- Increase in the number of customers requesting debt review resulting in lower acceptance rates
- Reduction in sales agent revenue targets owing to increased risk experienced in some portfolios
- Forecasting the 2010 amendment to service fees and consequent impact on arrear profiles
- Increase in general levels of indebtedness and arrears in the market

2012 Objectives and plans

- Develop credit offer further to make it more attractive to customers
- Improve customer experience of credit
- Further enhance group customer exposure processes
- Continue to test longer terms
- Continue to review and enhance scorecards and credit vetting processes

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3 Managing the risk of credit
– financial services

detailed report page 60 - 63

2011 Focus areas

- Developing credit policy for a 36-month product
- Developing debt re-structure product for slow payers
- Improving post-write-off legal collection processes
- Continuing focus on scorecards and credit vetting processes

Performance in 2011

- Debtor costs as % of revenue stable at 29,3% from 29,3%
- Provision as % of book stable at 10,6% from 10,9%
- % balances in good standing improved from 87,1% to 89,1%
- Developed 36-month credit policy and product for launch in 2012
- Launched debt re-structure product in November 2011 to customers who missed their last three payments
- Thoroughly re-evaluated external debt collection processes, including the restructuring of legal hand-overs

Challenges in 2011

- Increasing incidence of debt review on the FinChoice book
- Increase in general levels of indebtedness and arrears in the market

finchoice

2012 Objectives and plans

- Develop credit policy and processes for new products and concurrent loans to existing customers
- Improve collections efficiencies through dialler technology
- Continue to review and enhance scorecards and credit vetting processes

Implementing leading information systems – group

4

2011 Focus areas

- Reviewing information systems and selecting industry-leading systems to supplement or replace legacy systems
- Establishing the IT skills required for the implementation of leading information systems
- Continuously enhancing the FinChoice loans management system
- Implementing mobile phone technology to allow customers to self-manage their loan accounts (FinChoice KwikServe™)
- Improving IT governance and compliance in line with King III

Performance in 2011

- Selected Advanced Distribution for Microsoft Dynamix AX (ADAX) as the ERP system of choice and initiated the project for implementation
- Selected Direct Tech suite of Merchandise Planning applications and made significant progress in the implementation project
- Significantly grew the number and depth of skills in the IT department
- Successfully implemented and rolled out FinChoice KwikServe™

detailed report page 68 - 69

Challenges in 2011

- Building a collaborative relationship between IT and the business by establishing business confidence in the new management processes and systems
- Stabilising the production batch environments following a major technology upgrade in 2010
- Moving the resourcing of the development environment from a predominantly outsourced to an insourced model

2012 Objectives and plans

- Design and develop systems and processes for our new ERP system and significant initiatives in training and change management in preparation for the HomeChoice implementation in 2013.
- Redevelop HomeChoice e-commerce platform and website with specific focus on further enabling our customer to interact with us via customer-centric mobile technology platforms
- Implement the merchandise planning system
- Enhance FinChoice KwikServe™
- Develop and pilot mobile website (mobi site) for FinChoice
- Further develop group view of our customers through data alignment between business units
- Optimise the operation and value derived from our current information systems

5 Managing talent and driving transformation – group

detailed report page 72 - 75

2011 Focus areas

- Securing top specialist talent
- Improving specialist skills levels and leadership capabilities
- Improving diversity across the business
- Further developing remuneration strategy to extend to short, medium and long-term incentives
- Selecting and implementing an employee grading system
- Enhancing best practice through fair and transparent policies

Performance in 2011

- Increased headcount by 28% to 740
- Increased specialist training participation by 63% from 19% to 31%
- Achieved a BBBEE level 6 rating (from 8)
- Increased black representation at senior and top management by 70% from 10% to 17%
- Decline in female representation across the business from 74% to 68%
- Decline in black representation across the business from 84% to 82%
- Implemented the Paterson grading system
- Extended share-option scheme to all employees

Challenges in 2011

- Increasingly competitive skilled labour market
- Securing skilled black talent
- Increase in call-centre staff attrition owing to enhanced performance expectation and behavioural standards

2012 Objectives and plans

- Implement a recruitment software solution to streamline recruitment processes and selection decisions
- Reduce attrition across the business by further entrenching the employee value proposition
- Improve diversity within senior and top management levels and increase disability representation
- Further develop specialist skills through the development of learning pathways for credit, retail and marketing

Managing customer demand – retail

6

2011 Focus areas

- Growing organically through extension of existing ranges and further testing of furniture and electronics
- Growing spend per existing customer
- Increasing sales from electronic order sources
- Extending the selling period more aggressively into the fourth quarter, including the introduction of gifting ranges
- Reviewing group retail brand

Performance in 2011

- Increased retail sales by 27% on last year from R493m to R626m
- Increased sales per existing customer by 15% on last year from R1 117 to R1 284
- Increased retail sales from electronic order sources 56% on last year

Challenges in 2011

- Inflation due to the higher cotton prices as a result of cotton shortages
- Managing the impact of exchange rate fluctuations on imported merchandise and the consequent impact on margins
- Increased year-end stock holding due to under-achieving on sales targets in the last quarter
- Shifts in buying patterns resulting from the higher proportion of new product, impacting on stock health

2012 Objectives and plans

- Grow organically through extension of existing ranges, with further development of the furniture and electronics offering
- Continue to grow spend per customer
- Improve stock health through clearance management
- Plan new website with enriched functionality on new technology platform
- Continue to focus on increasing sales from electronic order sources
- Enhance efficiencies along the supply chain to reduce lead-times in the merchandise and marketing cycle
- Integrate the credit offer into our marketing and product strategy
- Continue to develop key merchandise and supply chain IT systems

detailed report page 54 - 57

6 Managing customer demand – financial services

detailed report page 58 - 59

2011 Focus areas

- Continued sourcing of new loan business from the HomeChoice database of credit-approved customers
- Controlling mix of short- and long-term new loan disbursements
- Controlling growth of repeat loan business
- Controlled and responsible credit limit increases to good-paying customers

Performance in 2011

- Disbursed our one billionth Rand in August 2011 since opening for trade in 2007
- Increased new loan disbursements by 25% to R142,2m
- Increased repeat loan disbursements by 65% to R347,3m
- Increased total loan disbursements by 51% to R489,5m
- Mix of repeat business: 71% from 65%
- Booked 24 600 new loans, up from 21 700
- Grew active loan accounts in force by 23% to 51 400 from 41 700
- Increased product cap on longer term 12- and 24-month loans from R10 000 to R15 000

Challenges in 2011

- Introduction of KwikServe self-service presented challenges in forecasting demand as the channel is open 24/7

2012 Objectives and plans

- Continue to book new accounts from the HomeChoice database
- Continue controlled mix of short- and long-term new loan disbursements
- Continue controlled growth of repeat loan business
- Continue controlled credit limit increases
- Limited introduction of new 36-month loan product
- Limited introduction of new short term loan product
- Test offering dual concurrent loans to same customer

finchoice

Enhancing the customer experience – retail

7

2011 Focus areas

- Reviewing our systems and streamlining processes to ensure her interactions with us are consistent, simple and as accessible as possible
- Reducing the time it takes to deliver her order
- Improving stock availability at time of order
- Ensuring we answer her calls as fast and efficiently as possible, and resolve her queries quickly
- Developing a customer experience index to track her experience
- Continue investing in and expanding our home delivery network

Performance in 2011

- Made process and customer communication enhancements to keep customers up to date with their orders and payments
- Introduced the customer experience index
- Expanded our home delivery network to 49% of our South African customers, up from 45%
- Reduced the time taken to deliver her order

Challenges in 2011

- Ensuring appropriate resources were deployed to cater for shifts in inbound call volumes
- Managing the complexities of furniture delivery within existing delivery network
- Impact of stock availability on her experience in some months of the year

2012 Objectives and plans

- Ensure consistency of service across all channels
- Further reduce the time it takes to deliver the order
- Track the customer experience index to ensure corrective measures are taken where needed
- Improve stock availability when orders are received
- Further extend the home delivery network
- Significantly improve warehouse processes and systems
- Develop a new warehouse for occupation in 2013

detailed report page 64 - 66

7 Enhancing the customer experience – financial services

detailed report page 67

2011 Focus areas

- Developing a mobile channel for customer self-service (FinChoice KwikServe™)
- Piloting KwikServe channel, and driving take-up and utilisation
- Continuing to expand customer service via telephone and SMS

Performance in 2011

- Launched FinChoice KwikServe™ channel in July 2011, with pleasing customer response and steadily increasing levels of utilisation
- Increased the frequency of personalised SMS communications to customers
- Steady increase in call volumes over the year in line with acquisition volumes and accounts in force

Challenges in 2011

- Higher than expected inbound telephone volumes in latter half of 2011 with some impact on service levels and abandon rates

2012 Objectives and plans

- Continue to enhance KwikServe with additional features
- Continue to drive registrations for KwikServe and self-service utilisation to improve contact centre efficiencies
- Develop and pilot mobile website (www.finchoice.mobi)
- Continue to service customers effectively via telephone and SMS

finchoice

sustainability indicators and targets

The group's primary purpose is to create and generate sustainable wealth for the benefit of all stakeholders. HomeChoice is committed to creating long-term sustainable stakeholder value by adhering to ethical business practices, providing rewarding employment, promoting social and economic development and minimising the environmental impact of the group's activities.

The group has identified the following indicators to assist stakeholders in measuring the group's progress on economic, social and environmental sustainability and in assessing the group's ability to create and sustain value:

Stakeholder	Performance indicator	Long-term target	2011	2010	2009	2008	2007
Shareholder	Gross profit margin (%)	45 – 50	50	54	50	50	51
	Operating profit margin (%)	25 – 30	30	29	22	11	26
	Return on equity	27 – 32	32	29	21	10	24
	Distribution cover (times)	2,2 – 2,5	2,8	3,5	3,3	2,2	92,2
Customer	Growth in customer base (%)	10 – 12	15	10	6	16	19
Employee	Employees	–	740	579	544	436	402
	Employee turnover (%)	20	26	17	Not reported		
	Skills development to salary (%)	1,5	1,5	1,2	1,4	1,3	1,8
	Employment equity – black employees (%)	80	82	84	84	85	84
	Employment equity – female employees (%)	67	68	74	73	75	76
	BBBEE rating (audited)	5	6	8	Not audited		
Community	Donation to the HC Development trust as a % of profits (%)	1,0	1,0	0,9	1,0	2,3	1,1
	Environmental index	The group has undertaken an initial environmental assessment during 2011 to determine our carbon footprint, and will use this as a benchmark to assess future initiatives to reduce our impact on the environment.					

“We remain fully accountable to our shareholders, with a commitment to transparency and a fair return on their investment.”

board, leadership and investors

2011 integrated annual report

board of directors

1 Shirley Maltz (40)

BCom, CPE, LPC
Appointed 2004
Chief Executive Officer of HomeChoice retail.

Shirley joined the group in 2001, overseeing the credit and operations division, as well as all marketing activities. She was appointed deputy chief executive officer in 2006 and to her current position in 2007.

Prior to joining the group she was a fund manager at Mercury Asset Management (SA) and Fleming Martin (SA).

3 Annalize Kirsten (43)

BCompt (Hons), CA(SA)
Appointed 2002
Chief Financial Officer.
Chief operating officer of HomeChoice retail.

Annalize joined the group in 1999 and was appointed financial director in 2002. She is responsible for the group's finance and information technology, as well as the retail operations. Annalize was deputy chief operating officer before being appointed to her current position in 2007.

She was previously with PricewaterhouseCoopers and a company involved in grain trading.

5 Amanda Chorn (53)

BA, LLB, LLM
Appointed 2005
Independent non-executive director.

Amanda is an attorney of the High Court of South Africa and currently resides in the United Kingdom where she is a director of various companies.

Amanda provides consultancy services to private clients, specialising in international structuring.

7 Willem Jungschläger (55)

BA (Hons), PhD
Appointed 2009
Independent non-executive director.
Chairman of remuneration committee and member of audit and risk committee.

Willem has over 30 years' experience as a human relations and human performance specialist.

For the last 20 years he has consulted to and trained large organisations, both nationally and internationally, in the retail, electricity, mining and transport industries.

His experience includes serving as HR director of the Laser Transport Group, senior psychologist at the Koeberg Nuclear Power Station and training officer for the Ford Motor Company.

2 Rick Garratt (65)

BCom, CA(SA)
Appointed 1991
Executive Chairman.

Rick has been the executive chairman since 2007. Prior to that he was the chief executive officer.

Rick founded the group in 1985 and has been involved with all operational aspects. He was previously a partner at Ernst & Young.

4 Pierre Joubert (46)

BCom, CA(SA)
Appointed 2009
Non-executive director.
Member of the audit and risk committee.

Pierre has served in senior positions in several companies, including financial director of Reumech Equipment, commercial director of the Connection Group, financial director of Software Connection Limited and chief executive of Connection Group Holdings.

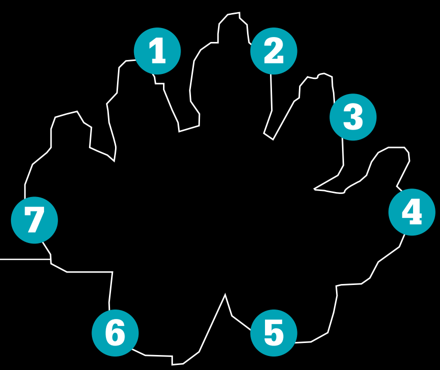
In 2002 he joined Rand Merchant Bank as a senior equity transactor and is currently head of equities trading.

6 John Bester (65)

BCom (Hons), CA(SA)
Appointed 2009
Lead independent director.
Chairman of audit and risk committee and member of remuneration committee.

John spent 16 years in the accounting profession and was a partner at Ernst & Young. His experience in commerce and industry includes serving as the financial manager of Toyota Marketing South Africa, financial director of Warner Lambert South Africa, and financial director and chief financial officer of the Norwich Holdings Limited Group of Companies.

He is currently a non-executive director of Personal Trust International, Clicks Group, Sovereign Foods and Western Province Rugby, and chairs a number of audit committees.



operating boards

1 Rick Garratt (65)
**
BCom, CA(SA)
Chairman
Founded the group in 1985

2 Shirley Maltz (40)
**
BCom, CPE, LPC
Chief Executive Officer – HomeChoice
Joined the group in 2001

3 Annalize Kirsten (43)
**
BCompt (Hons), CA(SA)
Chief Operating Officer – HomeChoice
Joined the group in 1999

7 Louis Pretorius (46)
●
BEng (Hons), MEng (Electronic)
ICT Director
Joined the group in 2010

8 Anthea Abrahams (41)
●
BPrim Ed, PDM
Marketing Director
Joined the group in 2007

9 Mike Roux (51)
**
BSc (Hons), HDE (PG), MPhil
Credit Risk Director
Joined the group in 2007

HomeChoice and FinChoice

4 Sean Wibberley (41)

■

BSc (Elec Eng), MBA
Chief Executive Officer – FinChoice
Joined the group in 2006

5 Cathy MacKenzie (43)

●

BA
Merchandise Director
Joined the group in 2009

6 Glenda Jacobs (30)

●

BCom, PGDA, MDevFin, CA(SA)
Finance Director
Joined the group in 2007

10 Elmori Bester (37)

●

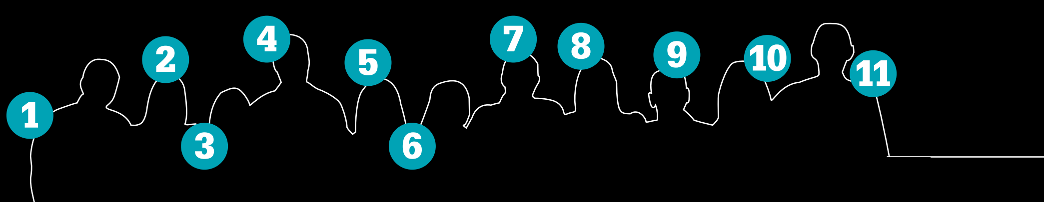
Nat Dip HR
Human Resources Director
Joined the group in 2010

11 Rob Ross (67)

●

Logistics Director
Joined the group in 1986

** HomeChoice and FinChoice
● HomeChoice
■ FinChoice

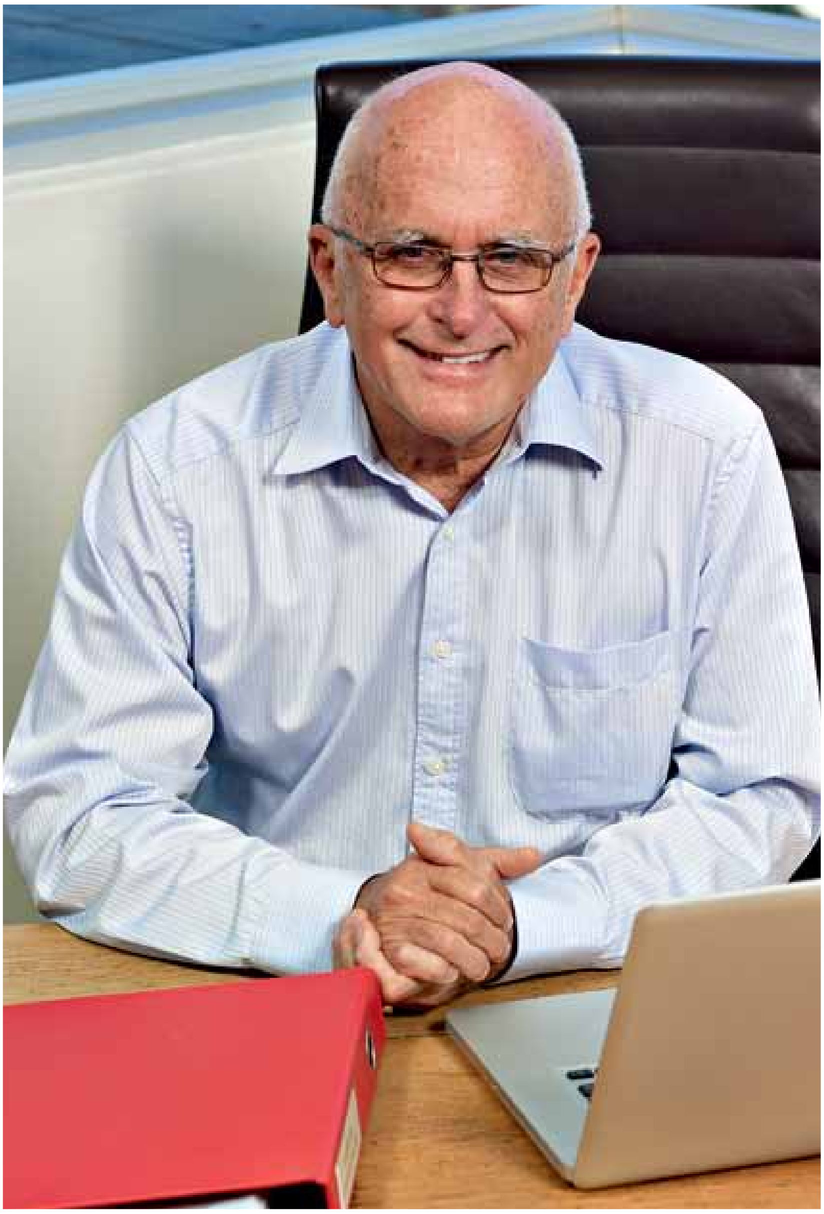


Group Highlights

earnings per share up
35%
to 237c

net asset value per share up
25%
to 830c

distribution to shareholder per share up
70%
to 85c



It is pleasing to report to shareholders on another year of strong growth for 2011. This growth was achieved in a challenging but improving retail environment, impacted by significant currency fluctuations and cotton price increases. The past year's performance yielded the following results:

- Group revenue up by 28,9% to R1 121,1 million (2010: R869,4 million)
- Operating profit up by 36,8% to R341,6 million (2010: R249,7 million)
- Earnings per share up by 34,7% to 237,4c (2010: 176,2c)
- Distributions per share up by 70% to 85c (2010: 50c)
- Net asset value up by 25,1% to R837,3 million or 829,9c per share (2010: R669,2 million or 661,3c).

Our main operating subsidiaries, HomeChoice and FinChoice, both performed well, with HomeChoice growing revenue by 26,2% to R939,0 million (2010: R743,9 million) and FinChoice revenue increasing by 49,4% off a lower base to R181,5 million (2010: R121,5 million).

Operating profit of HomeChoice was up 21,8% to R229,9 million (2010: R188,8 million) and up 62,4% to R92,9 million (2010: R57,2 million) for FinChoice.

Customer demand for both HomeChoice products and FinChoice financial services remained strong. Our customer base, the mass market urban female, continues to benefit from urbanisation, income growth, rising living standards and improving aspirations.

Further details of the group's financial performance are given in the Chief Executive Officers' reports of HomeChoice and FinChoice as well as in the Group Chief Financial Officer's report and the group's segmental analysis.

HomeChoice

The success of HomeChoice during 2011 can be attributed to continued innovation in merchandising and marketing that was well received by our customer base. The fact that the company achieved its sustainability targets despite the general economic conditions, significant cotton price increases

chairman's report

by Rick Garratt

"Customer demand for both HomeChoice products and FinChoice financial services remained strong. Our customer base, the mass market urban female, continues to benefit from urbanisation, income growth, rising living standards and improving aspirations."

and Rand fluctuations is testament to management skill and effort and bodes well for future growth.

FinChoice

FinChoice continued its pattern of steady, planned growth from the HomeChoice customer base. Sustainability targets were achieved, cash flows were well managed and the new KwikServe mobile channel was successfully introduced.

Managing credit risk

Group receivables increased by 37,9% from R543,7 million to R749,7 million. HomeChoice increased by 29,4% from R325,4 million to R420,9 million. FinChoice increased by 43,4% from R206,9 million to R296,6 million.

Other trade receivables, being new retail tests and initiatives, increased by R15,0 million.

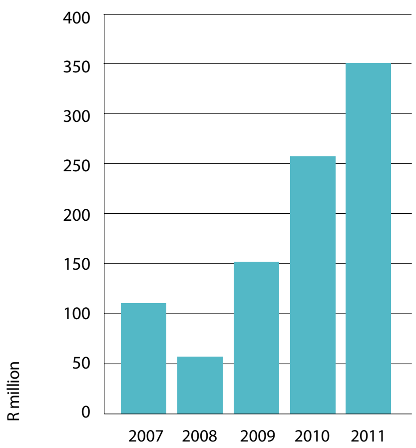
Trade and loan receivables are the group's largest asset and are therefore a key focus area of management. Debtor costs were 13,2% of group revenue (2010: 12,6%) with HomeChoice costs being 10,0% (2010: 9,9%) and FinChoice being 29,3% (2010: 29,3%).

Provisions against both the HomeChoice and FinChoice books decreased slightly, cash collections were in line with expectations at HomeChoice and slightly better at FinChoice. Management is confident that the group's credit books remain healthy. Further details are given in the Group Chief Financial Officer's and credit risk reports.

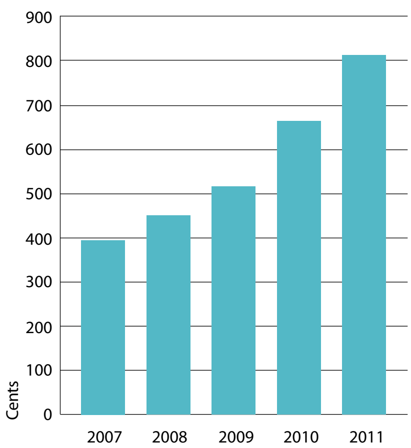
Strategy and sustainability

26 years of operating as a retailer in the urban mass market has given HomeChoice a strong brand and extensive knowledge of, and experience in, direct marketing in southern Africa.

EBITDA



Net asset value per share



Group strategy is to focus on the urban mass market female, offering her a broadening range of merchandise and financial products designed to suit her requirements. HomeChoice is the group's vehicle for attracting new customers through its targeted merchandise offers. During the past year, these offers attracted 116 000 new customers. These new customers provide a sound base for future retail sales growth, building on the extensive existing customer base. FinChoice leverages the HomeChoice database by direct marketing personal loans to selected credit-qualifying customers.

During the year the directors reviewed the key focus areas and identified material sustainability issues. Further details on these are given on pages 22-34 of this report. Long-term financial performance indicators have been identified and form the basis for measuring future performance. These criteria will be refined as part of the process of developing integrated reporting.

During 2011 all our key sustainability targets were mostly met or exceeded.

Investing for sustainable growth

Continuing investment in the customer database, systems and process technology, distribution facilities and skilled people is vital for the sustainability of the business.

During 2011 the group acquired a building adjacent to the head office in Wynberg, Cape Town, to allow for expansion. This building is let until early 2014. We are also finalising the design and specifications of our new warehouse in Cape Town which will cost over R100 million. Building will commence in 2012 and we anticipate moving into the new warehouse in the last quarter of 2013.

We have also purchased a world-class merchandise forecasting system from Direct Tech in the USA and a multi-channel ERP Microsoft ADAX system to ensure our systems remain capable of meeting our growth and the needs of the fast-changing direct marketing environment. Both these systems are widely used in retail in Europe and America and will, we believe, give us world-class operational processes.

Investing in our people

During 2011, the group staff complement grew by 28% from 579 to 740. This substantial increase was largely driven by increased numbers in our call centres as well as continued increases in management and specialist staff to cater for future growth.

Our talent management and training processes were also a key focus. The Paterson job grading system was implemented together with a considerable increase in training interventions. Further details are given in the managing talent report.

Governance and reporting

Several governance, legislative and regulatory changes were introduced during the year. Management has reviewed King III and is committed to applying the principles of the new governance code. The concept of integrated reporting has also been well received and this is our first report under the new reporting structure. We plan to enhance this reporting each year.

The group's remuneration practices and policies are disclosed in the remuneration report on pages 76-78. Shareholders will be asked to vote and comment on our remuneration policy at the forthcoming annual general meeting.

The Consumer Protection Act and the new Companies Act have both been considered and appropriate changes implemented, where necessary.

Listing on the JSE

In last year's annual report we announced the group's plans to consider a possible listing on the JSE. These plans have progressed over the past year and the group is targeting the second half of 2012 as a possible listing date, market conditions permitting. Reasons for the listing were given in my 2010 chairman's report and are repeated here for clarity. The major reasons for this decision were:

a to raise further capital to fund the continued expansion and as a result:
 - maintain strong growth in FinChoice, the financial services business,
 - fund 24-month terms to creditworthy HomeChoice customers, enabling a broadening of the product range and facilitating better affordability,

b to improve incentives for directors and managers by making their shares readily tradeable; and

c to attract talented management and staff.

Prospects

Both HomeChoice and FinChoice have experienced reasonable growth in demand up to the date of this report. This growth has been in line with forecast.

The directors are confident that the group will be able to achieve pleasing results for the 2012 financial year.

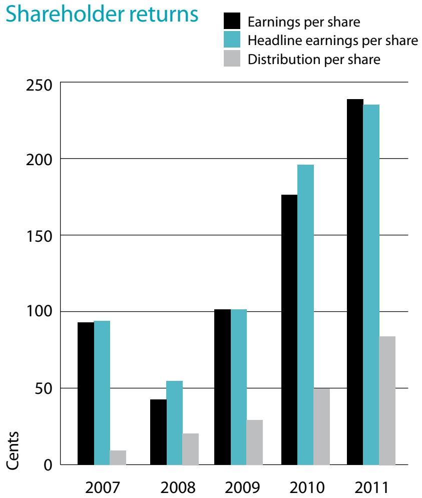
Appreciation

The strong results that were achieved in 2011 are a direct result of the loyalty of our customers, the support of our suppliers and the insight, focus and hard work of our directors, management, specialists and employees.

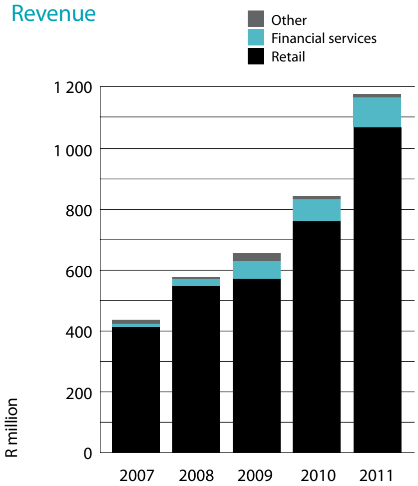
It is an honour and a pleasure to be the Chairman of the group and I thank everyone for the outstanding contribution they made in the year.

Rick Garratt
Chairman
16 March 2012
Cape Town

Shareholder returns



Revenue



retail ceo report

by Shirley Maltz

"We continue to leverage our merchandise strategy of offering customers innovative products that represent value, quality and exclusivity."

Highlights

retail sales up
27%
to R626m

revenue up
26%
to R939m

operating profit up
22%
to R230m

HomeChoice

Overview

Retail conditions remained challenging in South Africa throughout the reporting period. Pressure on food, transport and electricity prices meant that our customer (referred to in this report as "she" or "her") was cautious and value driven in her spending. This was also off a year of strong growth in 2010.

In this climate, the HomeChoice retail business has produced pleasing results and good growth, with revenue growing by 26,2% to R939,0 million. Total retail sales in South Africa grew by 9,2% (Statistics SA) while the retail business grew merchandise sales by 27,0%.

We have continued to focus on our core customer, the urban black female. Similarly, we continued to leverage our merchandise strategy of offering customers innovative products that represent value, quality and exclusivity. The direct marketing model remains HomeChoice's core strength and continues to differentiate us in the market, offering her a shopping experience that suits her time constraints and lifestyle.

Trading and financial highlights

The majority of our 2011 financial and trading targets were met. The 26,2% growth in revenue was driven by continued support for our merchandise offering and support for new product lines. Gross profit margin reduced from 54,1% to 50,1% owing to the Rand/US dollar exchange rate fluctuations. However, this remains within the targeted profit range. Operating profit margin declined from 25,4% to 24,5%, again within targeted levels, owing to slower revenue growth and the impact of currency fluctuations on gross profit.

Retail sales increased 27,0% to R626,0 million. This was due to continued strong innovation across all categories. The launch of furniture was well received and presents good growth opportunities. We continued to build on our electronic and appliance ranges. Textiles remain our core strength, and our customers responded well to outstanding innovation on printed bedding. Fluctuating cotton pricing presented a major challenge but we were able to reconfigure our offers with little impact on demand or on margins.

Sales have been consolidated towards the catalogue products which now represents 75,6% of total sales, up from 74,7% in 2010. This is significant as demand tends to be aggregated across a higher number of lines and carries lower stock risk.

Inventory levels closed 31,9% up on last year at R92,1 million and were above planned levels. The ornate bedding category did not perform to expectation and resulted in higher levels of stock. The category offer has now been reworked and is being well received by customers. Stock levels were further impacted by slower than expected fourth quarter sales and certain lines arriving sooner than planned. Inventory management is a significant focus for the business in the first half of 2012, aiming to improve stock health and reduce stock levels.

Managing the risk of credit

A slightly more defensive strategy was adopted to credit risk during the year, across both new and existing customers. Debtor costs as a percentage of revenue were stable at 10,0% while provisions for impairment of trade receivables reduced to 17,4% from 18,1%. This was driven by a marginal improvement in payment experience and a greater proportion of sales to existing customers.

Early debt indicators showed marginal increases and as a result acceptance rates on new customers were reduced from 51,4% to 49,8%. New scorecards were introduced for this category of customer and we continue to refine our fraud prevention and detection initiatives.

Existing customer acceptance rates decreased from 89,9% to 88,9% as we experienced slight increases in early risk indicators. These too have stabilised. Existing customer sales carry a lower bad debt and, continuing with the defensive position, we increased existing customer business from 77,0% to 78,9% of sales during the year.

Please refer to the managing the risk of credit report on pages 60-63 for further detail.

Managing customer demand and enhancing her experience

The focus on existing customers is reflected in the repurchase rate improving from 65,1% to 65,5%, while sales per customer grew by 15,0%.

However, the expansion of the customer base remains vital for the health of the customer database and despite reducing acceptance rates, we increased the list size by 14,9%. The more stringent acceptance rates resulted in the acquisition cost of each new customer increasing from R393 to R421. We run extensive five-year models on the customer list and are confident that the level of acquisition supports our growth plan for the future.

Our brand continued to be enhanced through the review of photography and styling to ensure the catalogue remains aspirational and an inspiration to customers. The in-house trends and photography studios are key resources which give us greater control over the look and feel of our catalogue, and the flexibility to make changes.

Our marketing team received a number of industry awards, including Assegai awards (Direct Marketing Association of South Africa) and Bookmark awards (Marketing Association of South Africa). Most importantly, our customers voted us into third place as "The best online consumer shopping experience in South Africa" (South African E-commerce awards). This recognition and endorsement from our customers was most pleasing.

We have continued to entrench the use of the telephone as a primary contact point with our customers. Both the inbound and outbound call centres are performing well. During the year we reviewed all communication points and significantly increased the outbound contact points with our customer during the ordering process. She has responded well to this increased communication.

The electronic channel again performed well, growing 56% on last year. This remains a key strategic focus for us. We anticipate that our customers will continue to gain confidence in the online shopping market and that this order source will gain further momentum. The company has developed a social media strategy which has been eagerly adopted by our customers. Social media specific offers and informal communication mechanisms are being developed for our customers.

We continue to focus on the customer experience and during the year reduced the time from order to parcel receipt. Our distribution network is integral to our strategy and was extended to 49% of the country during the year. The growth in furniture posed some challenges in distribution as the products require a different level of care to other mailed products. We are focusing on training specifically in this area for our network operators.

Being a good employer and driving transformation

Growth in the business and creating a platform for future growth has led to a significant increase in staff numbers from 517 to 662. This not only posed challenges to recruitment but also to maintaining our culture within the context of the numbers of new staff. Our values are critical to the business and as a result we have continued to focus on our induction processes. We have also introduced reviews for all specialist staff six months after joining the business. These have proven to give valuable insight into the culture of the organisation.

Further improvements have been recorded in the annual Pulse survey completed by all staff and we continue to review areas raised as concerns from the survey. We have experienced challenges in our call centres and seen significantly increased attrition in these areas driven by increased performance expectations and review of policies and their implementation. The trends in attrition in the call centres are concerning and we are focusing on improving recruitment and training.

A key HR objective was to improve specialist training programmes. Participation in training in specialist areas increased 63% during the year through technical and soft skills training programmes. This will remain a focus.

The Paterson staff grading system was implemented during the year. This is an important driver of our benefits and remuneration strategy, ensuring consistency across all levels of the organisation. The long-term benefits strategy was reviewed and a broad-based employee share option scheme was implemented prior to the potential listing.

Pleasing progress has been made on transformation as the group improved its BBBEE status from level 8 to level 6. Black representation at senior management level has increased by 31% to 21%. We will continue to focus on both these critical drivers of transformation for both the company and the country. However, sourcing employment equity candidates remains a challenge.

The group donated R2,5 million, being 1% of after-tax profits, to the HomeChoice Development Trust. The trust is focused on early childhood development and we continue to make strides in this area. Please see the report on pages 80-81 for more detail. Our staff support and participate in a number of charity events each year. We see the support of the communities that have contributed to our success as an important part of our culture as an organisation.

Implementing leading technical systems

Significant progress has been made in developing a five-year information systems road map. Most important was the choice of Microsoft Dynamix ADAX as the enterprise resourcing system for the business. Management believes that ADAX as a direct channel product will provide the best fit for the business. It is specifically designed for multi-channel retailing and is well established and widely used in Europe and America. As an ERP, this product will involve a comprehensive systems review across the entire business and will provide significant scope for business improvement and a strong platform for growth. Implementation is planned for late 2013 and we have supplemented our implementation partners' resources with our own dedicated internal project team.

The merchandise planning system will be implemented in the first half of 2012.

The headcount in the IT area has been increased significantly to ensure the successful implementation of all IT projects. Refer to the implementing leading information systems report on pages 68-69 for further details.

Prospects

The directors are expecting reasonable revenue growth in 2012. Demand from customers is meeting expectations at an overall level, although we are experiencing shifts within campaigns. The current credit strategy will be maintained, while focusing on attracting a slightly higher proportion of new customers than in 2011.

The focus for the new financial year will be on process improvements ahead of the ADAX implementation, in particular around customer-facing technology and systems. For more detailed objectives for the 2012 year please refer to the strategy section within the report on pages 22-34.

Thanks and appreciation

As always I would like to thank my fellow staff members for their support and contribution during the year. They are the primary drivers of our success. Thank you all.

To my fellow directors, despite the challenges and pace of change within the business, I have an enormous amount of fun at work. It is a pleasure to work with each of you. Thank you.

Shirley Maltz
Chief Executive Officer
HomeChoice (Pty) Ltd
16 March 2012
Cape Town

Highlights

loan disbursements up
51%
to R490m

revenue up
49%
to R182m

operating profit up
62%
to R93m

FinChoice has enjoyed another successful year in 2011 – our fifth year of trading. We achieved our financial targets and our stated objectives of continuing the controlled growth of the loan book and of launching innovations in both channel and product.

Overview of the unsecured credit environment

It has been almost five years since the National Credit Act came into force in June 2007. The Act has made the marketplace for unsecured micro-loans more respectable, attracting the desired and appropriate attention of the banks and financial services companies, such as FinChoice. The result has been massive growth in formal unsecured credit extension as consumers have more reputable providers to choose from and access to larger loan sizes and longer terms. The latest Consumer Credit Market Report, issued by the regulator in September 2011, tables a 53% increase in the gross debtors book for unsecured credit from the third quarter (Q3) in 2010 to Q3 2011, while mortgages grew by only 4% over the same period.

The high rate of credit growth in the unsecured space gives one cause for concern over the formation of a possible credit bubble, especially when considering that in the period just mentioned over 70% of all disbursements in the unsecured market were written on terms longer than 24 months. Longer terms and higher exposure make negative shocks in the macro-economy more keenly felt.

It is in this environment that FinChoice operates and we are suitably cautious in our approach. Through the relationship with the HomeChoice retail business, FinChoice is able to acquire new customers of known and acceptable credit risk. The retail business essentially 'cleanses' prospective loan customers by leveraging its retail gross margin and lower-exposure credit offering to contain the cost of bad debt. The best quality customers are filtered through to FinChoice. Further, to date, all FinChoice loans have been on terms of 24 months or less, in order to contain long-term risk exposure in our

financial services ceo report

by Sean Wibberley

> "Using the retail business to filter customers into the FinChoice qualified universe remains a key strength of our business model."

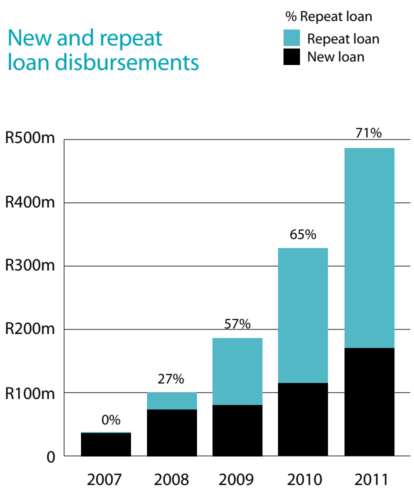
book and to focus on building our base of customers for future growth opportunities.

Financial highlights

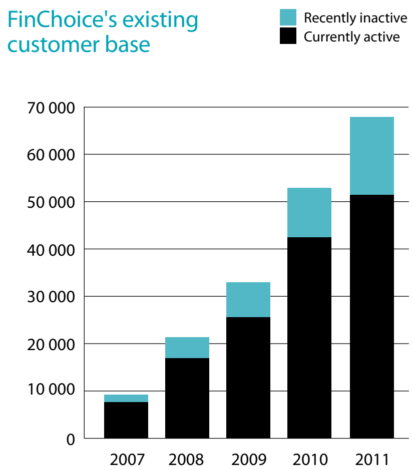
Loan disbursements increased from R324,5 million in 2010 to R489,5 million in 2011. This 50,9% increase in disbursements is slower than the 2010 rate (70,8%) owing to the base effect of a growing business and the continuation of a strategy of controlled growth which seeks to maximise customer acquisition rather than loan amounts disbursed. Growth in the customer base is seen as an investment for the future. Consequently, maximum loan sizes were restricted to R15 000 and the maximum term to 24 months, containing risk exposure and leaving potential for confident future growth.

Total revenue grew from R121,5 million to R181,5 million in 2011. This 49,4% growth is reflective of the disbursements growth, and was comfortably within the operational, systems and management capacities, emphasising the ability to scale the

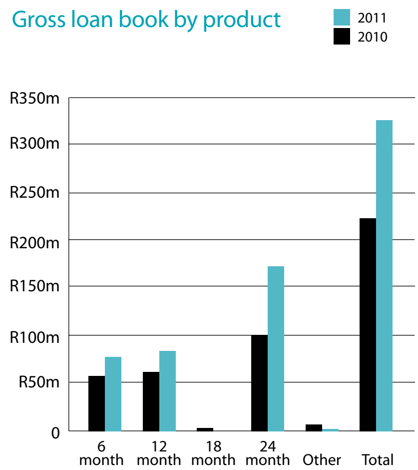
New and repeat loan disbursements



FinChoice's existing customer base



Gross loan book by product



centralised direct marketing platform.

Operating profit growth was again strong in 2011, increasing from R57,2 million to R92,9 million, a 62,4% growth from 2010. Operating margin rose to 51,2% from 47,1% in 2010, emphasising the stable fixed cost base and the management of the bad debt cost to 29,3% of revenue (29,3% in 2010).

The current record-low interest rate climate has maintained pressure on interest margins for the longer term unsecured loans (12- and 24-month terms). The margin impact was mitigated by booking 58% of new customers on the short-term product (6-month term) which has a higher rate limitation not linked to the Reserve Bank's repurchase rate. The mix of shorter and longer term credit extension is managed to balance the favourable cash yield of the six-month product and demand for the longer term loans to ensure that the group is able to self-fund all FinChoice's cash requirements.

Managing customer demand

New loans disbursed were 25,1% higher at R142,2 million and in line with the forecast direct-marketing activity into the HomeChoice base. FinChoice continues to work closely with HomeChoice to ensure an adequate pipeline of marketable names to grow the loan book.

Repeat lending business from existing FinChoice customers exceeded target by R45 million, growing repeat loan disbursements by 64,8% to R347,3 million. Repeat loans represented 71% of total loans disbursed compared to 65% in 2010. This is most positive as repeat loans have a lower cost of acquisition and a more favourable repayment performance compared to new loans.

New loan disbursements are considered an investment as each new customer represents an opportunity for repeat business. Close to 75% of new customers take a repeat loan, either during the term of the original loan or once the initial loan has been repaid.

For further detail, refer to the managing customer demand report on pages 58-59.

Loan book growth

The gross loan book grew by 43,0% to R331,9 million in 2011 (2010: R232,1 million). Active loan accounts grew from 41 700 accounts in 2010 to 51 400 in 2011, an increase of 23,3%. Responsible lending assessments were conducted and credit limit increases offered to a selection of the best customers. The credit utilisation and payment performance of these customers was encouraging.

Based on statistics from the National Credit Regulator, the FinChoice loan book represented only 0,3% of the unsecured and short-term credit lending market in South Africa at the end of Q3 2011. In Q3 2010 our market share was the same. The unsecured credit market has experienced tremendous growth in recent times, driven largely by increases in loan sizes and product terms. The FinChoice strategy is to contain the growth of the loans book by limiting maximum loan size and term, while focusing primarily on driving customer acquisition to position the business for growth. In the period between Q3 2010 and Q3 2011 all FinChoice disbursements were on repayment terms of 24 months or less, while over 70% of all disbursements in the unsecured market were written on terms longer than 24 months. We are building capacity in our customer base for the future.

Managing the risk of credit

The loan book continued to perform solidly during 2011. The rigid credit policy and collections processes ensured that risk and fraud levels were maintained within expectations, and credit vintages across all loan products have remained stable. Bad debt as a percentage of revenue was stable at 29,3% (2010: 29,3%) and the impairment provision improved marginally to 10,6% (2010: 10,9%).

The strategy of cherry-picking existing HomeChoice customers of good credit standing for new loan offers continues to serve the business well. Using the lower instalment sizes and product margins of the retail business to filter customers into the FinChoice qualified universe remains a key strength of the business model. Further details on credit risk may be found in the managing the risk of credit report on pages 60-63.

Implementing leading technical systems

A key focus area for 2011 was the development and implementation of the new self-service mobile channel, FinChoice KwikServe™. This service allows customers with a cell phone to conveniently and securely access and transact on their loan account, 24 hours a day, 365 days a year. The new channel has shown encouraging response from customers and usage of the channel grows steadily. For more on KwikServe, please refer to enhancing the customer experience report on page 67. KwikServe is FinChoice's first foray into leveraging mobile technology to empower the customer to serve herself conveniently and securely, from anywhere and at any time. Over the medium to longer term, the ability to shift customer behaviour to self-service channels will improve the call centre efficiencies and strengthen our service offering and customer loyalty.

The loans management technology and operational platforms continue to serve the business well and have scaled comfortably to accommodate the growing customer base. Management is confident that the IT and telephony systems are scalable for the foreseeable growth needs of the business.

Prospects

Revenue is expected to continue to grow strongly, although not at the same high levels as in 2011. Operating profit margin should show modest improvements as FinChoice continues to leverage the stable, fixed cost base and manage bad debt levels.

In 2012 FinChoice will evaluate offering concurrent loan products to customers. We believe our customers would embrace the utility of both a short-term loan and a longer term loan. A 36-month product will also be introduced on a very limited basis to the best-paying customers primarily as a retention product. However, the FinChoice strategy remains focused on managing the product mix to book the majority of loan accounts on 24 months or less to preserve higher yields and manage cash utilisation within the group, and to allow for future growth opportunities.

FinChoice will build on the initial success of the KwikServe channel to shift customer usage to the self-service channel and improve operating efficiencies. The learnings from KwikServe will be applied in piloting a mobile website (mobi-site) to enhance the customer self-service experience.

Appreciation

FinChoice thanks our customers for their continued loyal support. I would also like to thank the FinChoice staff, management team and directors for their ongoing dedication, innovative flair and camaraderie that made 2011 the success it was. We have an exciting future.

Sean Wibberley
Chief executive officer
FinChoice (Pty) Ltd
16 March 2012
Cape Town

driving consistent financial performance

by Annalize Kirsten

"Shareholder wealth was enhanced through a 35% increase in earnings per share to 237,4 cents"

Group Highlights

group revenue up
29%
to R1,1bn

group operating profit up
37%
to R342m

group cash generated by operations before working capital charges up
25%
to R347m

Overview

HomeChoice Holdings experienced another year of strong revenue and profit growth, with continued improvement in the operating margin. Shareholder wealth was enhanced through a 34,7% increase in earning per share to 237,4 cents (20,0% increase in headline earnings per share to 235,1 cents) and distributions to shareholders increasing by 70,0% to 85 cents per share.

Economic environment

The Rand started to deteriorate significantly against the US dollar in September 2011, declining from R6,99 to more than R8,50 and remained at similar levels until the end of the year, averaging R7,23 for the 12-month period and R7,93 for the last four months of the year.

CPI increased from 3,5% in December 2010 to 6,1% in December 2011, with specific pressure on food and transport costs where inflation rates were well above the overall CPI figure. This had a significant impact on the group's middle market customer base.

Customers have, however, been fairly resilient and both the retail and financial services business experienced good demand, although acceptance rates for new credit applications declined marginally. The group's debtor and loan books are also healthy, generating strong cash yields.

Integrated reporting

The group is committed to integrated reporting and has attempted to introduce these principles and disclosures into this year's report. Sustainability underpins the group's operations and this is demonstrated throughout the report. The directors and management acknowledge the continual need to enhance disclosure and the group plans to make further improvements to the integrated report to give shareholders greater insight into the viability and sustainability of the business.

Shareholder wealth creation

Earnings per share have shown an annual compound growth rate of 24,6% over the last five years and increased by 34,7% from 176,2 cents to 237,4 cents in 2011.

Distributions to shareholders have increased materially over the past few years and the distribution cover is planned to reduce further. Distributions to shareholders increased 70,0% to 85 cents per share in 2011.

Financial performance

Statement of comprehensive income

Group revenue increased by 28,9% from R869,4 million to R1 121,1 million. The retail business increased revenue by 26,2% from R743,9 million to R939,0 million and retail sales by 27,0% from R493,0 million to R626,0 million. The demand from customers was in line with expectation and growth was achieved through the extension of the core merchandise offering as well as growth in the furniture and electronics categories. Owing to the expansion of the depth and the breadth of the bedding ranges, and innovation within bedding, repurchase rates were higher. For further detail, please refer to the managing customer demand report on pages 54-59.

FinChoice increased revenue by 49,4% from R121,5 million to R181,5 million. FinChoice experienced strong demand from creditworthy retail customers, who make up their core marketing universe, but had to manage demand within the cash utilisation limits set by the group.

Gross profit margin

The gross profit margin reduced from 54,1% to 50,1%, well within the target range of 45% to 50%. The margin deteriorated mainly as a result of the 13% decline in the value of the Rand against the US dollar in the last four months of the financial year. The gross profit margin is managed through price increases to customers, changes to the product offer, managing the merchandise mix and adjusting foreign currency exposure through forward cover contracts.

HomeChoice and FinChoice provisions as % of the books

	2011 R000	2010 R000	2009 R000
HomeChoice			
Debtors cost	**90 730**	72 744	65 944
Debtors cost as a % of revenue	**10,0%**	9,9%	11,5%
Provision for impairment as % of gross receivables	**17,4%**	18,1%	18,9%
FinChoice			
Debtors cost	**53 151**	35 563	21 293
Debtors cost as a % of revenue	**29,3%**	29,3%	29,2%
Provision for impairment as % of gross receivables	**10,6%**	10,9%	11,2%

Finance charges earned

Finance charges earned increased by 29,4% which is in line with revenue growth and marginally ahead of the growth in retail sales. This is due to the higher growth rate of FinChoice compared to the retail business as FinChoice has a proportion of its book earning interest at a higher fixed rate on short-term loans.

Fees from ancillary services

Fees from ancillary services, which include initiation, delivery and service fees, increased by 36,7%. This is higher than the revenue growth of 28,9% due to a compulsory service fee introduced by the HomeChoice retail business in December 2010 and which was phased in for all customers at the time of a new purchase.

Debtor costs

Although there has been material growth in unsecured lending in South Africa during the last 12 months, the group's debtor and loan books are healthy. Debtor costs as a percentage of revenue have been stable for both HomeChoice retail and FinChoice and there have been marginal improvements in the provisions for impairment. (Refer to the table below.)

At a group level, debtor costs as a percentage of revenue increased from 12,6% to 13,2%, owing to the fact that FinChoice, with a higher debtor cost to revenue, has grown as a percentage of the total group business. FinChoice has a higher debtor cost as a percentage of revenue compared to the retail business as retail sales are included in revenue, whereas in FinChoice the value of the loan is not included in revenue, and therefore not in the denominator. We expect this trend to continue.

Other trading expenses

Other trading expenses increased by 20,6% year-on-year, which is below revenue growth and reduced as a percentage of revenue from 30,8% to 28,8%.

Marketing costs increased by 27,1% and staff costs by 19,7%. The growth in staff costs was mostly due to headcount growth as salary increases were in line with inflation.

Operating profit and operating margin

Operating margin

Group operating margin increased from 28,7% to 30,5% in 2011, which is above the target of 25% to 30%. Operating profit increased by 36,8% from R249,7 million to R341,6 million.

The retail business operating profit increased by 21,8% from R188,8 million to R229,9 million, with the operating margin deteriorating from 25,4% to 24,5%. The operating profit growth rate is lower than the revenue growth rate owing to the reduction in the gross profit margin, as referred to earlier in this report.

FinChoice operating profit increased by 62,4% from R57,2 million to R92,9 million, with the operating margin increasing from

The retail business operating profit increased by 21,8% from R188,8 million to R229,9 million, with the operating margin marginally deteriorating from 25,4% to 24,5%.

Cash generated before working capital changes increased by 14,4% for the retail business. This is lower than the growth in profit before tax, owing to an impairment charge of R12,1 million included in the 2010 operating cash flow before working capital changes. Cash generated by operations is flat year-on-year owing to the increase in trade and other receivables being up 51,7% from the increase in 2010.

Financial highlights and targets

	Long term targets	2011 R'000	2010 R'000
Revenue		1 121 060	869 442
% growth in revenue		28,9%	33,5%
Retail sales		626 028	493 008
% growth in retail sales		27,0%	35,6%
Gross profit margin	45%-50%	50,1%	54,1%
Operating profit		341 591	249 695
Growth in operating profit		36,8%	76,5%
Operating profit margin	25%-30%	30,5%	28,7%
EPS (cents)		237,4	176,2
% growth in EPS		34,7%	72,9%
Dividend cover (times)	2,2 -2,5	2,8	3,5
Operating cash flow before working capital changes		346 761	277 349
Return on equity	27% -32%	31,9%	28,9%

47,1% to 51,2%. This is due to the benefit of economies of scale resulting from high business growth.

Taxation

The taxation rate reduced from 29,6% in 2010 to 29,0% in 2011, owing to the impairment of the group's interest in the en-commandite partnership in 2010.

Segmental performance

Retail

The retail business increased revenue by 26,2% from R743,9 million to R939,0 million and retail sales by 27,0% from R493,0 million to R626,0 million.

The gross profit margin reduced from 54,1% to 50,1%, mainly owing to the material weakening of the Rand against the US dollar since September 2011 and certain changes in product mix.

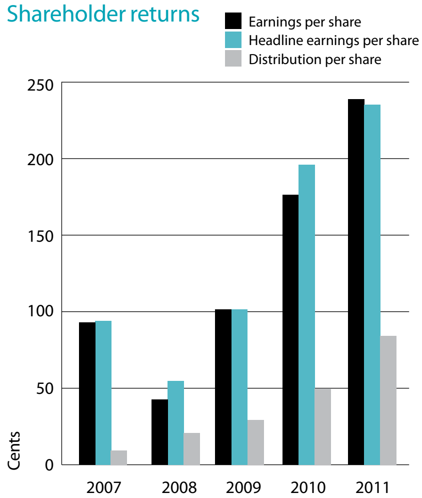
Financial services

While growth rates for FinChoice have slowed as the business becomes more established, FinChoice contributed 27,2% of the group's operating profit, up from 23,0% in the previous year.

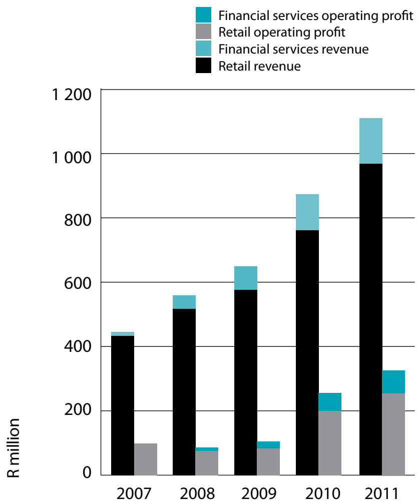
FinChoice operating profit increased by 62,4% from R57,2 million to R92,9 million, with operating margin increasing from 47,1% to 51,2%.

Cash generated before working capital changes increased by 61,2% for FinChoice, which is in line with the operating profit increase. Owing to the reduced growth rate of FinChoice and consequently its loan book, operations generated cash for the first time in 2011 of R7,7 million. Unless the group decides to grow FinChoice at a faster rate, FinChoice will continue to generate cash from operations.

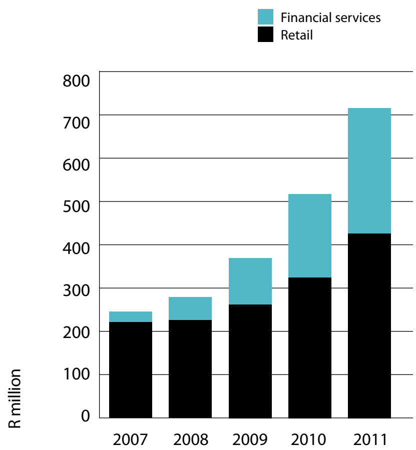
Shareholder returns



Revenue and operating profit



Receivables (net of provisions)



Statement of financial position

The group's financial position improved with net asset value increasing 25,5% to 829,9 cents per share.

Property, plant and equipment

Property, plant and equipment increased by 14,3% to R137,0 million mainly owing to the R18,3 million acquisition of a building adjacent to the head office to make provision for expansion.

Inventories

Stock levels at R92,1 million are 31,9% up on last year, above the retail sales growth rate of 27,0%. At the interim reporting period, management indicated that stock levels at year end were expected to be lower than the R85,5 million in June 2011. This did not materialise, mainly owing to the expansion of the retail product range and the shift in sales patterns. As noted in the managing customer demand report, the aggressive sales target for the final quarter was not achieved and led to higher stock levels at year end.

Stock health has deteriorated with the obsolete stock provision increasing from 9,6% of stock to 17,1%. The business will focus on improving stock health through stock clearance strategies in the first half of 2012.

Trade receivables

Trade receivable for HomeChoice retail increased 29,4%, which is marginally above the growth in retail sales of 27,0%, owing to a slightly reduced provision for impairment and longer terms to debtors on higher-value items.

Loans receivable

Loans receivable increased by 43,4%, which is lower than the revenue growth rate of 49,4%, owing to a large portion of the FinChoice book being short-term loans.

Interest bearing liabilities

Interest bearing liabilities increased by 42,9% owing to an additional bond to finance the new building as well as medium-term asset finance to fund other assets acquired.

Trade and other payables

Trade and other payables increased by 39,6% to R85,5 million, mainly owing to the increase in stock levels and additional marketing expenses incurred towards the end of the year.

Statement of cash flows

Cash and cash equivalents increased by 18,1% to R46,1 million.

Cash generated by operations before working capital changes increased 25,0% to R346,8 million, which is lower than the growth in profit before tax of 38,0%, owing to the impairment charge of R19,7 million included in the 2010 operating cash flow before working capital changes.

Movements in working capital are only up 15.9% compared to 129.2% in 2010, owing to the lower growth rate of FinChoice compared to 2010.

During the year the available-for-sale investments were also liquidated, resulting in a cash inflow of R3,8 million. This was mostly utilised to fund the increased share premium reduction, the purchase of intangible assets and the general increase in working capital requirement.

The reduction in share premium and its return to shareholders as a distribution resulted in R65,7 million of outflows.

Capital management

The directors actively manage the group's capital structure to enhance financial returns to shareholders. This requires a balance between capital management and maximising returns to shareholders, ensuring adequate capital to support the growth of the business and a buffer for unexpected losses.

The group has developed rolling five-year forecasts for budgeting purposes and to assess future funding requirements, to allow for appropriate capital resources to be in place.

During the period R65,7 million was returned to shareholders through share premium reductions.

Distribution cover was reduced to 2,8 times from 3,5 times and the total distribution per share of 85 cents was 70,0% more than the previous period.

The group will invest a substantial amount over the next few years in a new ERP system to improve the information technology platform of the group (refer to the implementing leading information systems report).

Financial risk management

Risk management, including financial risk management, is the responsibility of the HomeChoice Holdings board, who are assisted by the directors of the subsidiary companies. The audit and risk committee oversees the management of the financial risk.

The group endorses the King III principles and has established a policy framework which guides the group's risk management processes. These policies and frameworks are regularly monitored and corrective action taken where necessary.

The group is exposed to a variety of financial risks arising from the use of financial instruments, including credit risk, liquidity risk and market risk. A detailed summary of the group's financial risk management and exposure to specific risks is disclosed in note 3 to the group annual financial statements. For further information relating to financial risk management, refer to the risk report on pages 87-89.

Accounting policies and standards

The annual financial statements have been prepared in accordance with the group's accounting policies, which comply with International Financial Reporting Standards (IFRS) and interpretations of these standards, as adopted by the International Accounting Standards Board.

The principal accounting policies applied in the preparation of these financial statements are consistent with those adopted in the previous year, except for the adoption of new standards as described on pages 113-114 of the annual financial statements.

Acknowledgements

Special thanks to the finance team for their commitment to ensuring that the group achieves such a high standard of financial reporting and disclosure.

Annalize Kirsten
Chief Financial Officer
16 March 2012
Cape Town

"Our customer base and the record of their purchase and payment behaviour built over 26 years is our most important asset."

customers

2011 integrated annual report

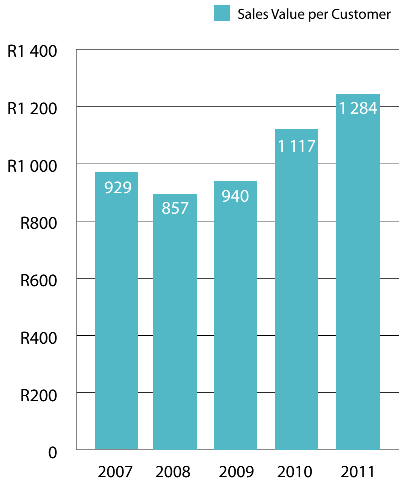
managing customer demand – retail

by Cathy Mackenzie and Anthea Abrahams

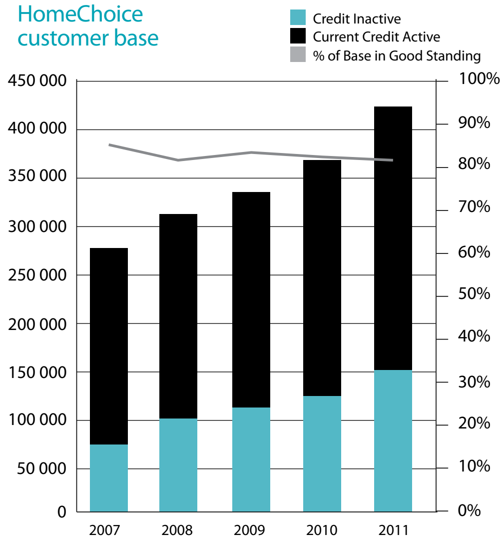
> "HomeChoice uses a range of data mining and analytical techniques to segment the customer database according to responsiveness and purchase behaviour. This allows for an efficient and targeted direct marketing selection process."

HomeChoice recognises that the quality and price of products, as well as the ability to keep the marketing and credit offering enticing, is critical to successfully managing and meeting customer demand. An integral element is the planning of future demand. HomeChoice uses a five-year customer base model that forecasts the required customer base across HomeChoice and FinChoice to support the group's revenue objectives. This model is also used in executive planning and marketing activities as far as two years in advance, with a particular focus on the number of new customers that need to be acquired. This five-year planning process is mapped back to the short-term merchandise and marketing plans, providing rigour and review to both.

Merchandise



HomeChoice customer base



HomeChoice uses a range of data mining and analytical techniques to segment the customer database according to responsiveness and purchase behaviour. This allows for an efficient and targeted direct marketing selection process, thereby reducing the risk of campaigns.

Managing the risk of buying

The buying team's decision-making is informed by a thorough understanding of customer demand, blended with newness and excitement of forward trends researched by the in-house trend and innovation studio. This studio supports the business philosophy of driving innovation through a range of trend forecasting tools, international catalogues and websites. Buyers travel regularly to international trade fairs sourcing product and monitoring international retail trends. The team

Highlights

growth in number of existing customers up

15%

to 424 000

growth in sales per customer up

15%

to R1 284

follows a disciplined buying and planning formula to support risk management and entrench lessons learnt. The merchandise, marketing and credit risk teams meet regularly to refine buying strategies and marketing offers. This process informs and refines the planning process.

Core to our retail formula is completing the customer's room for her and leveraging a degree of workmanship and uniqueness in the product that she is unable to get elsewhere. For example HomeChoice's bedding offer presents the whole bedroom to the customer as a perfectly co-ordinated look, offering the ultimate in ease of shopping. This is unique in the marketplace and sets HomeChoice apart from competitors.

Superior product quality is critical. Our quality assurance department works closely with suppliers and buyers to ensure quality standards are met throughout the product life cycle. All products meet and exceed international benchmarks for quality. Products are packaged at source in mail order packaging which is specifically designed to handle the stresses of a home delivery network. All appliances and electronic products have detailed instruction manuals which are designed in-house.

The buying team is highly experienced, with the average length of service being over 15 years. However, the group has invested in acquiring additional buyers and planners in order to mitigate succession risk.

Managing the customer offer

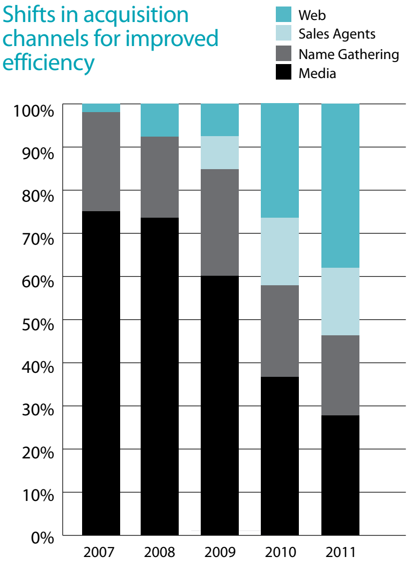
The multi-channel marketing approach allows for high levels of flexibility in stimulating customer demand. Management can respond quickly with up-sell and cross-sell strategies to customers through different channels to manage demand effectively.

The monthly flow of promotions to existing customers is designed to encourage repurchase. To ensure maximum return on investment, marketing efforts are also targeted based on the customer's propensity to purchase and ability to pay. New offers are tested to determine whether the offer generates the desired uplift in demand. This assists in managing the demand from the customer but also helps in managing costs.

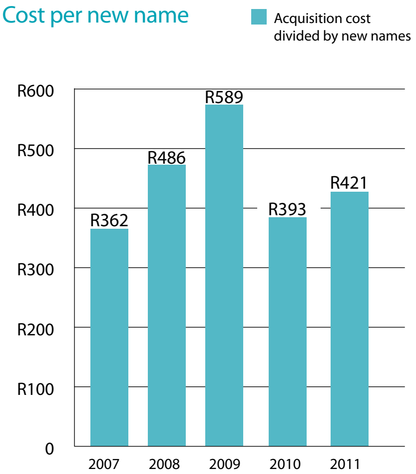
Expanding the customer base

Marketing activities to acquire new customers are aimed at attracting the desired quality of customer in terms of creditworthiness and propensity to purchase HomeChoice and FinChoice products. Merchandise is specifically selected for customer acquisition and is complemented with marketing activities such as gifting and discounting. During the year in review, we attracted 116 295 new customers to the retail business.

Shifts in acquisition channels for improved efficiency



Cost per new name



Year in review

One of the challenges we experienced within customer acquisition was higher risk from our direct sales agent channel. As a result acquisitions from direct sales agents were restricted during the year. Furthermore, we took a marginally more conservative stance on our acquisition credit risk strategy and reduced acceptance rates for new customers. These two factors resulted in a shortfall of 7,0% in new customer acquisition against target. It is expected this shortfall will be made up during 2012 and we do not anticipate this having an impact on our 2013 and 2014 executive planning.

The efficiency of magazine inserts continued to deteriorate during 2011. As a result, attention was focused on reactivating customers who had not transacted with the group for more than two years. Through effective response modelling, this largely compensated for the shortfall in our customer base growth objectives caused by the under-performance of new customer acquisition.

The acquisition cost per new customer name increased by 7,1% from the previous year. Above-inflationary increases in the underlying costs were mitigated by the continued shift from magazine inserts to more efficient channels, with a substantial growth in web.

HomeChoice aims to ensure consistent organic growth in customer demand through innovative merchandising and range extension. Our customers responded well to our new merchandise and marketing offers with an increase in sales value per customer of 15,0% on last year.

One of the key indicators of customer acceptance of our offer is how often she purchases with us in a year. Again we saw marginal improvements in our customer repurchase rates from 65,1% to 65,5%. This was achieved through extensions of the core offering as well as growth of new business units such as furniture and electronics. The growth of the home delivery service has supported the growth in furniture and other large-size items.

The customer offer remains broad with a choice of products from value to premium, with an emphasis on innovation across the range. Bedding, which is the main product line, again benefited from the high levels of innovation which led to further extension of the bedding range. Increasing the breadth and depth of ranges has resulted in higher repurchase rates which in turn improves customer retention.

While increases in wage costs and cotton prices during 2011 put significant pressure on margins, offerings were reconfigured to minimise the impact on demand. The average price of products was increased during the first half of the year while entry price points were improved. Most products have been enhanced with additional quality features and innovations which have enticed customers to move from the entry tier to the upper tiers at a higher price point.

To achieve the higher sales target in the last quarter, a high degree of newness was added to the range. This included jewellery and electronics such as cameras and camcorders, as well as furniture. Customers responded well to this change in offer, but sales patterns were different to expectation at a product level, and contributed to a stock imbalance.

Stock levels were increased during the year, improving stock ratios and reducing customer out-of-stock orders. While the final quarter of the year has traditionally not been a strong sales period for HomeChoice, sales patterns are shifting to align with typical retail sales flows, with more aggressive sales targets being set to capitalise on the peak retail period. The shift in this sales pattern, and not meeting the planned sales target for the last quarter, resulted in year-end stock levels being substantially higher than the prior year.

Compounding the high stock levels was a deterioration in stock health caused by changes in selling patterns in the bedding offering. This stock is planned for clearance in 2012. Stock is cleared through electronic channels as well as through the call centres. Commission structures incentivise call centre staff to focus on selling overstocked items to clear the stock. As telemarketing is the largest sales channel, this is an effective stock management method.

HomeChoice needs to ensure that its retail 'store', which consists of the catalogue and website, remains accessible, attractive and aspirational to customers. The catalogue design has been refreshed to follow international trends and has also been expanded to accommodate the extended

merchandise ranges. HomeChoice has an in-house creative studio which allows for complete control of the 'look and feel' of the catalogue.

Retail brand enhancements resulted in a group brand review in the middle of the year. This was undertaken to ensure alignment of the group brand architecture, particularly since marketing offers from the different business entities frequently travel in a single package to our customers.

In addition to the innovation in merchandise and brand extension, a number of marketing activities were enhanced during the year that resulted in increased spend per customer and higher repurchase rates:

- enhancement of the collaborative buying and planning processes with the merchandise team on range extensions to extend our customer's lifetime value and increase repurchase rates,
- introduction of longer terms and credit extension to selected customers to retain active customers for longer and to make it affordable for her to purchase high-priced items
- increase in the frequency of web-specific offers to encourage repeat visits and higher repurchase rates, and
- enhancements of offers to existing customers to increase their average order value and average number of items purchased.

Social media has created a new and exciting marketing path to customers. This interaction with consumers is reducing the long-distance selling relationship and building a community of HomeChoice customers. This also provides feedback for improved customer service and a testing ground for new products and offers.

The above marketing and merchandise initiatives resulted in a 14,9% increase in the customer base. This was achieved through improved demand and repurchase rates for existing customers and our new customer acquisition strategy, both of which are fundamental to the health of the list.

Plans for 2012

HomeChoice is investing in new merchandise systems to support improved forecasting, better stock availability and customer service. This will be a key focus area over the next two years.

The growth strategy will continue to focus on expanding the retail 'space', including catalogues, the website, investment in social media, e-commerce, single product mailers and statement stuffers. This will allow for products to continue to be tailored more closely to customers' needs and target sales more precisely.

Focus will be placed on integrating the merchandise, marketing and credit offer into an enticing proposition for the customer.

The product range will continue to be expanded into new areas such as furniture, electronics and gifting, while the ranges in the core categories of textiles and housewares will be extended.

Cathy MacKenzie
Retail merchandise director

Anthea Abrahams
Retail marketing director
16 March 2012
Cape Town

finchoice

Highlights

new loans disbursed up

25%

to R142m

repeat loans disbursed up

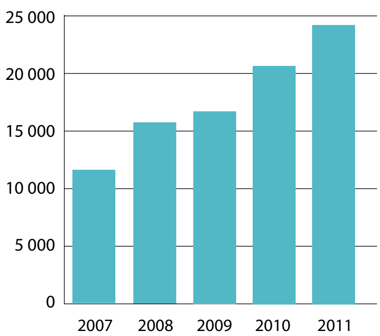
65%

to R347m

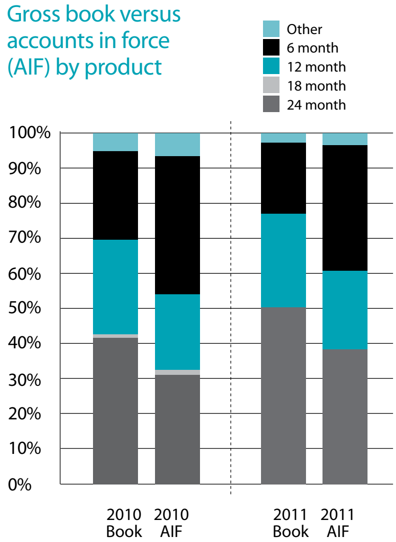
managing customer demand – financial services

by Sean Wibberley

New loan accounts to HomeChoice customers



Gross book versus accounts in force (AIF) by product



FinChoice sells unsecured personal loans by direct marketing to HomeChoice customers. These personal loans are categorised as either new loans, which are sourced from the HomeChoice retail customer base, or repeat loans which are granted to existing FinChoice customers. FinChoice offers three loan products varying in term (repayment period): 6, 12 and 24 months.

New loan business

FinChoice uses the existing HomeChoice retail marketing platforms and behavioural credit information to sell new loans at favourable marketing efficiencies and known credit performance.

By analysing HomeChoice customer repayment behaviour, new loan offers are targeted at customers with a proven record of repaying retail credit. In addition, HomeChoice customers have shown they are comfortable in transacting by direct marketing and are therefore responsive to FinChoice's direct marketing campaigns.

Loan disbursements are managed by limiting maximum loan values, controlling the volume of direct marketing activity into the HomeChoice customer base and by managing the mix of loan terms. The mix of new loans is controlled to balance the favourable cash yield and higher interest rate of the shorter term (6-month) product against the demand for longer term (12- and 24-month) loans. Relatively new HomeChoice customers or those in higher risk bands are offered the short-term product, with approximately 55% of new customers taking the six-month product.

Repeat loan business

Repeat loans are those made to the existing FinChoice base of active and recently paid-up customers with good repayment records. Customers are eligible for further credit once they have paid down a sufficient portion of the original loan capital to qualify for at least the minimum loan size and provided they can afford the new loan repayments. The customers are responsive to direct marketing offers, having demonstrated an affinity for personal loans and the FinChoice brand, products and service. The repayment behaviour of repeat loan customers is superior to new business as behavioural models are based on actual loan repayments as well as current repayment behaviour at HomeChoice.

Repeat loan demand is sourced by SMS, inbound telephone calls and the recently launched mobile self-service channel, FinChoice KwikServe™ (refer to page 67 for further information on this service).

New loan disbursements are considered an investment as each new customer represents an opportunity for repeat business. An analysis of the loan book shows that over 75% of new customers take a repeat loan, either during the term of the original loan or once the loan has been repaid. FinChoice's six-month product, known as the Flexi loan, has a particularly high level of repeat sales owing to the faster repayment of the initial loan capital compared to the longer term products.

Year in review

FinChoice passed the R1 billion mark in loan disbursements since the launch of the business in 2007. Loans totalling R489,5 million were granted in 2011, an increase of 50,9% from 2010 (R324,5 million).

New loans disbursed were 25% higher at R142,2 million and in line with the forecast direct marketing activity into the HomeChoice base. FinChoice booked 24 600 new loan accounts in 2011 (2010: 21 700).

Repeat loans grew by 65% to R347,3 million, exceeding the budgeted growth by 15%. The higher volumes of repeat loans were closely managed to ensure appropriate cash management within the group.

Active loan accounts grew from 41 700 accounts in 2010 to 51 400 in 2011, an increase of 23%. Repeat loans represented 71% of total loans compared to 65% in 2010. This is most positive as repeat loans have a lower cost of acquisition and more favourable repayment performance relative to new loans.

Controlled and responsible credit limit increases were extended to a segment of good credit risk customers. The maximum loan size of the 12- and 24-month products was raised from R10 000 to R15 000. The limit on the six-month product remained at the regulatory level of R8 000. The utilisation of the higher loan levels and the payment performance of these accounts was most encouraging, as we noted no impact on credit performance.

The gross loan book grew by 43,0% to R331,9 million in 2011 (2010: R232,1 million).

In 2011, 59% of new loans and 58% of repeat loans were managed to the six-month product (65% and 57% respectively in 2010), with the remainder being permitted to select 12- and 24-month terms. Most six-month customers engage with the product by taking repeat loans on the same terms. However, a portion of customers pay down their six-month product, and FinChoice is proactive in offering these good-paying customers the ability to switch to 12- or 24-month terms when taking a repeat loan.

The 18-month term product was discontinued in 2009 and most repeat customers from this product were migrated to 24-month terms. Owing to the larger average loan sizes customers are able to afford on longer terms and the automatic retention inherent in a longer repayment period, the gross loan book has shown a steady shift towards the 24-month product. Currently, 51% of the gross loans book (39% of accounts) is on 24-month terms. This shift is in line with our projections and the credit quality of these customers is high.

Plans for 2012

FinChoice will continue to source new loan prospects from the HomeChoice customer base in 2012. These prospects are responsive to direct marketing offers and have a credit record with the group.

In the year ahead the business aims to manage new account intake at approximately 55% on short-term products of six months or less, with the remainder being longer term. A 36-month product will be introduced on a very limited basis to the best-paying customers primarily as a retention product. However, the FinChoice strategy remains to book the majority of loan accounts on 24 months or less to preserve higher yields and manage cash utilisation.

Credit limit increases will be managed in a controlled and responsible manner, based on the experience from 2011.

Repeat loan business is expected to increase steadily and is targeted to reach 70% to 75% of total loan disbursements.

Since the inception of the financial services business the group has adopted a single loan per customer strategy. This approach was followed to focus on account growth rather than merely the Rand value of loans disbursed. However, most competitors offer multiple concurrent loans to customers. Management believes FinChoice customers would embrace an offering of long-term and short-term finance. Additional shorter term and longer term products will therefore be introduced in 2012 and dual loans to the same customer will also be tested.

Sean Wibberley
Chief executive officer
FinChoice (Pty) Ltd
16 March 2012
Cape Town

Group Highlights

increase in group receivables of
38%
to R750m

group provisions drop to
14,7%
from 15,7%

new customer approval rates decreased to
49,8%
from 51,4%

Managing credit risk

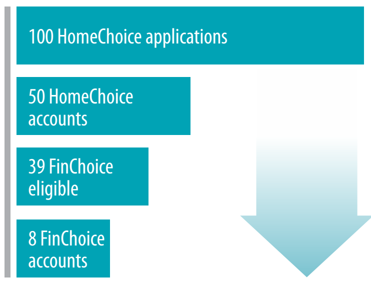
HomeChoice's business model is based on using credit as an enabler of merchandise sales growth, allowing its predominantly female customer base to purchase quality homeware through instalment credit. Shareholder interests are protected by managing the potential risks associated with credit-granting to achieve an optimal balance between risk and reward.

The level of new customer acquisition is determined by the group's growth targets, taking into account the risk level, repurchase propensity and profitability of new customers. Bespoke scorecards predict the level of risk of a customer and relatively small instalment accounts are granted to new customers.

The group maintains a suite of behaviour scorecards which provide a sound basis for extending further instalment credit to good-paying customers, to drive repurchase rates and repeat loans and reduce average bad debt. These scorecards are regularly reviewed and upgraded to ensure that the group's credit policy remains in line with an acceptable level of risk for repeat business. Customers with acceptable risk levels are identified for marketing and promotional offers. The integration of the marketing and credit processes therefore ensures that the extensive customer database is mined to optimise profitability.

The FinChoice loan book is derived from HomeChoice customers who have demonstrated good payment behaviour. This ensures that FinChoice offers are marketed to relatively low risk prospects. The selection criteria have enabled the business to select a profitable group of loan customers, with a stable and acceptable risk of bad debt.

The history of initial loan risk within FinChoice is testament to the consistency



and predictability of the HomeChoice behaviour scorecards. Customers with a good credit performance in both HomeChoice and FinChoice are identified to offer longer term products with higher

managing the risk of credit

by Mike Roux

"The group maintains a suite of behaviour scorecards which provide a sound basis for extending further instalment credit to good-paying customers, to drive repurchase rates and repeat loans and reduce average bad debt."

values. This multiple level risk filtering process is key to the group's ability to maintain relatively low risk across the FinChoice portfolio.

All group data is taken into account when a customer is considered for credit extension. In this way a customer in arrears with a FinChoice loan will not be granted further credit for HomeChoice retail sales, and vice versa.

The quality of the customer base is closely monitored and early default models are maintained to detect any signs of early customer default. Industry-wide fraud databases are used to identify potentially fraudulent loan applications. These processes continue to maintain early default behaviour at acceptable levels.

Year in review

Group receivables increased by 37,9% from R543,7 million to R749,7 million. HomeChoice increased by 29,4% from R325,4 million to R420,9 million. FinChoice increased by 43,4% from R206,9 million to R296,6 million.

Debtor costs as a percentage of revenue have been stable for both the retail and financial service businesses. Group debtor costs as a percentage of revenue increased from 12,6% to 13,2%. However this is due to the fact that FinChoice, with a higher debtor cost to revenue, has grown as a percentage of the total group business.

HomeChoice

Despite the challenging economic environment in 2011, the desirability of the retail credit offer continues to be demonstrated by the fact that 94,7% of sales are on credit. Statistics from the National Credit Regulator and credit bureaux show that indebtedness and the number of South African consumers with impaired credit records increased in 2011 and this deterioration in the credit market has led to increasing early indicators of bad debt for our new customers. In response to this trend, new customer scorecards were redeveloped and tighter lending criteria implemented from August 2011.

New customer approval rates decreased from 51,4% in 2010 to 49,8% in 2011 as a result of increasing customer indebtedness, higher applications for credit from customers under debt review and the implementation of these new scorecards. The scorecards have been implemented in an online environment which has reduced new customer approval time by 24 hours.

Databases are analysed to understand customer behaviour and to be more selective in marketing activities. This information shows that sales to existing customers have better marketing efficiency

HomeChoice ageing

Period in arrears (contractual basis)	Percentage of debtors book 2011	2010
Less than 31 days	**73,7**	77,0
32 – 60 days	**11,2**	10,1
61 – 90 days	**5,6**	4,7
Over 90 days	**9,5**	8,2

FinChoice ageing

Period in arrears (recency basis)	Percentage of debtors book 2011	2010
Current	**89,1**	87,1
1 – 30 days	**6,9**	9,4
31 – 60 days	**1,8**	1,5
Over 61 days	**2,2**	2,0

and better risk. Accordingly, HomeChoice has increased its sales to these customers, while balancing the need for new customer acquisition. In 2011, 78,9% of credit sales were to existing customers (2010: 77,0%).

The launch of furniture products at a considerably higher sales price than HomeChoice's traditional product range was accommodated by developing new credit policies for selected customers to allow larger instalment loan sizes over longer terms for selected products.

The credit performance of new customers acquired through the direct sales channel launched in the previous financial year has been worse than other new customer channels. As a result, the volume of new customer acquisition from this channel was scaled down considerably in 2011.

The collections operations have performed well during the year, with the cost per Rand collected reducing by 10,3% in 2011. The group continues to supplement collections activities with external collection agencies, and written off accounts are collected by outsourced legal agents.

The HomeChoice book (before provisioning) has grown by 28,2% to R509,4 million (2010: R397,5 million). The ageing of the book has marginally worsened in 2011 and was impacted by the following:

- HomeChoice retail amended its product structure at the end of 2010 to charge a monthly service fee on each account. This has increased the relative size of the book in arrears, as these customers are now charged a monthly fee in addition to the normal interest charge. The effect of this product structure change is now fully realised in the book, and the arrears distribution is expected to stabilise.
- The general worsening of the credit environment led to tighter lending criteria being implemented, primarily for new customers, and the increase in arrears is expected to moderate.
- The proportion of accounts under debt review has remained stable. However, customers whose debt review application has lapsed have higher arrears roll rates than normal, and these have worsened the arrears distribution. The rate of applications for debt review were stable for the second half of 2011.

Improved recoveries on written-off accounts affect both the expectation of the cost of future bad debt and the recoveries from the already legal book. This has offset the provisioning impact of the above factors. Provisions have therefore reduced slightly to 17.4% of receivables from 18.1%. Management is confident this provisioning level is adequate to cover the bad debt experience resulting from the factors outlined above.

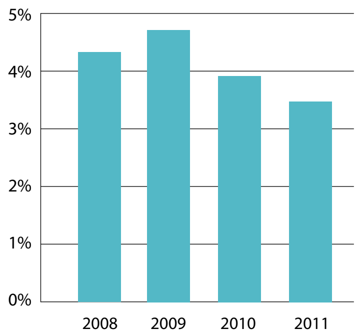
FinChoice

FinChoice loans are sold to good credit customers of HomeChoice, resulting in overall bad debt risk remaining stable. Owing to the larger loan amounts in FinChoice, the business collects loan instalments directly from customers' bank accounts via real-time debit order on the customer's salary date, thereby ensuring timely collection of funds direct from the

FinChoice product mix

	Percentage of debtors books	
	2011	2010
6-month loan	**22,5**	24,9
12-month loan	**24,8**	26,6
24-month loan	**50,3**	42,8
Other	**2,4**	5,7

HomeChoice collection cost as % of collections



HomeChoice and FinChoice provisions as % of the books

	2011 R000	2010 R000	2009 R000
HomeChoice			
Debtors cost	90 730	72 744	65 944
Debtors cost as a % of revenue	10,0%	9,9%	11,5%
Provision for impairment as % of gross receivables	**17,4%**	18,1%	18,9%
FinChoice			
Debtors cost	53 151	35 563	21 293
Debtors cost as a % of revenue	29,3%	29,3%	29,2%
Provision for impairment as % of gross receivables	**10,6%**	10,9%	11,2%

customer's bank account. The technology platform automatically routes any unpaid debit orders to a specialised collections area for immediate follow-up with delinquent customers.

The FinChoice collections process is managed on a recency of payment basis. We attempt to reinstate monthly payment behaviour as a priority. Any account that has not made payments for 120 days is written off, and external legal agents are used to attempt to recover the outstanding balance.

In late 2011, FinChoice launched a product to extend the repayment terms for customers struggling to make repayments. It is hoped that by proactively reducing the monthly repayment amounts, customers can avoid reaching a crisis point and having to go under debt review. The book is still insignificant, but expected to increase during 2012, and is covered by adequate provisions.

The risk experienced with customers taking repeat loans is lower than for initial loans. Repeat loans within FinChoice have shown continued growth, increasing from 57% of total disbursements in 2009, to 65% in 2010 and 71% in 2011.

There has been an expected increase in the proportion of the longer term loan book, primarily as these loans are paid down at a slower rate. Provisions have remained stable across the portfolio.

Customers qualify for longer term loans only if they have demonstrated better than average risk of default. In particular, longer term loans are offered to customers who have paid up previous loans from FinChoice. The 12-month book is a self-selected group of these qualifying customers, who demonstrate lower risk than those who choose a longer term when offered it. The risk levels for each of the term products have remained stable during 2012.

The FinChoice debtors book (before provisions) has grown 43,0% to R331,9 million (2010: R232,1 million). Provisions have marginally improved at 10,6% of receivables from 10,9% in 2010.

Plans for 2012

As a result of the expected increase in inflation and lower growth in the South African economy, we anticipate that the credit market in 2012 will remain challenging.

A higher proportion of new customer acquisition will result in a marginal deterioration in bad debt in the HomeChoice retail book. We expect the current levels of risk in the FinChoice book to remain stable.

The group will maintain its current credit strategy and will continue to review and enhance scorecards and vetting procedures, with a focus on enhancing group customer exposure assessments.

Longer credit terms will be tested in the retail business, while credit policies and processes will be developed to cater for new financial services products. FinChoice will also test concurrent loans to their existing customers.

A key focus in 2012 will be on improving the customer experience of credit and enhancing the credit offer, making it more attractive to customers.

The collections team will continue to explore further efficiencies to reduce the cost per Rand collected, while maintaining their targeted yields.

Mike Roux
Credit risk director
16 March 2012
Cape Town

enhancing the customer experience – retail

by Rob Ross and Annalize Kirsten

> "HomeChoice created a customer experience index to track her experience and ensure focus on improving customer-facing systems and processes."

As HomeChoice does not have a face-to-face relationship with customers, it is imperative to make interactions simple and accessible, and get orders delivered in the shortest possible time.

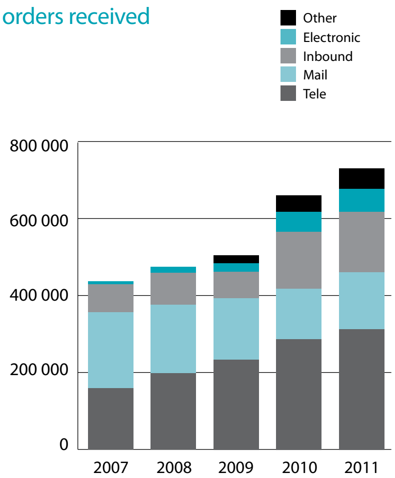
To enhance the customer experience the group aims to ensure consistent service and speed of delivery across all channels, deliver service that customers consider to be friendly and fast, and continue to invest in customer-facing systems and processes.

Customer surveys are conducted to measure service levels and to make improvements where necessary. The surveys cover the shopping, ordering, delivery, payment and query resolution experience.

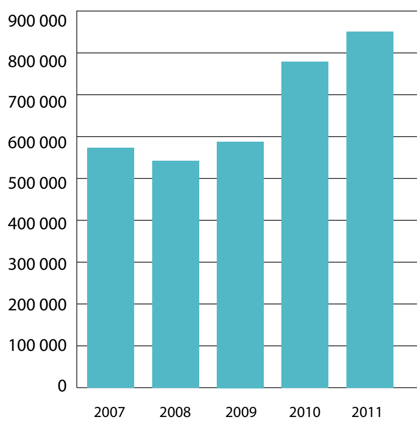
Enhancing the customer experience

HomeChoice aims to make the customer shopping experience as convenient as

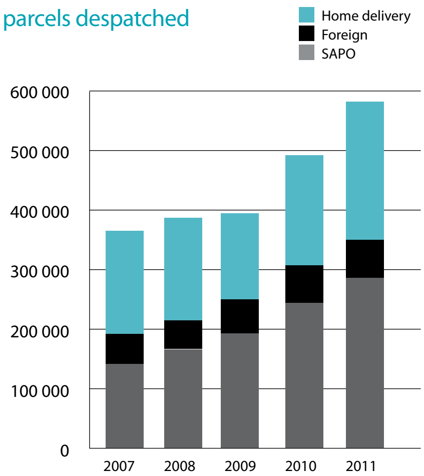
Growth in number of orders received

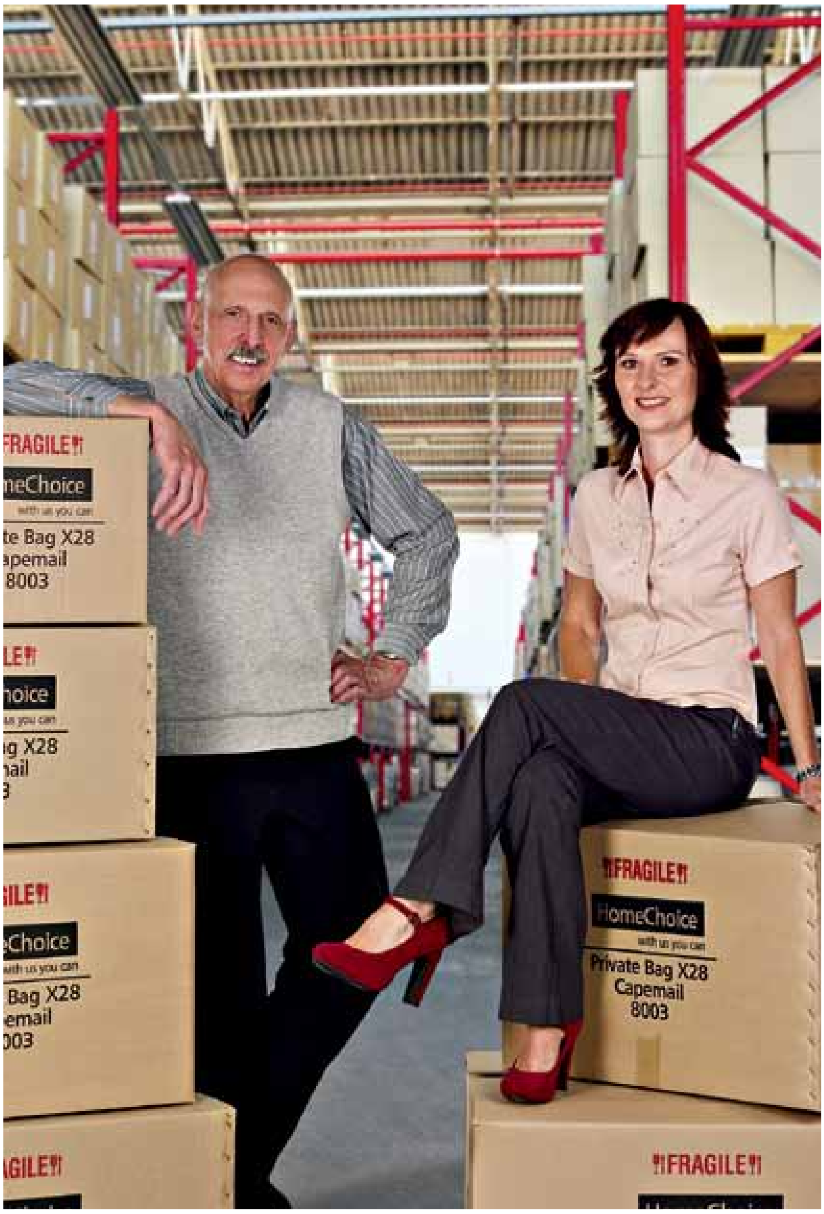


Incoming call volumes



Growth in number of parcels despatched





Highlights

expansion of independent home delivery up to

49%

from 45% of sales

orders received up

13%

incoming call volumes up

18%

possible and customers can place orders through a range of channels, including the call centre, electronic communication and mail.

HomeChoice has over 250 call centre staff and the ordering process through the call centres is highly interactive, with agents recommending related items and guiding the customers in their purchasing decisions.

The group's distribution network extends beyond South Africa to the neighbouring countries of Namibia, Botswana, Swaziland and Lesotho. Orders for customers in South Africa are distributed using the South African Post Office (SAPO) and owner-drivers, who deliver to the customers' homes.

All parcel movement in the home delivery network is electronically tracked through a parcel management system and this facility will soon be available to customers with internet access to monitor progress of their order. Regular SMS communication is used to keep customers updated on the status of their orders.

Year in review

A customer experience project was initiated during the year to streamline processes around customer engagement. The quality of communication with customers was improved as were processes to resolve customer queries, for example on the status of goods despatched and payments. Electronic communication is being used increasingly to replace mailed letters.

A customer experience index was created to track her experience. This index is tracked monthly to ensure management focuses on areas needing improvement.

During the year management also focused on reducing the time between order capture and despatch, and initiatives included changing the previous batch process to the credit bureau to an online process.

The large increase in incoming call volumes in 2011 placed pressure on the call centres to operate at targeted service levels. To alleviate this the message-leaving facility for customers was extended to business hours and not just confined to after hours availability.

Customer experience has also been improved through the expansion of home delivery. This service aims to get merchandise to customers as speedily as possible and is used for handling items which exceed SAPO restrictions. In 2011, 75% of home delivery customers received their orders within seven calendar days of despatch from the distribution centre. New home delivery networks were opened in Bloemfontein and Rustenburg and the group achieved its target of 49% for home deliveries in South Africa.

Plans for 2012

The customer experience project will be expanded and further surveys undertaken to get feedback from customers on areas requiring improvement.

We will offer the KwikServe functionality to our customers to enable them to pay us 24 hours a day, 7 days a week, securely on their mobile phones. Customers will be able to do various account queries using this functionality.

The home delivery network will be expanded within South Africa and the aim is to increase deliveries via this network to 55%.

The leases of the group's two distribution centres expire at the end of 2013 and plans are already under way to build a customised warehouse which will fulfil the group's distribution needs for the next ten years. The building will be environmentally efficient and allow for improved stock handling. A small distribution centre will be opened in Gauteng in 2012 to allow for additional stock holding and quicker delivery of large items such as furniture and white goods.

Annalize Kirsten
Chief Financial Officer

Rob Ross
Logistics Director
16 March 2012
Cape Town

finchoice

enhancing the customer experience

– financial services

FinChoice manages relationships with customers and prospects exclusively through direct marketing channels. A range of complementary channels is used to provide convenience, quick response times and reassurance to customers. These channels include:

- Telephone: An inbound contact centre operates seven days a week. An outbound telemarketing team conducts targeted sales campaigns.
- SMS: Customers are informed of the status of their accounts via SMS and advised when loan disbursements have been deposited. SMSs are also sent to existing customers after each expected instalment.
- FinChoice KwikServe™: This new service allows customers to interact securely with their loan account 24 hours a day, seven days a week on their mobile phones.
- E-mail: Loan and service requests are also managed via e-mail.
- Internet: Customers can access product information, terms and conditions and apply for new loans online at www.finchoice.co.za.

Financial services consultants are well trained in the features and benefits of loan products, assessing customer credit needs, completing new and repeat loans sales and managing customer queries.

As FinChoice markets to pre-approved HomeChoice retail customers, the majority of loan applications are completed within ten minutes via a single telephone call. Repeat loan requests take less than five minutes by telephone. Customers are not required to complete any documentation, which is a refreshing change for most customers applying for credit in the current market conditions. With the launch of the new FinChoice Kwikserve™ channel, a customer can be approved for a repeat loan in as little as two minutes.

Year in review

A major focus in 2011 was the development and piloting of FinChoice KwikServe™, an innovative mobile self-service channel launched in July 2011 to allow existing loan customers to interact securely with their loan account without the need to speak to a consultant. This non-voice channel uses the Unstructured Supplementary Service Data (USSD) technology available on all cellular handsets, providing almost 100% coverage of the FinChoice customer base. Customers registered with KwikServe can access loan account balances, apply for a repeat loan or effect an instalment skip. Management is encouraged by the favourable customer response to this new channel, and subsequent usage levels are increasing steadily.

Inbound call volumes increased in the second half of the year in line with the growth of the loan book. However, call abandon rates and service levels in the call centre fell outside the targeted ranges. This was primarily due to the slowdown in the recruitment of new customer consultants in anticipation of a shift in customer usage towards the KwikServe channel. While KwikServe has been well received by our customers, management recognises that it will take time for customers to migrate from their comfort zone of the telephone and use the new technology.

Plans for 2012

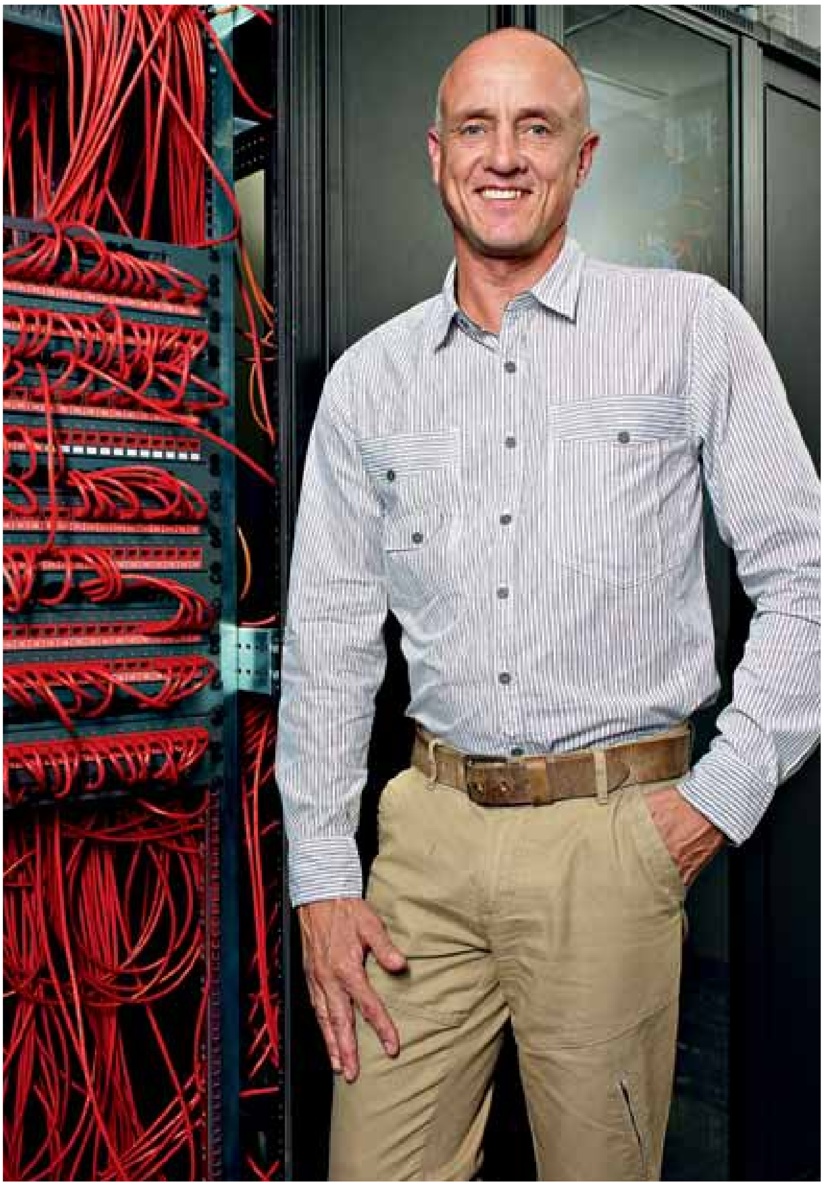
FinChoice will continue to focus on interacting with customers via mobile phones. The global shift to smart phones and faster data connectivity has resulted in cellular handsets offering a visually richer internet browsing experience. Cellular connectivity also provides broader coverage of the group's customer base than computer-based internet access.

In addition, mobile phones are very personal devices which are seldom out of reach of customers, allowing customers to access credit or manage their loans quickly and conveniently.

The KwikServe channel will be enhanced with additional functionality while ongoing incentive and educational programmes will be undertaken to increase registrations and usage. A mobile website will be piloted to select customers, leveraging off the technology investment from KwikServe to offer customers a more visual and interactive experience.

Sean Wibberley
Chief Executive Officer
FinChoice (Pty) Ltd
16 March 2012
Cape Town

> The IT strategy will support the growth in the business and cater for the rapidly changing technological and social environments.



As a multi-channel direct marketing retailer and provider of financial services, the primary contact points with the customer are through a centralised call centre, mobile phones, the Internet and the postal system. Information is therefore critical in this direct marketing environment and the group has a strategic reliance on integrated technology solutions that are housed at the head office and distribution centre in Cape Town.

A rolling five-year information technology plan aims to optimise the value of the current information systems, integrate new systems which enhance business processes, customer interactions and data management, and ensure a group view of all customers across all systems.

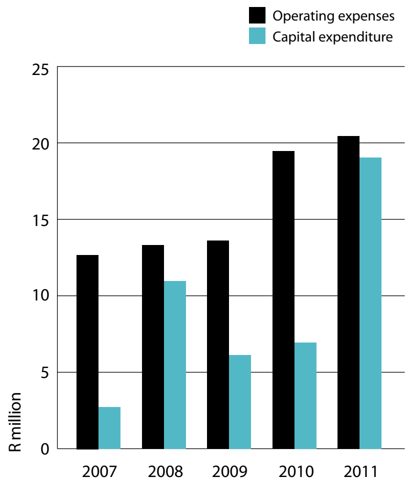
Year in review

In anticipation of the significant technology initiatives planned, the group increased IT resources from 50 to 63. At the same time, the group has moved away from using mainly outsourced skills to predominantly in-house specialists, with permanent employees representing 89% of IT staff at year end.

Systems have been reviewed identifying opportunities which would support the continued growth of the business, improve the group view of the customer and further enhance the ability to engage with her across different channels and across different business units. Leading information systems have been selected for implementation to either supplement or replace current systems.

A merchandise planning system has been selected for implementation in 2012. This planning system by Direct Tech is designed for multi-channel retailers with strong catalogue and web presence. It will improve merchandise planning to fulfil the growing customer demand.

One of the major projects initiated during the year will replace large portions of the legacy systems with an enterprise resource planning (ERP) system. We conducted an exhaustive review of internationally used systems and after intensive evaluation made a selection which is best suited to



implementing leading information systems

by Louis Pretorius

our current and future needs. Advanced Distribution for Microsoft Dynamics AX (ADAX©) is widely used by multi-channel retailers internationally. ADAX will allow HomeChoice to adapt quickly to changing demands owing to a unified process repository built on best practices. Implementation of the ERP will help improve efficiency and transparency in our business practices, will maximise the value of our existing technology investment and will provide an integrated, stable and flexible technological platform to support growth. Implementation of the ERP system is planned for 2013.

FinChoice KwikServe™, which uses mobile phone USSD technology, was rolled out from July 2011 and allows customers to self-manage their loan accounts 24 hours a day (refer to page 67 for further detail).

The telecommunications infrastructure has been enhanced to allow for growth, ensure high levels of availability and prepare for future technological advances. This includes the expansion and consolidation of the server and storage environment; upgrade of the fibre internet connection to enable e-commerce initiatives; the introduction of a redundant Telkom solution to guard against exchange failure; expansion of the least-cost routing capacity and the addition of redundant wide bandwidth to the warehouse.

Business intelligence capabilities have been upgraded to leverage integrated customer behaviour data across the business units. Capacity of the inbound and outbound diallers and the contact centre has been enhanced.

In order to improve IT governance the following were instituted:

- a change control committee to ensure risk reduction in technology systems changes,
- a security forum to ensure physical and logical information security, and
- enhancement and project prioritisation forums to ensure the appropriate prioritisation, resourcing and progress of technology projects and enhancements.

We developed a customised project management methodology which will be further refined and adopted in 2013. An IT governance charter was created and approved by the board which, together with an IT governance framework, forms the basis of all future governance initiatives.

Plans for 2012

The IT strategy will support the growth in the business and cater for the rapidly changing technological and social environments.

The major projects for 2012 include:

- designing and developing systems and processes for the new ERP system, supported by training and change management initiatives in preparation for the implementation in 2013
- redeveloping the e-commerce platform and website to further enable customers to interact via customer-centric mobile technology platforms,
- implementating the merchandise planning system,
- implementing business intelligence systems to enhance the availability and accuracy of analytical data and ensure that critical customer data is shared across the business,
- establishing adequate disaster recovery capabilities for the group,
- continuing improvements in IT governance and compliance with King III,
- investing in additional resources and infrastructure to enhance the availability and security of data,
- implementing the HomeChoice project management methodology,
- enhancing and expanding the USSD FinChoice KwikServe™ product offerings and implementing a similar offering to HomeChoice customers (HomeChoice KwikServe™), and
- developing and piloting a mobile website for FinChoice.

Louis Pretoruis
ICT Director
16 March 2012
Cape Town

our customer

Maintaining a dialogue with our customers is of prime importance to us, and we love hearing what they have to say!

R1 million *winner*

"I've been a customer since 2000 and my first purchase was a comforter. I still use it today! My favourite HomeChoice purchase to date is definitely that first comforter. But I also love the 20L urn I bought. I use it for gatherings to make tea and coffee, and I also use it to heat up water to do the dishes with."

Zodwa Mabaso,
Johannesburg

Like 345 people like this.

Kerri De Bruin My dream bedroom make-over is the new AMANDA Range. absolutely STUNNING!!

Mamello Selimo
I like your bedding it brightens up my bedroom, the quality is wonderful keep it up!

Meet **Thabile Hlongwane**, a HomeChoice customer from Ladysmith, KZN:

"I am an educator from KwaZulu-Natal and my family consists of my partner, my two sons, and my siblings. I get up at 5 o' clock every day to get myself ready, and when I get home from work, I clean, prepare dinner, and bath my children. When I have time to relax, I like to read magazines and go to stokvel meetings and community projects. I love HomeChoice because it has products of the highest standard. Everything is so elegant, splendid, superb and very affordable."

Like 1803 people like this.

Jacqueline Burger Sumner
Congratulations, I've also been blessed, I won an Intec course through HomeChoice.

Thembi Dlono Congratulations, Zodwa. I also started studying through a HomeChoice bursary. They're the best!

Nokuthula Nkokha
Congratulations! The next one is me! Thanks to HomeChoice for delivering my parcel – I also got a nice present from them, a watch, which I love! Thanks again HomeChoice.

employees

"We are committed to managing our employees' talent and career development while recognising and rewarding their contribution."

managing talent and driving transformation

by Elmori Bester

> A talent management framework was implemented in 2011 to recognise and grow our existing talent and drive the learning and development strategy.

The group aims to have a workforce that is empowered, respected, continually challenged and recognised for their contribution and this is entrenched in the employee value proposition. To support this proposition, people management practices are based on the group values of customer delight, teamwork, integrity, innovation and excellence.

Employee engagement

Several mechanisms are used to assess staff satisfaction levels:

- The annual staff survey, Pulse, measures performance supporting the core values and assists in identifying areas to promote employee engagement. The 2011 results indicated a 3% improvement in staff satisfaction with communication and career development opportunities. The survey showed that 81% of staff are positive about the future.
- Annual 360-degree feedback surveys are conducted for all management and measures their leadership ability against the company's leadership model. This model aims to ensure that the business leaders undergo development, lead through inspiration, aim to delight the customer, creatively shape the future and consistently deliver results.
- Exit interviews and reviews for new employees have been designed to measure satisfaction levels against core values and identify areas for improvement.

Acquiring talent

New employees are assessed to determine their potential fit into the company culture. The selection process considers not only the skill levels required for the role but also the competency based interviews, pre-employment checks and psychometric assessments which establish the candidate's ability to align with the core values of the business.

Driving a performance culture

Biannual performance appraisals measure deliverables in terms of outputs against personal goals that are directly linked to departmental objectives and company performance areas. This process also measures behaviours and alignment to the company values, ensuring that employees are challenged and rewarded for what they do and how they do it. Annual key performance areas are directly linked to the short-term incentive scheme, as detailed in the remuneration report on pages 76-78, to ensure an alignment between reward and recognition of both individual and company performance.

Growing talent

A talent management framework was implemented in 2011 to recognise and grow our existing talent and drive the learning and development strategy. The annual review of the talent pool identifies top talent that delivers excellence and promotes company values, allows the implementation of development plans for current and future leaders who support the company vision, ensuring succession plans are in place, and facilitates the development of career maps to support emerging talent.

Highlights

specialist training participation up by

63%

black senior management representation up by

31%

to 21%

improved BBBEE rating to

level 6

from level 8

technology teams. Increased focus on the development of specialist talent, in line with the group's talent management framework, resulted in a 63% increase in specialist talent participating in learning initiatives.

The implementation of the Paterson job grading system and realignment of the terms and conditions of employment has ensured equitable distribution of benefits and alignment with the remuneration strategy. Increased focus on the development of black talent has resulted in an 8% increase in black representation in top management and active recruitment of black talent has increased diversity within senior management to 21%. However, overall black representation dropped by 2% owing to the large growth in specialist areas and the limited availability of black talent.

Recognising employees' contributions

Annual award programmes ensure that employees are acknowledged not only for outstanding performance and quality outputs but also for living the company values. The annual Chairman's Award recognises exceptional individuals who have made an outstanding contribution to the business, act as role models to others and live the company brand. Monthly CEO Awards recognise employees who have made a significant contribution to the business. In addition, the long-term incentive scheme as detailed in the remuneration report not only rewards employees' contribution but also acts as a retention tool.

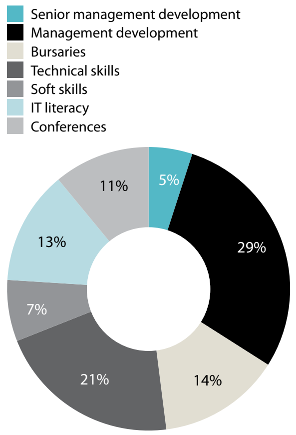
Year in review

The group's headcount increased by 28% in 2011, with 62% of this growth being in the specialist areas, including the creative, merchandise, analytical and information

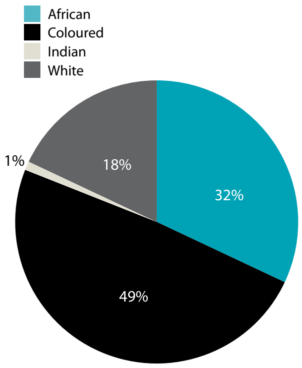
HIV and employee wellness

Employee wellness is essential to ensuring a productive workforce where employees can fulfil their potential. All employees have access to the HomeChoice Plus programme which provides counselling services on

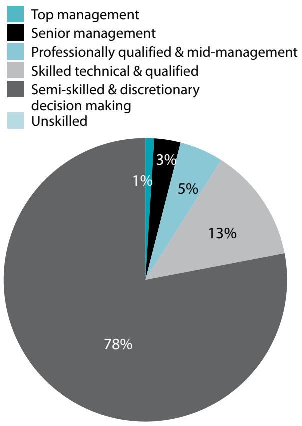
Learning and development spend



Diversity 2011



Labour turnover analysis



issues including stress management, financial, legal, substance abuse and health care issues. This service also provides assault and trauma assistance and funeral support. Employees all have access to on-site nursing services and meals in the canteen. Voluntary HIV/AIDS testing is provided by the company and in 2011 307 employees underwent testing and counselling.

Skills development

As an accredited training provider with the Wholesale and Retail SETA and accredited with the South African Board of Practitioners, several learning and development initiatives are available to employees, many of which are aligned with the National Qualifications Framework, allowing employees to gain formal credits when attending these programmes.

In 2011 over R1,5 million was spent on training and over 28 900 hours of training was delivered, equating to 39 hours of training per employee. The learning and development strategy for 2011 included the development of leadership skills and improvement of communication and presentation skills, while the core focus was the development of specialist talent in line with personal development plans. In the operational areas development focus has been on enhancing customer service skills to promote the key value driver of customer delight.

Workforce analysis

The group is committed to transformation and to achieving a workforce that is representative of the Western Cape's economically active population. Although black employee representation has decreased by 2%, largely owing to the higher number of specialist appointments, significant progress has been achieved in improving diversity at senior and

HomeChoice Holdings – Employee turnover analysis

	2011	2010
Permanent employees at the beginning of the period	**571**	514
Add		
Recruitments	**323**	151
Less		
Terminations	**168**	94
Reasons for terminations		
Resignation	**131**	82
Dismissals	**36**	11
Death	**1**	1
Retirement	**0**	0
Permanent employees at the end of the period	**726**	571
Annual turnover of permanent employees (%)	**26%**	17%
Employee breakdown		
Permanent employees	**726**	571
Contract employees	**14**	8
Total employees	**740**	579

	2011	2010
Training interventions	6 651	Not reported
Total employees trained	3 144	2 111
Percentage black learners	87	80
Percentage specialist employees	31	19
Total employees on training programmes	691	570

Our overall diversity representation is in line with the demographics of the Western Cape:*

	Group	Western Cape	Difference
African	32%	30%	2%
Coloured	49%	52%	(3%)
Indian	1%	1%	0%
White	18%	17%	1%

* South Africa Survey 2010/2011 (South African Institute of Race Relations)

Workforce Profile Dec 11			Male					Female			Total
Occupational levels	A	C	I	W	Total	A	C	I	W	Total	
Top management				7	7		1		5	6	**13**
Senior management		2	1	16	19		3	1	10	14	**33**
Professionally qualified & experienced specialist	1	9		27	37	1	10		20	31	**68**
Skilled technical & junior management	4	21	1	18	44	8	39	3	24	74	**118**
Semi-skilled & discretionary decision-making	41	74	1	5	121	175	196	3	5	379	**502**
Unskilled & defined decision-making	2	3			5	1	2			3	**8**
Total employees	48	109	3	73	**233**	185	251	7	64	**507**	**740**

top management levels. This has been primarily due to the implementation of targeted recruitment techniques as well as the preferred approach to develop black talent. Female staff numbers represent 68% of all staff.

Labour turnover

Labour turnover increased to 26% in 2011 from 17% in 2010 as a result of enhanced people management practices and performance expecations. Of the 168 employees lost, 78% were semi-skilled staff within our contact centres and 22% was due to the company's decision to terminate service. Senior management and specialist areas remain stable losing less than 9% of the total headcount turnover.

The average length of service for our contact centre staff is 3 years, slightly above the marketplace of 2,8 years, while our management and specialist employees' average tenure is more than 5 years, ensuring a stable leadership and skill base.

Labour relations

The group remains non-unionised and has clearly defined disciplinary processes. The group generally does not enter financial settlements at the CCMA. Each referral to the CCMA is defended and 84% of CCMA disputes resulted in a favourable outcome for the group.

Plans for 2012

In the year ahead the human resources function will focus on the following priorities:

- implementing a recruitment management system to improve operational efficiency and enhance selection decisions,
- reducing attrition levels across the business through the entrenchment of the employee value proposition,
- improving diversity within senior and middle management categories and increasing overall disability representation,
- further developing specialist talent levels, and
- driving a performance culture through further entrenchment of performance review and recognition processes.

Elmori Bester
Human Resources Director
16 March 2012
Cape Town

remuneration, nomination & talent management committee report

Remuneration philosophy

The group recognises that employees are a critical component in meeting our business objectives and ensuring the ultimate success of the group. The remuneration philosophy and policy is aimed at ensuring that the group attracts, motivates and retains exceptional talent, drives a high performance culture closely aligned with the group's business objectives and strategy, and gives effect to the following principles:

- Internal consistency and fairness to ensure that all employees are remunerated fairly in relation to one another and that this remuneration is reflective of the value they bring and of their performance,
- External consistency through participation in industry remuneration surveys to ensure that employees are remunerated fairly in relation to the market, and
- Both short- and long-term incentives to align employee interest with the board and to focus energy on attaining short-term goals not at the expense of long-term objectives and sustainability.

The board delegates responsibility for the oversight of the group's remuneration policies and practices to the remuneration committee.

Remuneration governance

The remuneration committee consists of two independent non-executive directors:

1. Willem Jungschläger (chairman)
2. John Bester

The committee met six times during the period under review and the chairman of the committee reported to the board after each committee meeting. The chairman of the board, the chief executive officer, the chief financial officer and the operational human resources director are also invited to meetings, but are recused whenever matters concerning their remuneration are considered.

The remuneration committee is governed by a documented board-approved charter with the following stated primary roles being to:

- assist the board in its responsibility for setting and administering effective remuneration policies that are in the group's long term interests,
- ensure that the group's directors and executive managers are fairly rewarded based on both their individual and team contributions to the group's overall performance, including determining the remuneration of executive directors and proposing fees for non-executive directors to shareholders,
- consider and recommend remuneration policies for all employee levels in the company,
- ensure that the disclosure of director and senior management remuneration is accurate, complete and transparent,
- assist the board in its responsibility for the management and development of talent within the group, and
- monitor compliance with and progress towards the group BBBEE objectives.

During the past year, the remuneration committee performed, among other matters, the following activities:

- developed the remuneration, nomination and talent management committee charter,
- attended a formal talent management review process of all key employees with the operational directors,
- facilitated the implementation of a job grading system, aligned to our rewards strategy,
- reviewed the executive directors remuneration based on market benchmarks and approved 2011 performance and bonus scheme targets,
- reviewed the annual adjustment to employee remuneration,
- proposed share option allocations for general staff and management and their vesting conditions, and
- reviewed the group performance against the bonus scheme rules and targets, and resultant bonus payments.

The remuneration committee performed an annual self-evaluation and did not identify any matters of significance requiring attention.

Components of remuneration

The group divides its remuneration into the following components:

Basic remuneration

The basic remuneration comprises fixed guaranteed salaries for all permanent employees on a total cost-to-company basis. Basic remuneration is reviewed annually, and is benchmarked against the market and assessed against prevailing economic metrics.

Benefits

The group has a defined contribution provident fund where employees have the flexibility to elect 12%, 13,5% or 18% of pensionable salary. Apart from retirement benefits, the fund also provides:

- a death benefit of four times annual salary (plus approximate taxable portion), as well as the member's fund credit
- an insured disability benefit equating to 75% of pensionable salary earned at the time of disablement
- collateral surety on a housing loan.

Membership of a medical scheme is encouraged, but is not compulsory. Employees are also entitled to discounts on the purchase of group retail merchandise.

Short-term cash incentive schemes

Sales and collection agent employees are incentivised through monthly cash incentives schemes calculated against individual targets. All other employees are eligible for an annual bonus subject to their personal performance and the group achieving its financial targets. These targets are defined at the start of each financial year and approved by the remuneration committee and board. The annual bonus is calculated with reference to each employee's base pay and their individual performance against key performance actions.

A monthly cash award by the chief executive officer recognises employees for outstanding achievements in areas such as customer service, innovation and teamwork.

Long-term share incentive schemes

Share incentive scheme:
The group established a share incentive scheme during 2008 in terms of which senior employees have been provided with loans by the HomeChoice Share Trust to acquire shares in the group at market value. The loans are interest-free and repayable within five years of the acquisition date. The employees' shares are pledged to and held by the trustees of the trust. Should any participant in the scheme resign within four years of the respective acquisition date, the loans become immediately payable and subject to an interest penalty. The employees' shares are also pledged to and held by the trustees of the trust. No additional loan advances have been made during the year. Refer to note 6 in the group annual financial statements for further details.

Share option incentive scheme:
The group established a share option scheme during 2010 in terms of which most of the group's employees have been provided with options to acquire shares in the company. The options have been issued with a strike price at the prevailing market value of the shares and for senior employees vest after four years. For other employees, the options will vest on the date of a listing on the JSE. Refer to note 15 in the group annual financial statements for further details.

Executive directors' remuneration

Executive directors are employed under terms and conditions applicable to all group employees and receive salaries, benefits and performance bonuses. Performance bonuses are currently based on the particular group company achieving targets based on revenue, operating profit and cash flow. The remuneration committee reviewed bonus targets for executives during 2011 to expand them to include non-financial targets such as customer service, internal process, learning and innovation and people management. The remuneration is reviewed on an annual basis by the remuneration committee and is proposed to the board for approval. The executive directors invited to remuneration committee meetings recuse themselves from all discussions relating to their own remuneration.

Non-executive directors' remuneration

The non-executive directors receive fees for their services on the board and participation in the committees of the board. These fees recognise the responsibilities of non-executives to provide their expertise throughout the year on an ongoing basis and a per meeting fee has not been adopted. Non-executive director performance is evaluated through an annual peer review process and fees are benchmarked against JSE-listed entities of similar size and complexity. Non-executive directors do not receive any payments linked to organisational performance, nor are they entitled to participate in the long-term share option incentive scheme. Non-executive fees are recommended to the board by the remuneration committee and put to shareholders for approval at the annual general meeting.

Three highest-paid executives

King III recommends that the remuneration of the three highest-paid executives, excluding executive directors, be disclosed. The group has not disclosed this information separately owing to the prevailing competitive retail environment in South Africa. Remuneration paid to key management personnel is however disclosed in aggregate under note 30 in the group annual financial statements.

Service contracts

The average notice period of the executive directors and operational directors is three months. Key executives have contracts that include restraint of trade stipulations. No agreements provide for ex gratia or other lump-sum payments on retirement or severance from the group.

Guaranteed remuneration

Basic salary
A fixed guaranteed salary given on a total cost-to-company basis and includes a defined contribution provident fund with flexibility to elect pension options

Salary is based on market value and adjusted in accordance with performance and contribution to HomeChoice

Variable performance related remuneration

Short-term performance
Sales and collection agents are incentivised monthly against set targets. All employees are eligible for annual bonuses subject to personal performance

Incentives based on individual performance subject to HomeChoice achieving financial targets

Long-term performance and retention
- Share incentive scheme
- Share option incentive scheme
- All employees were offered share options

Share-based incentives are aimed at retention and to encourage sustainable growth in HomeChoice

The remuneration of executive and non-executive directors was as follows:

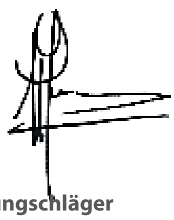
		Short-term benefits				Post-retirement benefits	Long-term benefits			
Rand	Months paid	Directors' fees	Salary	Other benefits	Performance bonus	Provident fund contributions	Interest benefit on financial assistance	Total remuneration	Value of equity settled options granted*	Finance assistance granted pursuant to share scheme
2011										
Executive directors										
Richard Garratt	12	–	3 027 973	370 329	2 000 000	184 540	-	5 582 842	-	-
Shirley Maltz	12	–	1 646 587	29 589	1 991 114	200 893	-	3 868 183	3 605	-
Annalize Kirsten	12	–	1 412 605	17 149	1 716 933	227 515	246 217	3 620 419	3 605	3 217 189
Total		–	6 087 165	417 067	5 708 047	612 948	246 217	13 071 444	7 210	3 217 189
Non-executive directors										
John Bester	12	250 000	-	-	-	-	76 841	326 841	-	1 058 294
Willem Jungschläger	12	500 000	-	-	-	-	76 841	576 841	-	1 058 294
Amanda Chorn	12	141 178	-	-	-	-	-	141 178	-	-
		891 178	-	-	-	-	153 682	1 044 860	-	2 116 588
Total remuneration		**891 178**	**6 087 165**	**417 067**	**5 708 047**	**612 948**	**399 899**	**14 116 304**	**7 210**	**5 333 777**
2010										
Executive directors										
Richard Garratt	12	-	2 779 412	1 255 249	-	176 904	-	4 211 565	-	-
Shirley Maltz	12	-	1 548 785	25 689	1 362 750	188 929	-	3 126 153	-	-
Annalize Kirsten	12	-	1 319 863	15 969	1 584 817	240 437	314 266	3 475 352	-	3 997 189
Total		-	5 648 060	1 296 907	2 947 567	606 270	314 266	10 813 070	-	3 997 189
Non-executive directors										
John Bester	12	250 000	-	-	-	-	67 767	317 767	-	1 220 794
Willem Jungschläger	12	500 000	-	-	-	-	67 767	567 767	-	1 220 794
Amanda Chorn	12	136 446	-	-	-	-	-	136 446	-	-
		886 446	-	-	-	-	135 534	1 021 980	-	2 441 588
Total remuneration		**886 446**	**5 648 060**	**1 296 907**	**2 947 567**	**606 270**	**449 800**	**11 835 050**	**-**	**6 438 777**

This table has been audited

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

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

Name of director	Year in which options vest	Average exercise price per share (cents)	2011	2010
Shirley Maltz	2015	747	25 000	–
Annalise Kirsten	2015	747	25 000	–
Total			50 000	–



Willem Jungschläger
Chairman of the remuneration committee
16 March 2012
Cape Town

“We are committed to investing in the social and economic development of our community and minimising the impact of our operations on our environment.”

community

2011 integrated annual report

the HomeChoice Development Trust

The group targets contributions of 1% of its yearly post-tax profits to support the work of the HomeChoice Development Trust. To date, the company has made donations totalling R8 million to the Trust.

The trust was founded in 2005 with its strategic objective to:

- support pre-school and tertiary education
- support job creation and capacity building for women in local communities.

These focus areas were selected in the belief that the way to bring about change in the socio-economic circumstances of a population is to empower women as breadwinners, enabling them to support their families and educate children to give them access to a better future.

The trust is managed by its trustees, namely Rick Garratt, Jasper Walsh, Elmori Bester and by invitation Shirley Maltz and Margie Garratt. In 2011 the trustees reviewed the strategic objectives for 2012 to direct funding into the field of Early Childhood Development. As such, the objectives of the trust going forward will be to:

- support educare centres (pre-schools) in disadvantaged communities throughout the Western Cape, in both the urban and rural areas, and
- focus disbursements on infrastructure upgrades, providing food and educational supplies, as well as the necessary training of early childhood development practitioners.

Year in review

During 2011 the HomeChoice Development Trust received donations from the company to the amount of R2,5 million. In turn, the Trust made disbursements totalling over R1,38 million to charitable organisations that support its vision. The remaining R1,12 million has been reserved for Early Childhood Development initiatives in 2012.

- **Community Chest of the Western Cape** for projects earmarked within the field of Early Childhood Development
- **Early Learning Services Organisation (ELSO)** which provides support and training to informal pre-schools in impoverished communities. Funds were used to support six pre-schools, 224 children, and train 21 early childhood development practitioners (teachers), as well as developing the pre-schools in order to qualify for government grants
- **Empilweni,** a community-based mental health project providing support and counseling to children, adolescents and their families affected by violence and abuse with its goal of empowering families to help themselves
- **Goedgedacht Trust,** an African-based charity focusing on two areas, namely helping children to escape poverty and caring for the environment. Its Path out of Poverty programme aims to help the poor rural children of the area find ways out of the cycle of poverty that has prevailed in the farming communities for generations. The HCDT donation is earmarked for the farm's educare facility
- **Grail Trust,** a Community Development Programme aimed at building the capacity of marginalised community members in the Overberg District
- **LEAP Science and Maths School** received funds to support their vision to transform educationally disadvantaged communities in South Africa through mathematics

and science focused education initiatives. Partnering with a community, LEAP will provide its youth with the opportunity to access tertiary education opportunities through a holistic approach focused on quality secondary education, linked with the personal development of scholars

- Rural Education Access Programme (REAP) assists matriculants from poor rural South African communities to access tertiary education. Besides providing assistance in accessing bursaries, REAP also focusses on mentoring and peer support, workshops and healthcare information, all aimed at helping these young people to succeed in their studies. In 2011, HCDT provided funding to support seven students with their studies towards degrees ranging from BA Arts to LLB. All seven students have performed well, and one has successfully graduated
- Bulungula Incubator received funding to develop three educare centres in the rural wild coast of the Eastern Cape
- Race Ahead Sailing to assist four sailors from disadvantaged communities achieve their dream of participating in Cowes Week.

In addition to the above, HomeChoice's corporate social investment activities for 2011 included raising funds for various organisations:

- The HomeChoice Plus magazine donated R90 000 in community assistance prizes to deserving charities and schools.
- HomeChoice staff participated in the Blisters for Bread charity walk, raising R28 510 for the Peninsula School Feeding Association.
- HomeChoice supported Catholic Welfare and Development's Buckets of Love campaign, generating over 680 buckets of food, feeding 2 400 people during the Christmas holidays.
- HomeChoice staff participate annually in the Sunflower Fund's Bandana Day as well as Casual Day, benefitting disabled South Africans.

Plans for 2012

To support the revised strategic objectives of the Trust, 2012 planned activities include:

- Funding the extension of the Noel Stanton Educare Centre in the Elsiesrivier community, enabling it to accommodate over 100 pre-school children, including a baby care facility, an after-school care facility and a soup kitchen which will service the school and community.
- Funding twenty additional educare centres for essential infrastructure upgrades, teacher training and equipment that will pave the way for government registration and subsidies, allowing more than 1000 young children the opportunity for quality education in their early years.

Other CSI initiatives include:

- Increasing the HomeChoice staff bursary spend from R50 000 in 2011 to R150 000 in 2012. Opportunities for the group's customers to access INTEC bursaries will continue in 2012 with R125 000 being made available.
- Supporting and encouraging employee wellness by developing a revised Wellness Calendar for 2012. Every month will focus on relevant health issues, educating employees and promoting testing (where necessary). The themes will tie into national and international health days. Examples of such initiatives will include participating in CANSA's Shavathon, free health testing on World Health Day, and free HIV testing during Red Ribbon Month leading up to World Aids Day.
- Creating opportunities for and encouraging staff to participate in a number of events in Cape Town during the year as part of the HomeChoice Team. This will include the 2012 Cape Argus Pick n Pay Cycle Tour, Blisters for Bread and the Discovery Cape Times Big Walk.

Jasper Walsh
Chairman of board of trustees
16 March 2012
Cape Town

our green initiatives

While the environmental impact associated with the group's operations is relatively low, the group is committed to improving its energy efficiency and reducing its carbon footprint. Initiatives to reduce the group's environmental impact include:

- recycling the group's paper waste, used cardboard cartons and canteen waste,
- monitoring by the building management system at the head office of mechanical and electrical equipment such as air-conditioning, lighting, power and security systems with the aim of conserving energy;
- limiting energy usage in the air-conditioning system with an automatic load shedding facility,
- controlling lighting clusters with movement sensors using energy-efficient fluorescent lamps, and
- minimising heat absorbtion with tinted windows, conserving power with LCD computer screens, controlling hot water use and reducing water volume flow with timer switches.

9 789
kilolitres of water consumed at the head-office and distribution centre

412
tonnes of cardboard and paper recycled

HomeChoice's progress in limiting its environmental impact was recognised in March 2011 at the Business Process enabling SA (BPeSA) awards where the group received a gold regional and silver national award.

In order to assess the group's carbon inventory more thoroughly and set a baseline from which to monitor future performance, the group commissioned an independent Greenhouse Gas Inventory ("carbon footprint") assessment for the 2011 financial year. This was prepared using the Greenhouse Gas (GHG) Protocol Corporate Accounting and Reporting Standard methodology and covered Scope 1 to Scope 3 activities.

This assessment provides the benchmark from which to assess future initiatives to reduce our impact on the environment.

Like all South African businesses and industries, the group is beholden to the high-emitting, coal energy mix provided by the country's sole electricity utility. Efforts to reduce the amount of electricity purchased (and hence the emissions created in generating the electricity) fundamentally rest on energy efficiency within the workplace.

During 2012, the group will set quantifiable environmental goals aimed at reducing our overall carbon footprint and impact on the environment. A team will be established to drive green initiatives and implement an employee communication strategy to promote awareness and foster behavioural change.

corporate governance

"The group remains fully committed to best corporate governance practices and risk management to safeguard the interests of all stakeholders."

2011 integrated annual report

corporate governance report

HomeChoice targets sustainable growth based upon adherence to its core values and accountability to its stakeholders. The group remains fully committed to best corporate governance practices and risk management to safeguard the interests of all stakeholders.

Governance framework

The directors acknowledge that the board should provide effective leadership based on an ethical foundation and act as the focal point for and custodian of corporate governance. The group has established and regularly promotes its corporate values and has also established an ethics code of conduct which guides employee behaviour and the manner in which the business of the group is conducted.

The group endorses the principles incorporated in the King Code of Governance for South Africa 2009 (King III) and it forms the basis upon which the group's commitment to sound corporate governance is pursued. The committees of the board of directors are charged with monitoring and evaluating conformity with the provisions of the King III Report, as far as possible, to ensure fairness, accountability, responsibility and transparency in the conduct of the group's various business enterprises, while maintaining an appropriate balance between governance and delivering financial returns to shareholders.

King III, which became effective in South Africa on 1 March 2010, was first applicable to the group from January 2011. The audit and risk committee initiated a project during the previous year to evaluate the requirements of the Code, identify areas of partial or non-compliance and establish a programme to address these. The committee continues to review the group's adherence to King III as a regular agenda item.

A significant governance development during the year was the replacement of the Companies Act No. 61 of 1973 with the Companies Act No. 71 of 2008, which came into effect on 1 May 2011. Management established a project team to consider the impact of the Act on the group and to ensure compliance. The audit and risk committee charter was also updated to take into account any specific King III and Companies Act requirements.

Board of directors

The HomeChoice Holdings Limited board is ultimately accountable and responsible for the performance and affairs of the group. Its primary responsibility is setting the strategic direction of the group and monitoring investment decisions, considering significant financial matters and reviewing the performance of executive management.

Board structure

The board comprises three executive directors and four non-executive directors. The group maintains an appropriate ratio of executive to non-executive directors given the size, nature and risk of the business, with a majority of non-executive directors on the board.

King III directs that the chairman of the board should be an independent non-executive director. The position of chairman is held by an executive director, Rick Garratt. The board believes that this departure from King III is appropriate given that Rick is the group's founder, has many years of valuable experience and adds considerable value in the merchandise and marketing areas in particular. The board has appointed an independent non-executive, John Bester, as lead independent director.

Board appointments and rotation

Director appointments are made by the board in a formal and transparent manner. One-third of the directors are required to retire by rotation at the annual general meeting of shareholders. Retiring directors may offer themselves for re-election. Directors appointed during the year are required to have their appointments ratified at the following annual general meeting.

Director induction and development

Newly appointed directors participate in an induction programme which includes introductions to key management and the receipt of documentation such as the board charter, minutes and schedules from recent meetings and the group's annual reports. The board has regular interaction with executive management and board meetings include presentations by management on selected topics to enhance board members' understanding of the business and of the group. Directors may undertake external seminars or workshops, at company expense, should they consider it necessary.

Board charter

A documented, formal board charter outlines the composition, scope of authority and responsibilities of the board.

Extracts from the charter are set out below:

- The board is accountable and responsible for the performance and affairs of the company.
- The board is the focal point of the corporate governance system.
- Procedures for appointments to the board should be formal and transparent.
- Non-executive directors have unrestricted access to all company information, records, documents and property and may meet separately with management.

The board must:
- retain full and effective control over the company,
- give strategic direction to the company,
- appoint the chief executive officer and ensure effective succession planning,
- ensure compliance with all relevant laws, regulations and codes of business practice,
- identify key risk areas and key

performance indicators of the business enterprise,

- regularly review processes and procedures to ensure the effectiveness of the company's internal systems of control,
- ensure that it communicates with shareholders and relevant stakeholders openly and promptly,
- establish a formal and transparent procedure for developing a policy on executive and director remuneration,
- regularly (at least annually) review the required mix of skills, experience and diversity in order to assess the effectiveness of the board, and
- ascertain whether potential new directors are fit and proper and are not disqualified from being directors.

Board meetings

The board meets at least quarterly and all meetings are convened by formal notice. Decisions taken at board meetings are decided by a majority of votes, with all directors having one vote. Any specific issues that may arise between meetings are dealt with using telephonic or electronic communication, and any decisions taken are recorded by way of written resolutions and signed by all directors physically present in the country. The board and its committees are timeously supplied with comprehensive information to enable them to have meaningful debate and discharge their responsibilities.

Company secretary

The primary role of the company secretary is to ensure that the group's memorandum of incorporation and legislative requirements governing the operation of the board are observed. The company secretary also provides guidance, when required, to the board on its governance compliance and fiduciary responsibilities. All directors have unrestricted access to the company secretary and company records and are entitled to independent professional advice, at company expense, should the circumstances warrant it. The board is satisfied that the company secretary has the knowledge and expertise to fulfil the role of company secretary.

Conflicts of interest

All board members are required to disclose their shareholdings in HomeChoice, other directorships and any potential conflicts of interest. Where a director has a conflict of interest, he or she is required to be recused from the meeting in which the matter is considered and may not vote. All transactions in which a director has a personal interest are fully disclosed in note 30 in the group annual financial statements.

Directors and employees are prohibited from dealing in the group's shares during two formal closed periods which commence one month prior to the interim (June) and annual (December) reporting periods, ending after the publication of the respective results. Restrictions are also placed on share dealings at other times if directors and employees have access to price-sensitive information.

Board performance appraisal and independence assessment

An annual evaluation process is conducted to assess the contributions of individual directors and the effectiveness of the board and each sub-committee. This is undertaken by means of a questionnaire completed by all directors. An assessment of the independence of the non-executive directors is also conducted and the board is satisfied that the majority of non-executive directors are independent. During the course of the most recent board appraisal it was concluded that the board and sub-committees were performing well.

Committees

The main board of directors has delegated specific responsibilities to board committees to assist the board in meeting its oversight responsibilities. The committees are governed by formal charters, meet independently and formally report back to the board.

Audit and risk committee

The committee, which is chaired by an independent non-executive director, comprises three non-executive directors. Meetings are also attended by invitees, including the executive chairman, the chief financial officer, the operating finance director, group finance manager, head of internal audit and external auditors. The head of internal audit and the external auditors have unlimited access to the chairman of the committee. The external auditors are invited to all meetings and at least annually meet with the committee without senior management being present. Committee members have unlimited access to all information, documents and explanations required in the discharge of their duties. The committee meets at least four times per year. The audit and risk committee report is presented on pages 96–97 of the integrated annual report.

Board and committee attendance

The attendance of the directors at board meetings and board committee meetings for the financial year were as follows:

		Board	Audit and risk committee	Remuneration committee	Operations review meeting
Number of meetings	**Status**	**4**	**4**	**6**	**5**
Rick Garratt (Chairman)	Executive	3	3#	5#	5
Shirley Maltz	Executive	3		5#	4
Annalize Kirsten	Executive	4	4#	6#	4
John Bester[1]	Non- executive	4	4	5	4
Amanda Chorn	Non- executive	3			
Pierre Joubert	Non- executive	4	4		
Willem Jungschläger[2]	Non- executive	4	4	6	5

[1] Lead independent director and chairman of the audit and risk committee.
[2] Chairman of the remuneration committee.
By invitation.

Remuneration, nomination and talent management committee

The committee, which is chaired by an independent non-executive director, comprises two non-executive directors. Meetings are also attended by invitees, including the Executive Chairman, Retail Chief Executive Officer, Chief Financial Officer and Human Resources Director, who are recused when matters relating to their own remuneration are discussed. The key mandate of the committee is to ensure that the remuneration of executive directors and senior management is competitive and appropriate to the levels of responsibility carried, with particular attention to retention and performance.

The committee also performs the functions of a nominations committee and assists the board with the appointment of directors. The committee meets at least four times per year. The remuneration, nomination and talent management committee report is presented on pages 76-78.

Operating board of directors

The operating board is responsible for management of all aspects of the operations of the trading companies within the group. The operating board reports regularly to the board and its members are also requested to present at board meetings throughout the year. The operating board usually meets weekly and other meetings are held whenever necessary. Information on the composition of the operating board appears on pages 38-39.

Departure from King III

King III directs that the chairman of the board should be an independent non-executive director, and in instances where the chairman of the board is an executive director, a lead independent director should be appointed. As disclosed above, the chairman of the board is an executive director. The board has appointed a lead independent director as recommended by King III.

King III recommends that the remuneration of the three highest-paid executives, excluding executive directors, be disclosed. The group has not disclosed this information separately owing to the prevailing competitive retail environment in South Africa. Remuneration paid to key management personnel is however disclosed in aggregate under note 30 in the group annual financial statements.

The directors confirm that the group has complied in all other material respects with King III and the governance requirements of the Companies Act.

risk report

The board is accountable for the process of risk management, establishing appropriate risk and control policies and communicating these throughout the company. Management is responsible for designing, implementing and monitoring the system and process of risk management and integrating it into the day-to-day activities of the group.

Risk management process

A system of internal controls has been implemented and is continually evaluated. The group also has a comprehensive reporting system, monitored and reviewed monthly by management and directors. The system facilitates budgetary control, provides reasonable assurance as to the accuracy of financial statements and safeguards the group's assets.

Significant risks are identified, evaluated and managed on an ongoing basis. Senior executives and management also undertake an annual enterprise-wide risk assessment process that ensures all material risks are identified, evaluated and mitigated wherever possible, and compliance with laws and regulations assessed. This process is undertaken within each division of the group's trading subsidiary companies and serves to instil risk awareness and accountability throughout the group, focusing on key risk areas such as marketing, merchandise, credit, logistics, operations, information technology, human resources and financial controls. The results are presented to the audit and risk committee.

The board believes that there is an adequate system of internal control in place to mitigate significant risks faced by the company to an acceptable level. This can only provide reasonable, but not absolute, assurance. The board is not aware of any material breakdown during the past year in the functioning of these controls.

Risk sub-committee

The operating board is responsible for implementing the risk management plan. To assist in this process, the operating board established a risk sub-committee whose mandate includes:

- overseeing the risk management process operationally,
- integrating risk management into the day-to-day activities of the group,
- prioritising and assessing key risks and mitigation strategies,
- reviewing the internal audit coverage and testing strategy,
- overseeing external reporting of risk,
- initiating and monitoring key projects to address risk inherent in the business, and
- reviewing compliance with laws and regulations.

The risk sub-committee presents a report of its activities at each meeting of the audit and risk committee.

Information technology governance

The group is data rich and reliant on information technology (IT). While IT risks and controls have always been considered as part of the group's enterprise-wide risk management processes, the board has established an IT governance charter and the operational IT director assumes the responsibilities of the chief information officer. During 2011 the group also established a data security project team to review and enhance controls over the security and processing of data in the group.

Internal audit

The group has established an internal audit function, reporting to the chairman of the audit and risk committee, to provide assurance on the adequacy and effectiveness of internal control and risk management practices, and to assist management by making recommendations for improvement. The audit and risk committee also utilises the services of professional audit firms to assist in evaluating internal control and business risks as and when required.

Legislative compliance

The group had no material instances of non-compliance with legislation during the period and no fines were incurred.

The group did not receive any requests for information in terms of the Promotion of Access to Information Act during the period.

Code of ethics

The group's business philosophy is premised upon our vision and values. Arising from our commitment to these values, an employee code of ethics has been established based upon the following principles:

1 Employees must act honestly and fairly in all business transactions and dealings with others. Employees must take accountability for their actions and decisions, apply due skill, care and diligence in respect of our stake-holders and the integrity of the business.

2 Employees must treat other employees, contractors, customers, suppliers and all other persons with whom they deal at work with the utmost courtesy and respect and in a non-discriminatory manner.

3 Employees must comply with all laws and regulations and internal policies and procedures applicable to the business of the group. The company will not tolerate any form of unlawful or criminal conduct.

4 Employees must act in a professional manner and always act within the best interests of the group. Employees have an obligation to avoid any conflict with the business interests of the group, to maintain confidentiality and protect all data and information that belongs to the group.

Anonymous tip-off facility

An anonymous tip-off facility is in place for the reporting of suspected fraudulent or unethical behaviour via an outsourced toll-free hotline. These are relayed to the director of human resources, as well as to the chairman of the audit and risk committee. Staff awareness of this facility is promoted through posters and the induction programme undertaken by new staff.

The board believes that the risk management process is appropriate and effective in reducing the potential impact of risks on the business to acceptable levels.

Major risks facing the group

The key risks faced by the group together with their mitigation strategies are listed below. These risks are largely unchanged from the previous year.

Risk	Status / impact	Risk mitigation strategy
1. Availability of IT systems and infrastructure to support business needs, including: 1.1. availability and integrity of data 1.2. dependency on telephony infrastructure 1.3. availability of IT resources due to ERP implementation	2/2	– Significant investment in IT development. ERP implementation commenced in 2012. – Back-up PABX stored on-site and use of more than one telecom supplier. – Fibre links at head office enable VOIP communication in the event of telecom failure and allows for Telkom redundancy. – Dialler upgrade was completed during 2010 and group has access to a spare dialler from a local supplier.
2. Data security, including security of the list	2/2	– Data security project team has reviewed risks, processes and policies on storage, access and distribution of data. – Active directory logging in place to detect access/security breaches in respect of list information. – An "external vulnerability" assessment is currently being undertaken by independent consultants.
3. Business continuity risks, including ability to continue operations in the event of a disaster at our head office or warehouse	3/2	– Generator at the head office enables operations to continue in the event of a power failure. – Distribution centre has secured an additional site that allows splitting of stock (reduce impact of a fire). – Fire protection systems installed. – 24-hour security and camera surveillance. – Insurance cover in place, including loss of profits. – Disaster simulation exercise (facilitated by PWC) undertaken during the year.
4. Risk of loss of key executives and staff	2/2	– Competitive remuneration and incentive schemes. – Succession management plans are in place where possible for key employees. – Business process and system documentation is being enhanced. – Increased training programmes for specialised positions.
5. Management of our supply chain, including exposure to country risk and dependency on key suppliers and the South African Post Office	2/2	– Alternative sources of supply being investigated. – The group has a base of committed suppliers with whom we have built relationships over a number of years. – Suppliers are subject to stringent risk assessment to ensure contingency for loss of production facilities.
6. Managing customer demand	3/3	– Development and retention of talented merchandise team which keeps abreast of global trends. – Trend input from in-house innovation studio, trend forecasting services, international trade fairs and international and local retail research. – Currently implementing advanced retail forecasting systems to optimise purchasing of merchandise. – Processes being implemented throughout the product life cycle to manage and mitigate the risk. – Effective clearance strategy.

Risk	Status / impact	Risk mitigation strategy
7. Managing the risk of credit	2/2	– Strict credit-granting policies and processes, with credit policy changes reviewed and approved by management prior to implementation. – Scorecards are tracked and reviewed on a monthly basis and new scorecards are developed when the need arises. – Profitability models have been built to inform marginal decisions. – Dedicated credit risk team, with detailed analysis and monitoring of risk metrics and vintages. – Refer to credit risk report.
8. Compliance risk, including assessment of the impact of new legislation	2/3	– Compliance with laws and regulations specifically addressed in risk management process. – Legislation reviewed regularly and discussed with external consultants. – Consideration of laws and regulations is a standard audit and risk committee agenda item. – Establishment of project teams to investigate new legislation. – Use of legal advisers and consultants.
9. Enhancing the customer experience	3/3	– Group key performance actions aligned to ensuring high levels of customer service and repurchase rates. – Focus is placed on training and retraining of staff to ensure appropriate customer service is given. – Query resolution targets are monitored to ensure optimal turnaround times. – Call monitoring performed by supervisors to ensure accuracy of communication to customers. – Cross-call monitoring taking place between the different teams. – Performance reviews to ensure improved customer service. – Dedicated projects focuse on and improve the customers' experience. – Emphasis on merchandise innovation.

Risk status:	Impact:
1: Present danger	1: Intolerable loss
2: Not imminent	2: Tolerable losses
3: Not likely	3: No losses or insignificant losses

our **stakeholder** relationships

Our stakeholder relationships

The group recognises that its activities can have an impact on a range of stakeholders. We are committed to sustainable growth based upon shared values and accountability to these stakeholders, in particular to:

1 our **customers**, with a commitment to customer delight by supplying quality products and financial services in compliance with all laws and regulations and safety and environmental standards,

2 our **employees**, with a commitment to managing their talent and career development and the promotion of health and safety in the workplace within a climate of mutual respect,

3 our **shareholders**, with a commitment to providing regular and transparent information and a fair return on their investment,

4 our **suppliers** and business partners, with a commitment to fair business practices and compliance with clear contractual terms and conditions,

5 national and local **government and regulatory agencies,** with a commitment to ensuring that all regulatory requirements are met, and

6 our **community**, with a commitment to investing in the social and economic development of the areas in which we operate.

Stakeholder engagement

Sustainable business success is dependent on the loyalty of stakeholders, and this loyalty is underpinned by a relationship of trust. All interactions are conducted within the group's values of excellence, teamwork, innovation, integrity and customer delight, and is reinforced by the group's commitment to its code of ethics.

A summary of the group's engagement with its various stakeholder groups is provided below:

Stakeholder groups	Objectives of engagement	Methods of engagement
Customers	– Enhance our brand – Retain loyalty – Understand her needs	– Monthly catalogue and other marketing material – Regular telephonic (call-centre agents) and online (web) engagement – E-mail and SMS – Internet – Facebook – Other social media – Mystery shopping network – Customer call centre – Customer surveys
Employees	– Create commitment to vision and values – Retain key employees – Align employee effort to group goals – Invest in skills development	– Internal e-mail and notice boards – Fireside chats – Monthly results presentations by CEO and senior management – Culture surveys – Performance reviews – Team meetings – Training needs analysis – Internal media (intranet etc.) – Annual talent management
Shareholders	– Enable informed decision-making – Create a rewarding investment environment	– Annual general meeting and other shareholder meetings – Interim and annual reports – Media releases – Investor website
Suppliers	– Deliver quality and value – Retain loyalty	– Supplier meetings and negotiations – Regular site visits – Quality audits
National and local government and regulatory agencies	– Clarify understanding of regulatory requirements – Ensure full compliance	– Regulatory returns – Audits – Enquiries
Community and environment	– Maximise social investment activities – Clearly define community goals – Exercise strong controls and reporting on investment – Ensure community partners have the right values – Independent trustees	– HomeChoice Development Trust – Our green initiatives – Quarterly visits to beneficiaries – Annual feedback on funds used – Quarterly trustees meetings – Feedback to staff and customers

global reporting initiatives index

The Global Reporting Initiatives (GRI) G3 Guidelines is an accepted framework for reporting sustainability initiatives to stakeholders. The following table provides a response to the core indicators and identifies in which section of the annual report information on sustainability performance is discussed.

GRI G3 reference		Description
Strategy and analysis		
1.1	Vision and strategy	Group overview Strategy and targets
1.2	Key impacts, risks and opportunities	Corporate governance ("risk report") Strategy and targets
Organisational profile		
2.1 to 2.10	Organisational profile	Group overview Administration
Report parameters		
3.1 to 3.3	Reporting period and cycle	Group annual financial statements
3.4	Contact point	Administration
3.5 to 3.11	Report scope and boundary	Group annual financial statements
3.12	GRI index content	Provided here
3.13	External assurance	External assurance on financial performance. Not assessed for other areas of sustainability performance
Governance, commitments and engagement		
4.1 to 4.10	Governance	Corporate governance
4.11 to 4.13	Commitments to external initiatives	Not reported
4.14 to 4.17	Stakeholder engagement	Corporate governance ("our stakeholder relationships")
Economic performance indicators		
EC1	Economic value	Group overview ("wealth creation report")
EC2	Financial implications due to climate change	Not assessed
EC3	Defined benefit plan obligations	The group has a defined contribution plan
EC4	Financial assistance from government	Not applicable to the group
EC5	Ratios of entry-level wage compared to local minimum wage	Not reported
EC6	Policy, practices and spending on locally based suppliers	Not reported
EC7	Hiring of local labour	Group's operations are located in South Africa, with negligible hiring of non-South Africans
EC8 – 9	Indirect economic impacts	Group overview ("wealth creation report")
Environmental performance indicators		
EN1 – 30	Environment	Community ("our green initiatives")

GRI G3 reference		Description
Social performance indicators		
Labour practices		
LA1	Total workforce by employment type, contract and region	Employees ("managing talent and driving transformation")
LA2	Rate of employee turnover by age, gender and region	Employees ("managing talent and driving transformation")
LA3 – 5	Labour relations	Employees ("managing talent and driving transformation")
LA6 – 9	Occupational health and safety	Employees ("managing talent and driving transformation")
LA10	Average hours of training per employee	Employees ("managing talent and driving transformation")
LA11	Programmes for skills management and lifelong learning	Employees ("managing talent and driving transformation")
LA12	Percentage of employees receiving regular performance and career development reviews	All employees of the group have performance and career development reviews
LA13 – 14	Diversity and equal opportunity	Employees ("managing talent and driving transformation")
Human rights		
HR1 – 9	Human rights	All interactions with stakeholders are conducted within the framework of the company values. There have been no recorded incidents of human rights violations.
Society		
SO1	Impact of operations on community	Group overview ("wealth creation report")
SO2 – 4	Ethics and corruption	Corporate governance. There have not been any reported incidents of corruption during the year
SO5 – 6	Public policy lobbying and donations to political parties	None
SO7 – 8	Legal actions or fines for anti-competitive behaviour or non-compliance with laws and regulations	None
Product responsibility		
PR1	Life cycle stages in which health and safety impacts of products are assessed for improvements	Not formally assessed as not deemed applicable to the group
PR2	Non-compliance with health and safety regulations of products	No incidents reported
PR3 – 4	Product and service labelling	Group is compliant with labelling legislation
PR5	Practices related to customer satisfaction	Customers ("managing the customer experience")
PR6 – 7	Adherence to laws and codes related to marketing communications	No incidents of non-compliance reported. Group is a member of the Direct Marketing Association of South Africa
PR8	Substantiated complaints regarding breaches of customer privacy and losses of customer data	None
PR9	Fines for non-compliance with laws and regulations concerning the provision and use of products and services	None

contents

group annual financial statements

These annual financial statements were prepared by the finance department of HomeChoice Holdings Limited and its subsidiaries (the group), acting under the supervision of A. Kirsten CA (SA), the chief financial officer of the group.

2011 integrated annual report

directors' approval

Directors' responsibility for and approval of the group annual financial statements

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

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

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

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

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

The directors have reviewed the company's cash flow forecast for the 12 months to 31 December 2012 and, in the light of this review and the current financial position, they are satisfied that the company has or has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently reviewing and reporting on the company's financial statements. The financial statements have been examined by the company's external auditors and their report is presented on page 98.

The financial statements set out on pages 100 -153 which have been prepared on the going, concern basis, were approved by the directors on 16 March 2012 and were signed on their behalf by:

RE Garratt
Chairman

A Kirsten
Chief Financial Officer
16 March 2012
Cape Town

company secretary's certificate

I hereby confirm that to the best of my knowledge and belief, all returns as are required of a public company in terms of the Companies Act No. 61 of 1973 (as amended), and from 1 May 2011 onwards, the Companies Act No. 71 of 2008 (as amended), have been duly lodged with the Companies and Intellectual Property Commission (formerly the Registrar of Companies) and that all such returns are true, correct and up to date.

G Jacobs
Company Secretary
16 March 2012
Cape Town

audit and risk committee report

The audit and risk committee functions within documented terms of reference. This report for the financial year ended 31 December 2011 is presented to the shareholders of HomeChoice Holdings Limited in compliance with the requirements of the Companies Act No. 71 of 2008 (as amended) of South Africa.

Role of the committee

The audit and risk committee, with accountability to shareholders and the board, fulfils its oversight responsibilities of HomeChoice Holdings Limited and all of its subsidiary companies (the group), as per requests from these subsidiary companies. The committee is a separate statutory committee appointed by the shareholders. If differences of opinion arise between the committee and the board where the committee's statutory functions are concerned, the committee's decision will prevail.

The committee is governed by a documented board-approved charter and its role is inter alia to:

- review the selection of accounting policies, assess whether the annual financial statements reflect appropriate accounting principles and review and assess the fairness of all financial information issued to shareholders,
- oversee integrated reporting, review the disclosure of sustainability issues in the integrated report, and review and recommend the annual financial statements and integrated report for approval to the board,
- confirm the nomination and appointment of the external auditors each year, monitor and report on their independence and approve the terms of engagement, scope of the audit and fees paid,
- oversee the development, implementation and review of a risk management policy and plan for a system and process of risk management to recommend for approval to the board,
- identify and continuously evaluate the group's exposure to significant risks and its risk mitigation strategy,
- provide assurance on the adequacy and effectiveness of the group's systems of internal financial and operational control and compliance with laws and procedures,
- monitor and supervise the effective functioning and performance of internal audit, ensure that it operates independently of management and approve the annual audit plan,
- consider the appropriateness of the expertise and experience of the finance function, and
- provide effective communication between directors, management and external auditors.

Committee composition and meetings

The committee is comprised solely of non-executive directors. The members of the audit and risk committee for the period under review were as follows:

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

Biographical details of the committee members appear on page 37 of the integrated annual report.

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

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

The committee performed an annual self-evaluation and did not identify any matters of significance requiring attention.

Activities of the committee

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

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

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

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

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

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

External audit
The committee nominated for appointment the external auditor, reviewed the audit plan, the terms of engagement and the

audit fee budget. The committee has appraised the independence, expertise and objectivity of PricewaterhouseCoopers as external auditor as well as approved the terms of engagement and the fees paid. The committee is satisfied that both the external auditor and the engagement partner are independent of the group and management and are able to express an independent opinion on the group's annual financial statements. Fees paid to the auditors are detailed in note 23 of the annual financial statements.

The committee determined the nature and extent of any non-audit services and pre-approved any proposed contract with the auditors for the provision of non-audit services. During the year, PricewaterhouseCoopers received fees of R270 790 for non-audit services amounting to 19,0% of the audit fees paid.

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

The committee concludes that the skills, independence, audit plan, reporting and overall performance of the external auditors are acceptable and hereby recommends the re-appointment of PricewaterhouseCoopers as external auditor and Mr Thinus Hamman as the engagement partner for 2012.

Going concern

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

Annual financial statements

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

Expertise of the chief financial officer and finance function

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

Integrated report

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

Re-election of committee members

The following members have made themselves available for re-election to the committee and are hereby proposed to shareholders for consideration and approval at the annual general meeting in May 2012:

John Bester
Willem Jungschläger
Pierre Joubert

JA Bester
Chairman of the audit and risk committee
16 March 2012
Cape Town

independent auditor's report to the shareholders of homechoice holdings limited

for the year ended 31 December 2011

We have audited the consolidated annual financial statements and annual financial statements of Homechoice Holdings Limited, which comprise the consolidated and separate statements of financial position as at 31 December 2011, and the consolidated and separate statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, and the directors' report, as set out on pages 99-153.

Directors' responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the consolidated and separate financial position of Homechoice Holdings Limited as at 31 December 2011, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

PricewaterhouseCoopers Inc

Pricewaterhouse Coopers Inc.
Director: MC Hamman
Registered Auditor
16 March 2012
Cape Town

report of the directors

for the year ended 31 December 2011

Nature of business

HomeChoice Holdings Limited is a leading direct marketer in consumer finance, offering retail and financial services to the rapidly expanding middle income market through its subsidiaries, HomeChoice and FinChoice.

General review

The financial results are reflected in the annual financial statements on pages 100-153, and commentary thereon is provided in the report of the chief financial officer.

Property, plant and equipment

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

Share capital

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

Distributions to shareholders

No dividends were declared or paid during the year (2010: Nil). The company's share premium was reduced by an aggregate amount of R67,515 million (2010: R41,548 million) which was utilised to repay members an amount of 65 (sixty five) cents (2010: 40 (forty) cents) per ordinary share in the capital of the company held by its members.

Subsidiary companies

Details of the company's investments in subsidiaries are set out on page 146 of this report. The interest of the company in the aggregate profits before taxation of the subsidiary companies is R312,838 million (2010: R237,251 million).

Share incentive and option scheme

As part of an employee share incentive scheme, 1 229 100 (2010: 250 000) share options were granted to employees as reflected in note 15 to the group annual financial statements.

Directors

The names of the company's directors appear on pages 36-37 of this report. The following directors retire by rotation in terms of the articles of association but, being eligible, offer themselves for re-election as directors:

SM Maltz (executive)
J Bester (non-executive)
W Jungschläger (non-executive)

Their profiles appear on page 37 of this report.

Audit and risk committee

The directors confirm that the audit and risk committee has addressed the specific responsibilities required in terms of the Companies Act No. 71 of 2008 (as amended). Further details are contained within the audit and risk committee report on pages 96-97 of this report.

Company secretary

G Jacobs CA (SA) was appointed company secretary on 1 October 2011. Her business and postal address appear on the inside back cover of this report. The previous company secretary, BJ Bastard, resigned as company secretary on 1 October 2011.

Special resolutions

On 6 May 2011 the shareholders passed the following special resolutions:

Resolution 1:
Resolved to approve and ratify the remuneration of the directors for services as directors.

Resolution 2:
Resolved to reduce the share premium of the company by R31,161 million and repay members an amount equal to 30 (thirty) cents per ordinary share in the capital of the company.

On 15 October 2011 the shareholders passed the following special resolutions:

Resolution 1:
Resolved to approve the remuneration to be paid to non-executive directors for the years ending 31 December 2011 and 2012.

Resolution 2:
Resolved that the company may provide direct or indirect financial assistance contemplated in sections 44 and 45 of the Companies Act, 2008 (as amended) subject to compliance with such sections.

Resolution 3:
Resolved to reduce the share premium of the company by R36,354 million and repay members an amount equal to 35 (thirty five) cents per ordinary share in the capital of the company.

No other special resolutions were passed during the year under review.

Special resolutions passed by subsidiary companies

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

Borrowing powers

The borrowing powers of the group are not limited in terms of the articles of association of the companies.

Events subsequent to the reporting date

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

statement of financial position

at 31 December 2011

	Note(s)	2011 R000	2010 R000
Assets			
Non-current assets			
Property, plant and equipment	4	**136 961**	119 865
Intangible assets	5	**20 913**	8 901
Loans to employees	6	**11 664**	13 177
Investment in associates	7	**1 677**	–
Deferred taxation	8	**12 878**	8 948
		184 093	150 891
Current assets			
Available-for-sale investments	9	**-**	41 445
Inventories	10	**92 149**	69 846
Taxation receivable		**1 175**	1 075
Trade and other receivables	11	**749 713**	543 739
Trade receivables – HomeChoice		**420 933**	325 390
Trade receivables – Other retail		**21 344**	6 360
Loans receivable – FinChoice		**296 580**	206 873
Other receivables		**10 856**	5 116
Cash and cash equivalents	12	**46 069**	45 630
		889 106	701 735
Total assets		**1 073 199**	852 626
Equity and liabilities			
Equity attributable to equity holders of the parent			
Share capital	13	**1 039**	1 039
Share premium	13	**29 941**	97 456
Treasury shares	14	**(9 732)**	(8 938)
Other reserves	16	**545**	4 113
Distributable reserve		**815 542**	575 546
Total equity		**837 335**	669 216
Non-current liabilities			
Interest-bearing liabilities	17	**74 895**	51 340
Deferred taxation	8	**45 159**	35 201
Other payables	18	**3 450**	3 420
		123 504	89 961
Current liabilities			
Current portion of interest-bearing liabilities	17	**7 433**	6 279
Taxation payable		**2 409**	1 936
Trade and other payables	19	**85 454**	61 228
Provisions	20	**17 064**	17 400
Bank overdraft	12	**–**	6 606
		112 360	93 449
Total liabilities		**235 864**	183 410
Total equity and liabilities		**1 073 199**	852 626

statement of comprehensive income

for the year ended 31 December 2011

	Note(s)	2011 R000	2010 R000
Revenue	21	**1 121 060**	869 442
Retail sales		**626 028**	493 008
Cost of sales		**(312 548)**	(226 080)
Gross profit		**313 480**	266 928
Finance charges earned		**278 454**	215 221
Fees from ancillary services		**216 184**	158 153
Other net gains and losses	22	**4 123**	(16 281)
Debtor costs	23	**(148 087)**	(109 681)
Other trading expenses	23	**(322 957)**	(267 705)
Dividends received		**394**	3 060
Operating profit		**341 591**	249 695
Interest received		**2 975**	3 530
Interest paid		**(6 156)**	(6 865)
Share of loss of associates		**(366)**	(1 449)
Profit before taxation		**338 044**	244 911
Taxation	24	**(98 048)**	(72 577)
Profit for the year		**239 996**	172 334
Other comprehensive income:			
(Losses)/gains arising on available-for-sale assets		**(1 634)**	2 099
Realised gain on available-for-sale financial assets		**(2 184)**	(455)
Taxation related to components of other comprehensive income		**–**	258
Other comprehensive (loss)/ income for the year net of taxation		**(3 818)**	1 902
Total comprehensive income		**236 178**	174 236
Profit attributable to:			
Owners of the parent		**239 996**	177 806
Non-controlling interest		**–**	(5 472)
		239 996	172 334
Total comprehensive income attributable to:			
Owners of the parent		**236 178**	179 708
Non-controlling interest		**–**	(5 472)
		236 178	174 236

statement of changes in equity

for the year ended 31 December 2011

	Share capital R000	Share premium R000	Treasury shares R000	Other reserves R000	Distributable reserve R000	**Equity attributable to owners of the parent R000**	Non-controlling interest R000	**Total equity R000**
Balance at 1 January 2010	1 039	139 004	(6 205)	4 942	388 245	527 025	(4 498)	522 527
Changes in equity								
Total comprehensive income for the year	–	–	–	1 902	177 806	179 708	(5 472)	174 236
Transfer of gains and losses on property, plant and equipment revaluation	–	–	–	(5 404)	5 404	–	–	–
Taxation relating to the transfer of revaluation reserve	–	–	–	2 378	(2 378)	–	–	–
Purchases of treasury shares by share trust	–	–	(7 102)	–	–	(7 102)	–	(7 102)
Sale of treasury shares by share trust	–	–	3 367	–	7 491	10 858	–	10 858
Taxation on shares sold by share trust	–	–	–	–	(1 022)	(1 022)	–	(1 022)
Reduction of share premium	–	(41 548)	1 002	–	–	(40 546)	–	(40 546)
Share option scheme	–	–	–	295	–	295	–	295
Sale of share in subsidiary	–	–	–	–	–	–	9 970	9 970
Total changes	**–**	**(41 548)**	**(2 733)**	**(829)**	**187 301**	**142 191**	**4 498**	**146 689**
Balance at 1 January 2011	1 039	97 456	(8 938)	4 113	575 546	669 216	–	669 216
Changes in equity								
Total comprehensive income for the year	–	–	–	(3 818)	239 996	236 178	–	236 178
Purchases of treasury shares by share trust	–	–	(2 635)	–	–	(2 635)	–	(2 635)
Reduction of share premium	–	(67 515)	1 841	–	–	(65 674)	–	(65 674)
Share option scheme	–	–	–	250	–	250	–	250
Total changes	**–**	**(67 515)**	**(794)**	**(3 568)**	**239 996**	**168 119**	**–**	**168 119**
Balance at 31 December 2011	**1 039**	**29 941**	**(9 732)**	**545**	**815 542**	**837 335**	**–**	**837 335**

statement of cash flows

for the year ended 31 December 2011

	Note(s)	2011 R000	2010 R000
Cash flows from operating activities			
Operating cash flows before working capital changes	26	**346 761**	277 349
Movements in working capital (excluding the effects of disposal of subsidiary)	26	**(203 253)**	(175 421)
Cash generated from operations	26	**143 508**	101 928
Interest income		**2 975**	3 530
Interest paid		**(6 156)**	(6 865)
Dividends received		**394**	3 060
Taxation paid	27	**(91 647)**	(65 497)
Net cash inflow from operating activities		**49 074**	36 156
Cash flows from investing activities			
Purchase of property, plant and equipment	4	**(24 403)**	(5 642)
Proceeds on disposal of property, plant and equipment		**300**	1 232
Purchase of intangible assets	5	**(16 466)**	(3 920)
Proceeds from sale of available-for-sale investments		**39 811**	5 845
Loans repaid by employees		**3 712**	328
Investment in associates		**(1 383)**	(2 812)
Disposal of subsidiary	28	**–**	(146)
Net cash inflow/(outflow) from investing activities		**1 571**	(5 115)
Cash flows from financing activities			
Reduction of share premium		**(65 674)**	(40 546)
Purchases of treasury shares		**(2 635)**	(904)
Loan from non-controlling interest holder		**–**	452
Proceeds from interest-bearing liabilities		**74 685**	–
Repayments of interest-bearing liabilities		**(49 976)**	(6 910)
Net cash outflow from financing activities		**(43 600)**	(47 908)
Net increase/(decrease) in cash and cash equivalents and bank overdrafts		**7 045**	(16 867)
Cash, cash equivalents and bank overdrafts at the beginning of the year		**39 024**	55 891
Cash, cash equivalents and bank overdrafts at the end of the year	12	**46 069**	39 024

	Retail			Financial services		
	2011 R000	mvt	2010 R000	**2011 R000**	mvt	2010 R000
Segmental revenue	**939 002**		743 901	**181 503**		121 454
– Retail sales	**626 028**		493 008	**–**		–
– Finance charges earned	**160 785**		135 638	**117 669**		79 583
– Fees from ancillary services	**152 189**		115 255	**63 834**		41 871
– Dividends received	**–**		–	**–**		–
Intersegment						
Revenue from external customers	**939 002**	26%	743 901	**181 503**	49%	121 454
Segmental operating profit/(loss)	**229 888**		188 775	**92 855**		57 186
Intersegment	**11 520**		5 763	**5 013**		3 896
Operating profit/(loss) from external parties	**241 408**	24%	194 538	**97 868**	60%	61 082
Interest received	**1 400**		1 450	**173**		131
Intersegment	**–**		–	**–**		–
Interest received from external parties	**1 400**	(3%)	1 450	**173**	32%	131
Interest paid	**(1 535)**		(363)	**(23 995)**		(17 755)
Intersegment	**–**		–	**23 995**		17 755
Interest paid to external parties	**(1 535)**	323%	(363)	**–**		–
Profit/(loss) before taxation	**229 750**		189 862	**69 033**		39 561
Tax (expense)/credit	**(68 127)**		(55 265)	**(19 329)**		(11 285)
Profit/(loss) for the period	**161 623**	20%	134 597	**49 704**	76%	28 276
Segment assets excluding group loans	**602 946**		446 841	**319 928**		221 313
Segment liabilities excluding group loans	**152 480**		121 348	**8 181**		5 451
Group loans receivable/(payable)	**133 177**		111 450	**(228 484)**		(179 602)
Operating cash flows before working capital changes	**238 502**		208 414	**94 104**		58 360
Movements in working capital	**(117 955)**		(88 198)	**(86 423)**		(85 366)
Cash generated/(utilised) by operations	**120 547**		120 216	**7 681**		(27 006)
Depreciation and amortisation	**8 774**		6 173	**1 341**		1 139
Additions to property, plant and equipment	**5 268**		5 262	**719**		380
Additions to intangible assets	**16 424**		3 892	**42**		28

segmental analysis

for the year ended 31 December 2011

Property			Other			Eliminations			Total		
2011 R000	mvt	2010 R000	**2011 R000**	mvt	2010 R000	**2011 R000**	mvt	2010 R000	**2011 R000**	mvt	2010 R000
17 435		17 329	**8 746**		4 137	**–**		–	**1 146 686**		886 821
–		–	**–**		–	**–**		–	**626 028**		493 008
–		–	**–**		–	**–**		–	**278 454**		215 221
17 435		17 329	**284**		1 077	**–**		–	**233 742**		175 532
–		–	**8 462**		3 060	**–**		–	**8 462**		3 060
(17 273)		(17 273)	**(8 353)**		(106)				**(25 626)**		(17 379)
162	(190%)	56	**393**	(90%)	4 031	**–**		–	**1 121 060**	29%	869 442
15 107		9 761	**12 834**		2 823	**–**		–	**350 684**		258 545
(17 273)		(17 273)	**(8 353)**		(1 236)	**–**		–	**(9 093)**		(8 850)
(2 166)	71%	(7 512)	**4 481**	182%	1 587	**–**	–	–	**341 591**	37%	249 695
18		1	**25 380**		19 703	**–**		–	**26 970**		21 285
–		–	**(23 995)**		(17 755)	**–**		–	**(23 995)**		(17 755)
18	1716%	1	**1 385**	(29%)	1 948	**–**		–	**2 975**	(16%)	3 530
(4 621)		(5 359)	**–**		(1 143)	**–**		–	**(30 151)**		(24 620)
–		–	**–**		–	**–**		–	**23 995**		17 755
(4 621)	(14%)	(5 359)	**–**	(100%)	(1 143)	**–**		–	**(6 156)**	(10%)	(6 865)
10 505		4 403	**37 848**		19 935	**(9 092)**		(8 850)	**338 044**		244 911
(2 941)		(2 528)	**(7 651)**		(4 521)	**–**		1 022	**(98 048)**		(72 577)
7 564	303%	1 875	**30 197**	96%	15 415	**(9 092)**	(16%)	(7 829)	**239 996**	39%	172 334
124 856		107 312	**27 946**		79 668	**(2 477)**		(2 508)	**1 073 199**		852 626
77 281		58 772	**399**		347	**(2 477)**		(2 508)	**235 864**		183 410
(33 681)		(42 210)	**128 988**		110 362	**–**		–	**–**		–
16 253		17 137	**32**		1 091	**(2 130)**		(7 653)	**346 761**		277 349
59		(962)	**114**		10	**952**		(905)	**(203 253)**		(175 421)
16 312		16 175	**146**		1 101	**(1 178)**		(8 558)	**143 508**		101 928
1 146		1 181	**–**		966	**–**		–	**11 261**		9 459
18 416		–	**–**		–	**–**		–	**24 403**		5 642
–		–	**–**		–	**–**		–	**16 466**		3 920

1. Accounting policies

Presentation of financial statements

Statement of compliance

The financial statements are prepared on a going-concern basis in compliance with the Companies Act of South Africa, International Financial Reporting Standards (IFRS) and interpretations of these standards, as adopted by the International Accounting Standards Board.

Basis of consolidation

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

Basis of preparation

The financial statements have been prepared on the historical cost basis except for available-for-sale investments, which are measured at fair value, and derivative financial instruments, which are classified as fair value through profit and loss. The consolidated and separate annual financial statements are expressed in South African Rand (ZAR). The principal accounting policies applied in the preparation of these financial statements are set out below and are consistent with those adopted in the previous year, except for the changes set out in Note 2: New standards and interpretations. The application of these standards had no impact on the comparative results.

Application of accounting policies

Investment in subsidiary

Subsidiaries are all entities over which the group has the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity. The group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. The results of subsidiaries are included in the consolidated financial statements from the effective date of acquisition to the effective date of disposal. All intragroup transactions, balances, income and expenses are eliminated on consolidation. Non-controlling interests in the net assets of consolidated subsidiaries are identified and recognised in equity, separately from the group's interest in subsidiaries. Losses of subsidiaries attributable to non-controlling interest holders are allocated to the non-controlling interest even if this results in a debit balance being recognised. Transactions where ownership changes but control is retained are regarded as equity transactions and are recognised directly in the statement of changes in equity. Where a subsidiary is disposed of and a non-controlling shareholding is retained, the remaining investment is measured to fair value with the adjustment to fair value recognised in profit or loss as part of the gain or loss on disposal of the controlling interest. Adjustments are made when necessary to the financial statements of subsidiaries to bring their accounting policies in line with those of the group.

Investment in associate

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

Property, plant and equipment

Property, plant and equipment are initially recognised at cost, being the cash price equivalent at the recognition date. The cost of an asset comprises any costs incurred in bringing the asset to the location and condition necessary for it to operate as intended by management. Property, plant and equipment are subsequently stated at cost, less accumulated depreciation and accumulated impairment in value. Freehold land is stated at cost less any accumulated impairment in value and is not depreciated. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance expenditures are charged to profit or loss during the financial period in which they are incurred. Depreciation commences when the assets are available for their intended use. Property, plant and equipment are depreciated on a straight-line basis over the expected useful lives of the various classes of assets, after taking into account residual values. Useful lives of property, plant and equipment, the depreciation method, depreciation rates and residual values are reviewed on an annual basis. The annual rates applied for depreciation are as follows:

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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised. An asset's carrying amount is written down immediately to its recoverable amount if the assets' carrying amount is greater than its estimated recoverable amount. Buildings are not depreciated as their residual value exceeds cost.

Intangible assets

Intangible assets are initially recognised at cost if acquired separately, or at fair value if acquired as part of a business combination. The useful lives of intangible assets are assessed to be either finite or indefinite. If assessed as having an indefinite useful life, the intangible asset is not amortised but tested for impairment annually and impaired if necessary. If assessed as having a finite useful life, it is amortised over its useful economic life using a straight-line basis and tested for impairment if there is an indication that it may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed annually. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in profit or loss. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis. Intangible assets include development costs, computer software, mailing lists and trademarks. All of the group's intangible assets are assessed as having finite useful lives. The annual amortisation rates applied are as follows:

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

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

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

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

Impairment of non-financial assets

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

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

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

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

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

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

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

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

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

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

Available-for-sale investments
Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as held-to-maturity, loans and receivables or fair value through profit or loss. Investments include preference shares, which are classified as available-for-sale financial assets. The fair value of investments that are actively traded in organised financial markets are determined by reference to quoted market bid prices at the close of business on the reporting date. For investments where there is no active market, fair value is

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determined using recent arm's length market transactions. Gains and losses are recognised directly as a revaluation reserve in other comprehensive income until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously recognised in other comprehensive income is included in profit or loss.

Loans to employees

Loans to employees are classified as loans and receivables. Loans with maturity repayment terms are measured at amortised cost using the effective interest rate method less any allowance for impairment. Gains and losses are recognised in profit and loss when the assets are derecognised or impaired, as well as through the amortisation process. When applying the effective interest method, transaction costs are amortised over the expected life of the instrument. If the estimates of payments or receipts have been revised, the carrying amount of the financial asset or financial liability shall be adjusted to reflect the actual and revised estimated cash flows. The carrying amount will be recalculated by computing the present value of estimated future cash flows at the financial instrument's original effective interest rate. The adjustment is recognised as income or expense in profit or loss.

Impairment of financial assets

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

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred and reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced by the allowance for impairment. The amount of the loss is recognised in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Available-for-sale financial assets

A significant or prolonged decline in the fair value of a security below its cost is considered to be objective evidence that an available-for-sale asset is impaired. If any such evidence exists, the cumulative loss – measured as the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity as a reclassification adjustment in other comprehensive income and recognised in profit or loss. Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised. Reversals of impairment losses are recognised in other comprehensive income and not through profit or loss.

Share capital and equity

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

Ordinary share capital

Ordinary share capital represents the par value of ordinary shares issued and is classified as equity. If the group reacquires its own equity instruments, the consideration paid, including any directly attributable incremental costs, are deducted from equity until the shares are cancelled or reissued. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the group's own equity instruments. Consideration paid or received shall be recognised directly in equity.

Share premium

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

Treasury shares

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

Dividend distribution

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

Share-based payments

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

- including any market performance conditions (for example, an entity's share price),
- excluding the impact of any service

and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period), and

- including the impact of any non-vesting conditions.

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the statement of comprehensive income, with a corresponding adjustment to equity. When the options are exercised, the company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised. The grant by the company of options over its equity instruments to the employees of subsidiary undertakings in the group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent equity accounts.

Provisions and contingencies

Provisions are recognised when the group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost. For further details on the nature of provisions raised within the group refer to pages 112-113 . Contingent liabilities arise when an obligation has resulted, but is either not probable or not able to be reliably estimated. Contingent liabilities are not recognised.

Revenue recognition

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

Retail sales

Retail sales comprise revenue from the sale of goods and is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.

Finance charges earned

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

Fees from ancillary services

Fees from ancillary services include revenue earned for the origination and administration of transactions with customers, as well as fees charged for the delivery of goods. Origination fees are charged upfront and are capitalised on initiation of a loan or credit sale. In accordance with IAS 18: Revenue, these origination fees are considered an integral part of the effective interest rate and are accounted for over the shorter of the original contractual term and the actual term of the loan or credit sale, using the effective interest rate. Trade receivables are reduced by the deferred portion of these fees. The group does not defer any related operating costs, as these are all internal costs which are not directly attributable to individual transactions and as such are primarily absorbed infrastructure costs. Monthly administration fees are recognised in profit or loss as they are charged to the customer. Delivery fees are recognised as income at the date that goods are delivered to customers.

Dividends received

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

Cost of sales

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

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expense in the period in which the reversal occurs. Costs directly related to the provision of services recognised as revenue in the current period are included in cost of sales.

Interest paid

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset. Finance charges payable on suspensive sale transactions, for the purchase of property, plant and equipment, are accounted for over the period of the agreements using the effective interest rate method and are included with interest paid. Other borrowing costs are recognised as an expense when incurred.

Employee benefits

Retirement obligations

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

Bonus scheme

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

Taxation

The income tax expense is determined based on taxable income for the year and includes deferred tax, secondary tax on companies (STC) and capital gains tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity respectively.

Current tax

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

Deferred tax

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

Secondary tax on companies

South African resident companies are subject to a dual corporate tax system, one part of the tax being levied on taxable income and the other, a secondary tax (STC), on distributed income. A company incurs STC charges on the declaration or deemed declaration of dividends (as defined under tax law) to its shareholders. STC is not a withholding tax on shareholders, but a tax on companies. The consequence of STC on dividends is recognised as a taxation charge in profit or loss in the same period that the related dividend is accrued as a liability. The STC liability is reduced by dividends received during the dividend cycle. Where dividends declared exceed the dividends received during the cycle, STC is payable at the current STC rate on the net amount. Where dividends received exceed dividends declared within a cycle, there is no liability to pay STC. The potential tax benefit related to excess dividends received is carried forward to the next dividend cycle as an STC credit. Deferred tax assets are recognised on unutilised STC credits to the extent that it is probable that the group will declare future dividends before the implementation of a dividends tax to be levied on shareholders on 1 April 2012.

Foreign currency transactions

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates (functional currency). The consolidated financial statements are presented in South African Rand (ZAR), which is the company's functional and the group's presentation currency. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when deferred in other comprehensive income as qualifying cash flow hedges.

Segment reporting

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

- **Retail:** HomeChoice provides an exclusive range of household goods to the urban market.
- **Financial services:** FinChoice provides personal loans with terms ranging between 6 and 24 months.
- **Property:** The group holds land and buildings which are primarily used by HomeChoice and FinChoice.
- **Other:** Aggregated under other is the group's treasury function and the results of an en-commandite partnership until its disposal in June 2010.

The treasury function manages the group's investments of cash and cash equivalents and available-for-sale investments. The board monitors the operating results of the business segments separately for the purposes of making decisions about resources to be allocated and of assessing performance. The board primarily assesses the performance of the operating segments based upon a measure of operating profit. Intersegment pricing is determined on an arm's length basis in a manner similar to transactions with third parties, with the exception of certain intergroup loans, as disclosed in note 4 to the company annual financial statements.

Significant accounting judgements, estimates and assumptions

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

Estimates and assumptions

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

Bonus provision

The bonus provision is based on a financial model which takes the following into account: whether the company achieved its financial targets, individual staff performance during the year and the remuneration committee's final discretion. Bonus provisions due at year end are paid out annually in March.

Customer returns provision

Based on the historical returns experience, provision is made for estimated customer returns for goods despatched prior to the end of each financial year but subsequently returned by the customer and received after the end of the financial year.

Depreciation of property, plant and equipment

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

Amortisation of intangible assets

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

Fair value estimation

The fair value of financial instruments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the reporting date. For financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques may include using recent market transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis or other valuation models. The carrying value less impairment provision of trade and loans receivable are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the group for similar financial instruments.

accounting policies *(cont)*

for the year ended 31 December 2011

Impairment of available-for-sale equity investments

The group follows the guidance of IAS 39 to determine when an available-for-sale equity investment is impaired. This determination requires significant judgement. In making this judgement, the group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and short-term business outlook for the investee.

Options granted

Management uses a Black-Scholes valuation model to determine the value of the options at issue date.

Stock obsolescence provision

Stock items are reviewed by merchandise planners and the merchandise director. Slow-moving items expected to realise less than cost have a provision raised for the difference between expected selling price less selling cost and original cost.

Trade accounts receivable

A provision for impairment of trade receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. The estimated future cash flow is based on prior debtors' book yields and average instalment terms. The prior year debtors' book yields have been adjusted to take into account the current economic conditions. As these conditions are uncertain, management has been cautious in assessing the ability of customers to make their required payments.

2. New standards and interpretations

Standards and interpretations effective in the current year

The group has adopted the following new and amended International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations during the year:

IAS 24 (Amended): Related Party Disclosures

This amendment clarifies the definition of a related party in order to simplify the identification of such parties and to eliminate inconsistencies in the application of the standard. It also provides a partial exemption from disclosure requirements for government-related entities. The adoption of this revised standard has resulted in minor revisions to certain disclosures, but does not have any impact on the financial position or performance of the group.

Annual Improvements to IFRS (May 2010)

In May 2010, the International Accounting Standards Board issued various minor amendments to existing IFRS, affecting six standards and one interpretation. The adoption of these amendments has resulted in minor revisions to accounting policies, but does not have any impact on the financial position or performance of the group.
The following standards and interpretations that are effective in the current year are not currently applicable to the group's activities:

IAS 32 (Amended): Financial Instruments: Presentation

This amendment clarifies that if a rights issue, denominated in a foreign currency, is issued pro rata to all the entity's existing shareholders, they should be classified as equity regardless of the currency in which the exercise price is denominated.

IFRIC 19: Extinguishing Financial Liabilities with Equity Instruments

This new interpretation clarifies the treatment required when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially.

IFRIC 14 (Amended): Prepayments of a Minimum Funding Requirement

This amendment corrects a previous, unintended error in the interpretation by now permitting entities to recognise as assets certain voluntary prepayments for minimum funding contributions.

AC 504 (Revised): The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction in the South African Pension Fund Environment

A revised version of AC 504 has been issued to reflect the editorial changes brought about by the amendments to IFRIC 14.

Standards and interpretations not yet effective

The group has not applied the following IFRS and IFRIC interpretations that have been issued but are not yet effective. They will be adopted by no later than their effective dates.

IFRS 9: Financial Instruments: Classification and Measurement

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

IFRS 10: Consolidated Financial Statements

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

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

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

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

IAS 19: Employee Benefits (Amended)
Amendments to IAS 19 include significant changes to the accounting for pension and post-retirement benefit plans and various other minor changes. Of these changes, the most fundamental is the removal of the corridor mechanism for recognising actuarial gains and losses, which will result in full balance sheet recognition of pension surpluses and deficits. IAS 19 becomes effective for annual periods beginning on or after 1 January 2013. The group expects that its adoption will not have a material financial impact on its financial statements, however it will impose additional disclosure requirements.

Standards and interpretations not yet effective and not relevant to the group

The group has not applied the following IFRS and IFRIC interpretations that have been issued but are not yet effective. Adoption of the standards is mandatory for the effective dates indicated below, but is currently not relevant to the operations of the group.

IFRS 7 (Amended): Financial Instruments: Disclosures
The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The additional disclosures include a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party yet remain on the entity's statement of financial position. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. The amendment becomes effective for annual periods beginning on or after 1 July 2011. The amended disclosures will require more extensive disclosures in respect of offsetting financial assets and financial liabilities. The disclosures focus on quantitative information about recognised financial instruments that are offset in the statement of financial position, as well as those recognised financial instruments that are subject to master netting or similar arrangements irrespective of whether they are offset. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 11: Joint Arrangements
The amendment reduces joint arrangements to either joint operations or joint ventures with equity accounting being mandatory for participants in joint ventures. The amendment also provides guidance for parties that participate in joint arrangements but do not have joint control. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IAS 12 (Amended): Income Taxes
The amendment introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. This amendment becomes effective for periods beginning on or after 1 January 2012.

IAS27 (Revised): Separate Financial Statements
IAS 27 has been renamed Separate Financial Statements and continues to be a standard dealing solely with separate financial statements. The existing guidance remains unchanged. This amendment becomes effective for periods beginning on or after 1 January 2013.

IAS 28 (Revised): Investment in Associates and Joint Ventures
IAS 28 now includes the requirement for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11. This amendment becomes effective for periods beginning on or after 1 January 2013.

group notes to the annual financial statements

for the year ended 31 December 2011

3. Risk management and financial instrument disclosure

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

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

3.1 Capital risk management

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

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

From time to time the group repurchases its own shares or reduces share premium. The timing of these repurchases or share premium reductions depend on the availability of shares to be repurchased and available funding. The decision to repurchase shares or reduce share premium is made on a specific transaction basis. The group does not have a defined share buy-back plan. During the current year the share premium was reduced by 65c (2010: 40c) per share.

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

3.2 Financial risk management

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

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

group notes to the annual financial statements *(cont)*

for the year ended 31 December 2011

3. Risk management and financial instrument disclosure (continued)

3.2 Financial risk management (continued)

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

Assets

	Note(s)	Loans and receivables R000	Available-for-sale investments R000	Non-financial assets R000	Total R000
2011					
Non-current assets					
Loans to employees	6	11 664	–	–	11 664
Current assets					
Trade receivables – HomeChoice	11	420 933	–	–	420 933
Trade receivables – Other retail	11	21 344	–	–	21 344
Loans receivable – FinChoice	11	296 580	–	–	296 580
Other receivables	11	2 040	–	8 816	10 856
Cash at bank	12	31 811	–	–	31 811
Money market investments	12	14 258	–	–	14 258
Total		798 630	–	8 816	807 446
Guarantees					15 000
Maximum exposure to credit risk					822 446
2010					
Non-current assets					
Loans to employees	6	13 177	–	–	13 177
Current assets					
Available-for-sale investments	9	–	41 445	–	41 445
Trade receivables – HomeChoice	11	325 390	–	–	325 390
Trade receivables – Other retail	11	6 360			6 360
Loans receivable – FinChoice	11	206 873	–	–	206 873
Other receivables	11	2 604	–	2 512	5 116
Cash at bank	12	25 071	–	–	25 071
Money market investments	12	20 559	–	–	20 559
Total		600 034	41 445	2 512	643 991
Guarantees					7 953
Maximum exposure to credit risk					651 944

group notes to the annual financial statements *(cont)*

for the year ended 31 December 2011

	Note(s)	At amortised cost R000	Non-financial liabilities R000	Total R000
3. Risk management and financial instrument disclosure (continued)				
3.2 Financial risk management (continued)				
Liabilities				
2011				
Non-current liabilities				
Borrowings from bank	17	**66 572**	**–**	**66 572**
Suspensive sale agreements	17	**8 323**		**8 323**
Non-current other payables	18	**3 450**	**–**	**3 450**
Current liabilities				
Trade payables	19	**71 287**	**–**	**71 287**
Other payables	19	**9 969**	**4 198**	**14 167**
Borrowings from bank	17	**5 102**	**–**	**5 102**
Suspensive sale agreements	17	**2 331**	**–**	**2 331**
Total		**167 034**	**4 198**	**171 232**
2010				
Non-current liabilities				
Borrowings from bank	17	50 558	–	50 558
Suspensive sale agreements	17	782		782
Non-current other payables	18	3 420	–	3 420
Current liabilities				
Trade payables	19	49 354	–	49 354
Other payables	19	10 158	1 716	11 874
Borrowings from bank	17	4 518	–	4 518
Suspensive sale agreements	17	1 761	–	1 761
Bank overdraft	12	6 606	–	6 606
Total		127 157	1 716	128 873

3.3 Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the group. Potential concentrations of credit risk consist principally of trade and loan receivables and short-term cash deposits. The group's maximum exposure to credit risk at year end in respect of financial assets is shown in note 3.2.

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

Trade and loan receivables:

Trade and loan receivables have repayment terms of 6 to 24 months and attract interest based on rates determined by the National Credit Act. Trade receivables comprise a large, widespread customer base and ongoing credit evaluations are performed. The granting of credit is controlled by bureau, application and behavioural models and the assumptions therein are reviewed and updated on an regular basis. Methods used to grant credit to customers comply with the requirements of the National Credit Act.

3. Risk management and financial instrument disclosure (continued)

A provision for impairment is raised when there is objective evidence that the business will not be able to collect all amounts due according to the original terms of the receivable. A default or delinquency in payment is regarded as objective evidence that a receivable might be impaired. Accordingly a percentage of all trade and loan receivables is provided for, and at 31 December, all trade and loans receivable past due had been impaired. The group establishes an allowance for impairment that represents its estimate of incurred losses using delinquency roll-rate models.

The group manages the ageing of HomeChoice trade receivables on a contractual basis. The ageing of trade receivables at 31 December was:

Contractual	**2011**	2010
Current or past due less than 30 days	**73,7%**	77,0%
Past due 31 – 60 days	**11,2%**	10,1%
Past due 61 – 90 days	**5,6%**	4,7%
Past due more than 91 days	**9,5%**	8,2%
Total	**100,0%**	100,0%

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

Recency	**2011**	2010
Current	**89,1%**	87,1%
Not paid 1 – 30 days	**6,9%**	9,4%
Not paid 31 – 60 days	**1,8%**	1,5%
Not paid more than 61 days	**2,2%**	2,0%
Total	**100,0%**	100,0%

Loan product	**2011**	2010
6-month loan	**22,5%**	24,9%
12-month loan	**24,8%**	26,6%
24-month loan	**50,3%**	42,8%
Other	**2,4%**	5,7%
Total	**100,0%**	100,0%

Cash and cash equivalents

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

Financial guarantees

Credit risk arises in relation to financial guarantees given to certain parties. A subsidiary of the group has provided security on behalf of the group's associate, as discussed in note 7. Details of financial guarantees provided by the company are disclosed in note 13 of the company annual financial statements.

3.4 Liquidity risk management

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

The table on the next page details the group's undiscounted contractual maturities for its financial liabilities.

group notes to the annual financial statements *(cont)*

for the year ended 31 December 2011

3. Risk management and financial instrument disclosure (continued)

3.4 Liquidity risk management (continued)

	Weighted average interest rate %	On demand R000	Less than 1 month R000	1 to 3 months R000	3 months to 1 year R000	1 to 2 years R000	Over 2 years R000
2011							
Non-interest-bearing liabilities							
– Non-current other payables	–	–	–	–	–	770	2 680
– Trade and other payables	–	34 033	44 962	1 763	870	–	–
– Financial guarantees	–	15 000	–	–	–	–	–
Interest-bearing liabilities							
– Borrowings from the bank	8,93	–	886	1 773	7 978	21 274	196 177
– Suspensive sale agreements	9,00	–	323	703	2 011	2 489	7 318
	–	49 033	46 171	4 239	10 859	24 533	206 175
2010							
Non-interest-bearing liabilities							
– Non-current other payables	–	–	–	–	–	770	2 650
– Trade and other payables	–	18 105	37 519	2 594	1 299	–	–
– Financial guarantees	–	7 953	–	–	–	–	–
Interest-bearing liabilities							
– Borrowings from the bank	8,57	–	750	1 500	6 749	17 997	58 898
– Suspensive sale agreements	9,00	–	159	317	1 428	793	–
– Bank overdraft	2,48	6 606	–	–	–	–	–
		32 664	38 428	4 411	9 476	19 560	61 548

The group has the following undrawn borrowing facilities available:

	2011 R000	2010 R000
General banking facilities available	110 000	65 000
Guarantees	6 700	6 700
Suspensive sale arrangements facility available	15 000	8 000
	131 700	79 700
Borrowings, guarantees and letters of credit	(59 023)	(37 637)
Unutilised borrowing facility at 31 December	72 677	42 063

3.5 Market risk management

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of market prices. Market prices comprise three types of risk: equity price risk, foreign currency risk and interest rate risk. Financial instruments affected by market risk include trade and loan receivables, loans and borrowings, cash and cash equivalents, available-for-sale investments and derivative financial instruments.

Equity price risk management

The available-for-sale investments were susceptible to market price risk arising from uncertainties about future values of the investment securities. The group managed equity price risk through constant review of the share market.

3. Risk management and financial instrument disclosure (continued)

3.5 Market risk management (continued)

Equity price risk management (continued)

At the balance sheet date, the exposure to listed equity securities at fair value was RNil (2010: R41,445 million). An increase of 10% on the value of these investments would have no impact (2010: R 4,145 million) on other comprehensive income of the group. A decrease of 10% on the value would have no impact (2010: R 3,493 million) on other comprehensive income or on profit or loss. (2010: R 0,652 million)

Foreign currency risk management

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

The group had uncovered foreign liabilities at 31 December 2011 amounting to US$6,889 million (2010: US$1,954 million). There were no outstanding forward exchange contracts at 31 December 2011. Foreign exchange contracts outstanding at 31 December 2010 were as follows:

	Maturity date	Contract exchange rate	Foreign currency US$000	Contract value R000	Fair value R000
Commitment to buy US dollars (US$):	31 Jan 11 to 28 Mar 11	7,20	3 000	21 598	20 136

The group measures sensitivity to foreign exchange rates as the effect of a change in the US dollar exchange rate on profit before tax based on the company's exposure at 31 December. The company regards a 15% change in exchange rates as being reasonably possible at 31 December 2011. (2010: 15%)

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

	Movement in basis points	Effect on profit after tax R000
2011		
	+15%	**(740)**
	-15%	**740**
2010		
	+15%	(1 062)
	-15%	1 062

The following liabilities on the group's statement of financial position include balances denominated in a foreign currency:

	Currency	**2011**	2010
Current liabilities			
Trade and other payables	**US$000**	**6 854**	1 480
Bank overdraft	**US$000**	**–**	1 954

group notes to the annual financial statements *(cont)*

for the year ended 31 December 2011

3. Risk management and financial instrument disclosure (continued)

3.5 Market risk management (continued)

Interest rate risk management

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

The group measures sensitivity to interest rates as the effect of a change in the Reserve Bank repo rate on the profit after tax based on the group's exposure at 31 December. The group regards a 1% (2010: 1%) change in the Reserve Bank repo rate as being reasonably possible at 31 December 2011.

	Movement in basis points	Effect on profit after tax R000
2011		
Cash and cash equivalents	+100	229
	-100	(229)
Money market invesments	+100	103
	-100	(103)
Borrowings from the bank	+100	516
	-100	(516)
Suspensive sale agreement	+100	77
	-100	(77)
2010		
Cash and cash equivalents	+100	133
	-100	(133)
Money market investments	+100	148
	-100	(148)
Borrowings from the bank	+100	(397)
	-100	397
Suspensive sale agreement	+100	(18)
	-100	18

3.6 Fair value of financial instruments

The fair values of financial instruments are measured in accordance with the following fair-value measurement hierarchy:
– Level 1: Quoted prices in active markets for identical assets or liabilities.
– Level 2: Inputs other than quoted prices that are observable for the asset or liability.
– Level 3: Inputs for the asset or liability that are not based on observable market data.

3. Risk management and financial instrument disclosure (continued)

3.6 Fair value of financial instruments (continued)

The following table presents the group's financial assets and liabilities, as at 31 December, using the measurement hierarchy described on the previous page:

	Level 1 R000	Level 2 R000	Level 3 R000	Total balance R000
2011				
Assets				
Equity investments	–	–	–	–
Total financial assets	–	–	–	–
Liabilities				
Forward exchange contracts	–	–	–	–
Total financial liabilities	–	–	–	–
2010				
Assets				
Equity investments	41 445	–	–	41 445
Total financial assets	41 445	–	–	41 445
Liabilities				
Forward exchange contracts	–	1 104	–	1 104
Total financial liabilities	–	1 104	–	1 104

The following methods and assumptions were used by the group in establishing fair values:

– Forward exchange contracts: These are entered into mainly to cover specific orders, and fair values are determined by reference to current forward exchange rates for contracts with similar maturity profiles.

– Equity investments: Fair values are determined with reference to the quoted market prices.

4. Property, plant and equipment

	2011			2010		
	Cost/ valuation R000	Accumulated depreciation R000	Carrying value R000	Cost/ valuation R000	Accumulated depreciation R000	Carrying value R000
Land and buildings	125 081	(3 427)	121 654	106 665	(2 281)	104 384
Motor vehicles	1 918	(1 126)	792	1 988	(1 200)	788
Computer equipment	15 847	(9 371)	6 476	12 837	(6 751)	6 086
Equipment, furniture, fittings and plant	17 344	(9 305)	8 039	15 156	(6 549)	8 607
Total	160 190	(23 229)	136 961	136 646	(16 781)	119 865

group notes to the annual financial statements *(cont)*

for the year ended 31 December 2011

	Opening balance R000	Additions R000	Disposals R000	Disposal of subsidiary R000	Impairment R000	Depreciation R000	Total R000

4. Property, plant and equipment (continued)

Analysis of movements – 2011

	Opening balance R000	Additions R000	Disposals R000	Disposal of subsidiary R000	Impairment R000	Depreciation R000	Total R000
Land and buildings	**104 384**	**18 416**	**–**	**–**	**–**	**(1 146)**	**121 654**
Motor vehicles	**788**	**487**	**(399)**	**–**	**–**	**(84)**	**792**
Computer equipment	**6 086**	**3 245**	**(10)**	**–**	**–**	**(2 845)**	**6 476**
Equipment, furniture, fittings and plant	**8 607**	**2 255**	**–**	**–**	**–**	**(2 823)**	**8 039**
Total	**119 865**	**24 403**	**(409)**	**–**	**–**	**(6 898)**	**136 961**

Analysis of movements – 2010

	Opening balance R000	Additions R000	Disposals R000	Disposal of subsidiary R000	Impairment R000	Depreciation R000	Total R000
Land and buildings	105 566	–	–	–	–	(1 182)	104 384
Motor vehicles	1 368	6	(364)	–	–	(222)	788
Computer equipment	5 618	3 250	(48)	–	–	(2 734)	6 086
Equipment, furniture, fittings and plant	8 407	2 386	(2)	–	–	(2 184)	8 607
Aircraft	47 751	–	–	(27 077)	(19 708)	(966)	–
	168 710	5 642	(414)	(27 077)	(19 708)	(7 288)	119 865

Land and buildings comprise:

- Land and buildings, being remainder erf 66592 Cape Town at Wynberg situated in the City of Cape Town, in extent of 2 858 square metres (acquired in 2007),
- Land and buildings, being remainder erf 91380 Cape Town at Wynberg situated in the City of Cape Town, in extent of 4 936 square metres (acquired in 2011), and
- Vacant industrial-site land, being remainder of portion 240 of the farm Wimbledon 454 situated in the City of Cape Town and measuring 3,3136 hectares (acquired in 2005).

Land and buildings are recorded at cost. At 31 December 2011, the fair value, as determined by the directors, is approximately R131,650 million (2010: R140,710 million).

The net book value of property, plant and equipment subject to suspensive sale agreements (see note 17) as at 31 December 2011 was R4,200 million (2010: R4,178 million).

Included in property, plant and equipment are assets with a cost of R7,765 million (2010: R4,536 million) that are in use but fully depreciated.

Land and buildings include a book value of R103,361 million (2010: R104,384 million) currently encumbered as shown in note 17. Included in disposals are equipment, furniture and fittings and plant with a cost of R0,067 million (2010: R0,377 million) and accumulated depreciation of R0,067 million (2010: R0,375 million) and computer equipment with a cost of R0,235 million (2010: R1,665 million) and accumulated depreciation of R0,225 million (2010: R1,617 million), which had no further economic value and have been removed from the register.

5. Intangible assets

	2011 Cost/ Valuation R000	2011 Accumulated amortisation R000	2011 Carrying value R000	2010 Cost/ Valuation R000	2010 Accumulated amortisation R000	2010 Carrying value R000
Licences	**19 623**	**(7 559)**	**12 064**	7 797	(4 287)	3 510
Computer software	**10 778**	**(1 929)**	**8 849**	6 629	(1 283)	5 391
Total	**30 401**	**(9 488)**	**20 913**	14 426	(5 525)	8 901

Analysis of movements - 2011

	Opening balance R000	Additions R000	Disposals R000	Amortisation R000	Total R000
Licences	**3 510**	**12 000**	**–**	**(1 981)**	**13 529**
Computer software	**5 391**	**4 466**	**(92)**	**(2 381)**	**7 384**
	8 901	**16 466**	**(92)**	**(4 362)**	**20 913**

Analysis of movements - 2010

	Opening balance R000	Additions R000	Disposals R000	Amortisation R000	Total R000
Licences	4 804	428	–	(1 722)	3 510
Computer software	2 348	3 492	–	(449)	5 391
	7 152	3 920	–	(2 171)	8 901

The net book value of intangibles assets subject to suspensive sale agreements at 31 December 2011 was R8,919 million (2010: RNil). Included in computer software are internally generated intangibles with a carrying value of R7,229 million (2010: R4,554 million). Included in intangible assets are assets with a cost of R0,613 million (2010: R0,697 million) that are in use but fully amortised, and development costs of R11,071 million (2010: R3,151 million) incurred on assets which have not yet been brought into use by the group and have not been amortised.

	2011 R000	2010 R000
6. Loans to employees		
Loans to employees	**11 664**	13 177

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

These full recourse loans are interest-free and repayable within 5 years of the acquisition date. The shares are pledged to and held by the trustees of the HomeChoice Share Trust.

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

	2011 R000	2010 R000
Movement in carrying value of the loans were as follows:		
Opening balance	**13 177**	8 848
Loans issued	**–**	10 883
Loans repaid	**(3 712)**	(6 550)
Amortised cost adjustment	**1 046**	(1 171)
Notional interest recognised	**1 153**	1 167
Closing balance	**11 664**	13 177

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

group notes to the annual financial statements *(cont)*

for the year ended 31 December 2011

	2011 R000	2010 R000
7. Investment in associates		
Carrying amount of investments	**1 677**	–

En-commandite partnership (founded in 2006)

The group was a founder partner in an en-commandite partnership formed for the transportation of passengers by air for fare. The group initially held a 49,50% interest in the partnership and accounted for this minority interest as an associate. During 2009, the group acquired a further 25,75% interest in the partnership and obtained control. The partnership was thus consolidated as a subsidiary from this date until the subsequent disposal of a portion of the group's interest during June 2010, after which it no longer had control of the partnership. The group held a 25,00% interest in the partnership as at 31 December 2010.

During August 2011, the partnership disposed of its property, plant and equipment and ceased operations.

	2011 R000	2010 R000
Movement in the carrying value of the investment in associate were as follows:		
Opening balance	–	–
Fair value of retained interest after disposal of controlling interest in subsidiary	–	(1 363)
Contributions made to associate	**14 178**	2 812
Distributions received from associate	**(15 034)**	–
Share of profit/(loss) of associate	**196**	(1 114)
Impairment	–	(335)
Net gain on disposal of associate	**660**	–
Closing balance	–	–
Share of associate's revenue and profit and loss		
Revenue	**1 104**	374
Loss	**(908)**	(1 488)
Impairment of investment in associate	–	(335)
Share of associate's assets and liabilities:		
Non-current assets	–	9 378
Current assets	**82**	96
Current liabilities	**(23)**	(6 969)
	59	2 505

En-commandite partnership (founded in 2011)

During 2011, the group entered into a new en-commandite partnership formed for the transportation of passengers by air for fare. The group holds a 25,00% interest in the partnership and accounts for this minority interest as an associate.

	2011 R000	2010 R000
Movement in the carrying value of the investment in associate were as follows:		
Opening balance	–	–
Contributions made	**2 239**	–
Share of loss of associate	**(562)**	–
Closing balance	**1 677**	–

	2011 R000	2010 R000
7. Investment in associates (continued)		
Share of associate's revenue and profit and loss:		
Revenue	**202**	
Loss	**(764)**	
Share of associate's assets and liabilities:		
Non-current assets	**16 517**	–
Current assets	**246**	–
Non-current liabilities	**(12 814)**	–
Current liabilities	**(2 455)**	–
	1 494	–

A subsidiary of the group has provided surety limited to R15,000 million to The Standard Bank of South Africa Limited in connection with the group's share of the associate's liabilities to the bank. The liability is payable over five years in monthly installments of R0,305 million including interest and capital. The fair value of this financial guarantee has been determined to be immaterial as the bank has a mortgage over the associate's assets and the likelihood of the surety being called is negligible.

	2011 R000	2010 R000
8. Deferred taxation		
The analysis of deferred tax assets and deferred tax liabilities is as follows:		
Deferred tax assets	**12 878**	8 948
Deferred tax liabilities	**(45 159)**	(35 201)
Deferred tax liabilities (net)	**(32 281)**	(26 253)
The gross movements on the deferred income tax account are as follows:		
At 1 January	**(26 253)**	(20 121)
Disposal of subsidiaries	**–**	2 378
Profit or loss charge	**(6 028)**	(8 769)
Tax change relating to components of other comprehensive income	**–**	259
At 31 December	**(32 281)**	(26 253)

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

	Accelerated tax depreciation R000	Revaluation of assets R000	Debtors' allowances R000	Other R000	Total R000
Deferred tax liabilities					
At 1 January 2010	4 688	2 378	52 533	259	59 858
Charged to profit or loss	2 454	–	16 717	–	19 171
Charged to other comprehensive income	–	–	–	(259)	(259)
Disposal of subsidiary	–	(2 378)	–	–	(2 378)
At 31 December 2010	7 142	–	69 250	–	76 392
Charged to profit or loss	**533**	**–**	**15 149**	**–**	**15 682**
At 31 December 2011	**7 675**	**–**	**84 399**	**–**	**92 074**

Deferred tax liabilities include amounts of R4, 030 million (2010: R2, 996 million) that are non-current.

group notes to the annual financial statements *(cont)*

for the year ended 31 December 2011

	Debtors' provisions R000	Assessed loss R000	Secondary tax on companies' credit R000	Other R000	Total R000
Deferred tax assets					
At 1 January 2010	(33 298)	(1 748)	(341)	(4 350)	(39 737)
(Credited)/charged to profit or loss	(8 549)	841	(207)	(2 487)	(10 402)
At 31 December 2010	(41 847)	(907)	(548)	(6 837)	(50 139)
(Credited)/charged to profit or loss	(11 093)	907	548	(16)	(9 654)
At 31 December 2011	**(52 940)**	**–**	**–**	**(6 853)**	**(59 793)**

Deferred tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefits through future taxable profits are probable. Deferred tax assets includes amounts of RNil (2010: R0, 548million) that are non-current.

9. Available-for-sale investments

Listed preference shares at market value	–	41 445
	Quantity	Quantity
Listed preference shares		
FirstRand Limited	–	126 400
Investec Bank Limited	–	117 000
Nedcor Limited	–	544 450
Standard Bank of South Africa Limited	–	117 300

The unrealised gain on the movement in fair value during the year is recognised directly as a revaluation reserve in other comprehensive income. The fair value of the quoted preference shares is determined by reference to bid price quotations in an active market.

Movement in the carrying value of the investments were as follows:

	R000	R000
Opening balance	**41 445**	45 192
Revaluation	**(1 634)**	2 099
Disposals	**(39 811)**	(5 846)
Closing balance	–	41 445

The preference shares were sold in 2011 for proceeds of R39,811 million, resulting in a gain of R1,858 million. 544 450 Nedcor Limited shares were sold in 2010 for proceeds of R5,845 million, resulting in a gain of R0,455 million. The company has not reclassified any financial assets from cost or amortised cost to fair value, or from fair value to cost or amortised cost during the current or prior year.

10. Inventories

Merchandise for resale	**74 247**	43 710
Provision for inventory obsolescence	**(12 708)**	(4 180)
Goods in transit	**30 610**	30 316
	92 149	69 846

Inventory sold at less than cost during the current year was R3,589 million (2010: R5,289 million). There were no reversals of provisions for write-down of inventory in the year (2010: RNil).

	2011 R000	2010 R000
11. Trade and other receivables		
Trade receivables – HomeChoice	**509 353**	397 452
Provision for impairment	**(88 420)**	(72 062)
	420 933	325 390
Loans receivable – FinChoice	**331 914**	232 054
Provision for impairment	**(35 334)**	(25 181)
	296 580	206 873
Trade receivables – Other retail	**25 410**	7 570
Provision for impairment	**(4 066)**	(1 210)
	21 344	6 360
Other receivables	**10 856**	5 116
Total trade and other receivables	**749 713**	543 739

A percentage of all trade and loan receivables balances past due has been provided for and therefore at 31 December, all trade and loan receivables past due had been impaired. Refer to significant accounting judgements, estimates and assumptions for further details regarding the calculation of impairment of debtors.

	2011 R000	2010 R000
Movements in the provision for impairment of trade receivables were as follows:		
Opening balance	**(72 063)**	(59 803)
Movements in provision	**(16 357)**	(12 259)
Debtor costs charged to profit and loss	**(90 730)**	(72 744)
Debts written off during the year, net of recoveries	**74 373**	60 485
Closing balance	**(88 420)**	(72 062)
Movements in the provision for impairment of loans receivable were as follows:		
Opening balance	**(25 181)**	(15 123)
Movements in provision	**(10 153)**	(10 058)
Debtor costs charged to profit and loss	**(53 151)**	(35 563)
Debts written off during the year, net of recoveries	**42 998**	25 505
Closing balance	**(35 334)**	(25 181)
Movements in the provision for impairment of trade receivables – other retail were as follows:		
Opening balance	**(1 210)**	–
Movements in provision	**(2 856)**	(1 210)
Debtor costs charged to profit and loss	**(4 206)**	(1 374)
Debts written off during the year, net of recoveries	**1 350**	164
Closing balance	**(4 066)**	(1 210)

Trade receivables and loans receivable have repayment terms of between 6 and 24 months and attract interest based on rates as determined by the National Credit Act.

Included in trade and loan receivables are amounts approximating R78,916 million (2010: R49,063 million) that contractually fall due in excess of one year.

group notes to the annual financial statements *(cont)*

for the year ended 31 December 2011

	2011 R000	2010 R000
12. Cash and cash equivalents		
Cash at bank	31 811	25 071
Money market investments	14 258	20 559
	46 069	45 630
Bank overdraft	–	(6 606)

Cash at bank earns interest based on daily bank deposit rates. Money market investments are made depending on cash requirements, and earn interest at the respective prevailing investment rates.

Cash and cash equivalents include the following for the purposes of the statement of cash flows:

	2011 R000	2010 R000
Cash and cash equivalents	46 069	45 630
Bank overdraft	–	(6 606)
	46 069	39 024

13. Share capital and premium

13.1 Share capital

	2011 R000	2010 R000
Authorised		
200 000 000 (2009: 200 000 000) ordinary shares of 1 cent each	2 000	2 000
Issued		
103 869 439 (2009: 103 869 439) ordinary shares of 1 cent each	1 039	1 039

	Quantity '000	Quantity '000
Reconciliation of movement in issued shares		
Number of issued shares	103 869	103 869
Treasury shares held by share trust	(2 970)	(2 670)
Adjusted issued shares at the end of the year	100 899	101 199
Shares held by share trust as a percentage of the issued shares at the end of the year	2,9%	2,6%

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

13.2 Share premium

	R000	R000
Balance at the beginning of the year	97 456	139 004
Reduction of share premium	(67 515)	(41 548)
Balance at the end of the year	29 941	97 456

14. Treasury shares

	2011 R000	2010 R000
Balance at the beginning of the year	(8 938)	(6 205)
Reduction of share premium	1 841	1 002
Shares purchased during the year	(2 635)	(7 102)
Shares sold during the year	–	3 367
Balance at the end of the year	(9 732)	(8 938)

	Quantity '000	Quantity '000
Balance at the beginning of the year	2 670	3 390
Shares purchased during the year	300	1 340
Shares sold during the year	–	(2 060)
Balance at the end of the year	2 970	2 670

15. Share-based payment

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

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

	2011		2010	
	Average exercise price per share (cents)	**Number of options**	Average exercise price per share (cents)	Number of options
At 1 January	**584**	**250 000**	–	–
Options granted during the year	**782**	**1 229 100**	584	250 000
Options forfeited during the year	**747**	**(93 850)**	–	–
At 31 December	**748**	**1 385 250**	584	250 000

No options were exercisable at 31 December 2011. Share options outstanding at the end of the year have the following vesting dates and exercise prices:

Year	Average exercise price per share (cents)	**2011**	2010
2012	**747**	**251 950**	–
2014	**584**	**250 000**	250 000
2015	**795**	**883 300**	–
TOTAL	**748**	**1 385 250**	250 000

Analysis of options granted:

Grant date	01 Oct 2011	20 May 2011	20 May 2011	29 Nov 2010	**Total**
Number of share options granted	330 000	612 100	287 000	250 000	**1 479 100**
Grant price (cents)	876	747	747	584	
Fair value of option (cents)	101	94	80	118	

The fair value of options granted during the period was determined using a binomal option-pricing model. The assumptions used in determining the fair value were as follows:

Grant date	01 Oct 2011	20 May 2011	20 May 2011	29 Nov 2010
Grant price (cents)	876	747	747	584
Expected option life	4 years	4 years	1 year	4 years
Expected volatility	35,00%	35,00%	35,00%	35,00%
Expected dividend yield	8,56%	8,43%	8,43%	6,80%
Expected employee attrition	10,00%	10,00%	10,00%	0,00%
Risk-free interest rate	6,80%	7,87%	6,10%	6,40%

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

Total expenses of R0,250 million (2010: R0,006 million) relating to equity-settled share-based payments were recognised during the year. Refer to note 16 for disclosures of share-based payment reserves.

group notes to the annual financial statements *(cont)*

for the year ended 31 December 2011

	Property, plant and equipment revaluation R000	Available-for-sale investments R000	Share-based payment reserve R000	Total R000
16. Other reserves				
Balance at 1 January 2010	3 026	1 916	–	4 942
Losses on property, plant and equipment revaluation	(5 404)	–	–	(5 404)
Realised gain on available-for-sale investments disposed during the year	–	(455)	–	(455)
Unrealised gain on available-for-sale investments	–	2 099	–	2 099
Share-based payment	–	–	295	295
Taxation relating to components in other comprehensive income	2 378	258	–	2 636
Total changes	(3 026)	1 902	295	(829)
Balance at 1 January 2011	–	**3 818**	**295**	**4 113**
Realised gain on available-for-sale investments disposed during the year	–	**(2 184)**	–	**(2 184)**
Unrealised loss on available-for-sale investments	–	**(1 634)**	–	**(1 634)**
Share-based payment	–	–	**250**	**250**
Total changes	–	**(3 818)**	**250**	**(3 568)**
Balance at 31 December 2011	–	–	**545**	**545**

	2011 R000	2010 R000
17. Interest-bearing liabilities		
Long-term portion		
Suspensive sale agreements	**8 323**	782
FirstRand Bank Limited	**6 273**	6 907
RMB Private Bank	–	43 651
Standard Bank of South Africa Limited	**60 299**	–
Total non-current interest-bearing liabilities	**74 895**	51 340
Short-term portion payable within one year		
Suspensive sale agreements	**2 331**	1 761
FirstRand Bank Limited	**634**	582
RMB Private Bank	–	3 936
Standard Bank of South Africa Limited	**4 468**	–
Total current interest-bearing liabilities	**7 433**	6 279
Total interest-bearing liabilities	**82 328**	57 619

	2011 R000	2010 R000
17. Interest-bearing liabilities (continued)		
Movements in the suspensive sale agreements were as follows:		
Opening balance	2 543	33 699
Borrowings raised	9 964	–
Interest and administration fees	292	1 471
Payments made	(2 145)	(4 405)
Disposal of subsidiary	–	(28 222)
Closing balance	10 654	2 543
Movements in the FirstRand Bank Limited liability were as follows:		
Opening balance	7 489	7 997
Interest and administration fees	643	762
Payments made	(1 225)	(1 270)
Closing balance	6 907	7 489
Movements in the RMB Private Bank liability were as follows:		
Opening balance	47 587	51 055
Interest and administration fees	3 424	4 596
Payments made	(51 011)	(8 064)
Closing balance	–	47 587
Movements in the Standard Bank of South Africa Limited liability were as follows:		
Opening balance	–	–
Borrowings raised	64 721	–
Interest and administration fees	830	–
Payments made	(784)	–
Closing balance	64 767	–

The suspensive sale agreements are repayable in monthly instalments of R0,323 million (2010: R0,159 million) including interest and capital.

Interest rates are linked to the prime overdraft rate and varied between 8,0% and 9,0% (2010: 10,5% and 9,5%) during the year. There were no breaches in payments during the year. The suspensive sale agreements are secured over various items of property, plant and equipment as indicated in note 4.

The FirstRand Bank Limited facility is secured by a general covering bond over Portion 240 of Farm Wimbledon Number 454, bears interest at prime and is repayable over 10 years.

The RMB Private Bank facility was secured by a general covering bond over the remaining extent of Erf 66592 Cape Town, incurred interest at prime less 0,5% (2010: 0,5%) and was repayable over 10 years.

The Standard Bank of South Africa Limited facility is secured by a general covering bond over the remaining extent of Erf 91380 Cape Town, bears interest at prime less 1,0% and is repayable over 10 years.

group notes to the annual financial statements *(cont)*

for the year ended 31 December 2011

	2011 R000	2010 R000
18. Other payables		
Non-current trade and other payables		
Amounts owed to prize winners payable in excess of 12 months	**3 450**	3 420

19. Trade and other payables

	2011 R000	2010 R000
Trade payables	**71 287**	49 354
Annual leave pay accrual	**3 140**	2 819
Value-added taxation	**3 651**	1 965
Derivative financial instruments	**–**	1 104
Other accounts payable	**7 376**	5 986
	85 454	61 228

Refer to note 25 for disclosure on commitments regarding lease liabilities.

20. Provisions

Analysis of movement 2011	**Opening balance R000**	**Utilised during the year R000**	**Raised R000**	**Total R000**
Bonus provision	**17 400**	**(16 630)**	**16 294**	**17 064**
Analysis of movement 2010				
Bonus provision	11 200	(11 043)	17 243	17 400

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

21. Revenue

	2011 R000	2010 R000
Retail sales	**626 028**	493 008
Finance charges earned	**278 454**	215 221
Fees from ancillary services	**216 184**	158 153
Dividends received	**394**	3 060
	1 121 060	869 442

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

	2011 R000	2010 R000
22. Other net gains and losses		
Foreign exchange (losses)/gains	(615)	522
Realised gain on available-for-sale investments	2 184	455
Loss on disposal of property, plant and equipment and intangibles	(201)	(144)
Interest on loans to employees	1 180	2 360
Disposal of group's interest in subsidiary	–	(455)
Loss on interest sold	–	(2 644)
Gain on retained non-controlling investment	–	2 189
Impairment of property, plant and equipment	–	(19 708)
Exchange rate movements	–	(11 413)
Change in value of asset	–	(8 295)
Net gain on disposal of associate	660	–
Other income	915	689
	4 123	(16 281)
23. Expenses by nature		
Debtor costs	148 087	109 681
Trade receivables – HomeChoice	90 730	72 744
Loans receivable – FinChoice	53 151	35 563
Trade receivables –Other retail	4 206	1 374
Total debtor costs	148 087	109 681
Amortisation of intangible assets	4 362	2 171
Auditor's remuneration	1 428	1 237
– Current year	1 156	1 027
– Underprovision	–	141
– Other services	271	69
Consulting fees paid to non-employees	1 607	2 262
Depreciation – property, plant and equipment	6 898	7 288
Operating lease charges – immovable property	1 971	1 027
Marketing costs	99 977	78 642
Staff costs	146 661	122 507
Other	60 053	52 571
Total other trading expenses	322 957	267 705
Total trading expenses	471 044	377 386

group notes to the annual financial statements *(cont)*

for the year ended 31 December 2011

		2011 R000	2010 R000
24. Income tax			
Income statement			
South African normal tax	– current year	**(88 661)**	(64 589)
	– prior years	**(3 359)**	781
Deferred tax	– current year	**(6 028)**	(7 565)
	– prior years	**–**	(1 204)
		(98 048)	(72 577)
Reconciliation of tax rate		**%**	%
Standard tax rate		**28,0**	28,0
Disallowable expenditure		**–**	2,6
Exempt income		**(0,2)**	(0,9)
Secondary tax on companies (STC)		**0,2**	(0,2)
Prior year adjustments		**1,0**	0,1
Effective tax rate		**29,0**	29,6

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

If total distributable reserves of the group of R815,542 million (2010: R575,546 million) were to be declared as dividends, the secondary tax impact at a rate of 10% (2010: 10%) would be R74,140 million (2010: R52,322 million). These amounts should however be considered taking into account the implementation of a dividend tax on shareholders on 1 April 2012.

25. Commitments

Leases are contracted for periods not exceeding five years and contain escalation clauses of between 8% and 9% and renewal options. The lease expenditure charged to the statement of comprehensive income during the year is disclosed in note 23.

	2011 R000	2010 R000
At 31 December the future minimum operating lease commitments amounted to the following:		
Properties		
Payable within one year	**9 328**	6 614
Payable between two and five years	**11 635**	12 779
	20 963	19 393
Suspensive sale agreements		
Payable within one year	**3 182**	1 904
Payable between two and five years	**9 808**	793
	12 990	2 697
Future finance charges on suspensive sale agreements	**(2 336)**	(154)
	10 654	2 543

	2011 R000	2010 R000
25. Commitments (continued)		
The present value of suspensive sale agreement payments is as follows:		
Payable within one year	**2 331**	1 761
Payable between two and five years	**8 323**	782
	10 654	2 543
Capital commitments		
Capital commitments for property, plant and equipment:		
Approved by the directors	**836**	–
Approved by directors and contracted for	**–**	–
	836	–
26. Reconciliation of cash generated from operations		
Profit before taxation	**338 044**	244 911
Share of loss of associates	**366**	1 449
Loss on disposal of property, plant and equipment and intangibles	**201**	144
Profit on sale of available-for-sale investments	**(2 184)**	(455)
Loans to employees – amortised cost adjustment	**(1 046)**	1 171
Notional interest on loans to employees	**(1 153)**	(1 167)
Depreciation and amortisation	**11 260**	9 459
Impairment of property, plant and equipment	**–**	19 708
Disposal of group's interest in subsidiary	**–**	455
Reversal of impairment	**(660)**	–
Share-based employee service expense	**250**	295
Derivative financial instruments	**(1 104)**	1 104
Interest paid	**6 156**	6 865
Interest received	**(2 975)**	(3 530)
Dividends received	**(394)**	(3 060)
Operating cash flows before working capital changes	**346 761**	277 349
Movements in working capital	**(203 253)**	(175 421)
Increase in inventories	**(22 302)**	(32 060)
Increase in trade receivables – HomeChoice	**(95 543)**	(69 143)
Increase in loans receivable – FinChoice	**(89 707)**	(87 310)
Increase in trade receivables – Other retail	**(14 984)**	(6 360)
Increase in other receivables	**(5 741)**	(1 446)
Increase in trade and other payables	**25 360**	14 698
(Decrease)/Increase in provisions	**(336)**	6 200
	143 508	101 928

group notes to the annual financial statements *(cont)*

for the year ended 31 December 2011

	2011 R000	2010 R000
27. Taxation paid		
Amounts owing at beginning of period	**(861)**	(1 528)
Amounts charged to profit or loss	**(98 048)**	(72 577)
South African normal tax	**(92 020)**	(63 808)
Deferred tax	**(6 028)**	(8 769)
Taxation directly charged to equity	**–**	(1 022)
Deferred tax movement	**6 028**	8 769
Amounts owing at the end of the year	**1 234**	861
Net outflow	**(91 647)**	(65 497)

28. Disposal of subsidiary

In June 2010, the group disposed of its majority interest in a subsidiary involved in the transportation of passengers by air for fare. The net cash outflow from the disposal, being the cash in the subsidiary at the date of disposal, was R0,146 million.

29. Events after the reporting period

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

30. Related party transactions

Subsidiaries, associates and related trusts

During the year, in the ordinary course of business, certain companies within the group entered into certain intra-group transactions which have been eliminated on consolidation. For a list of the group's subsidiaries, associates and related trusts, refer to page 152.

Other related parties

The HomeChoice Provident fund

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

Contributions to the provident fund	**10 872**	8 358
Associates		
Fees paid to associates for transport services	**1 154**	1 487

Transactions with the associates are made at the prevailing partnership rates.

Directors

Remuneration

Details relating to executive and non-executive directors' remuneration are disclosed in the remuneration report on pages 76-78.

Interest of directors in contracts

As disclosed in note 7, the group holds a 25% interest in two en-commandite partnerships formed for the transportation of passengers by air for fare. Mr Garratt, a director, is a related party to entities with a controlling interest in these partnerships.

Mrs Steyn a former director of one of the company's subsidiaries, had a non-controlling interest in an entity providing the group with information technology consultancy services. Fees paid to the entity during the prior year, up until the date of her resignation on 31 May 2010, amounted to R2,866 million and purchases of computer hardware and software amounted to R1,488 million. Transactions with this entity were made at normal market prices.

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

Loans to directors

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

30. Related party transactions (continued)

Loans to employees as reported in the annual financial statements	**11 664**	13 177
Unearned notional interest	**2 702**	4 902
Total loans receivable	**14 366**	18 079
Made up as follows:		
Non-executive directors of HomeChoice Holdings Limited	**2 116**	2 442
Operational directors of the group	**9 394**	12 099
Other employees	**2 856**	3 538
	14 366	18 079

Share options

Share options have been granted to certain executive directors of HomeChoice Holdings Limited and employees of its subsidiaries. These are more fully disclosed in note 15 and the remuneration report on pages 76-78.

Key management personnel

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

	2011 R000	2010 R000
– Remuneration	**22 414**	19 444
– Bonus	**4 070**	2 817
– Retirement, medical, disability and death benefits	**1 145**	990
	27 629	23 251

Shareholding

At 31 December 2011, the ultimate controlling party of the group was GFM Holdings Limited, a company incorporated in Malta. Shareholders with a beneficial interest of 5% or more in the company (unchanged from 2010) are as follows:

- GFM Holdings Limited (76%),
- RMB, a division of FirstRand Bank Limited (9%), and
- Clariden Bank Zurich (5%).

group notes to the annual financial statements *(cont)*

for the year ended 31 December 2011

31.Reclassifications

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

(1) Trade receivables - other retail has been separately disclosed in the statement of financial position. The comparative balance of R6,360 million was previously disclosed under Other receivables.

(2) Debtor costs have been separately disclosed in the statement of comprehensive income. The comparative balance of R109,681 million was previously disclosed under Trading expenses.

(3) The group segment analysis comparative information has changed owing to the following:
- The trading activities of a new product offering being tested during 2010 is now included under the Retail segment. The comparative results were previously disclosed under the Other segment.
- Deferred taxation assets and liabilities, which were previously excluded from segment assets and liabilities, are now allocated to their respective segments.
- Distributions from the share trust are eliminated and not allocated to reported segments.

The net effect of these changes on the group segmental analysis on the 2010 comparitives is as follows:

Segmental analysis	**Retail**	**Financial services**	**Property**	**Other and eliminations**	**Total**
Segmental revenue	10 060	–	–	(10 060)	–
- Retail sales	8 446	–	–	(8 446)	–
- Finance charges earned	1 143	–	–	(1 143)	–
- Fees from ancillary services	471	–	–	(471)	–
Segmental operating profit/(loss)	(6 823)	(755)	–	7 578	–
Profit/(loss) for the period	1 166	–	–	(1 166)	–
Segment assets excluding group loans	7 494	14 369	–	(12 915)	8 948
Segment liabilities excluding group loans	32 390	–	2 811	–	35 201
Group loans receivable/(payable)	(6 328)	–	–	6 328	–
Cash generated/(utilised) by operations	(6 328)	–	–	6 328	–

contents

company annual financial statements

These annual financial statements were prepared by the finance department of HomeChoice Holdings Limited and its subsidiaries (the group), acting under the supervision of A. Kirsten CA (SA), the chief financial officer of the group.

2011 integrated annual report

statement of financial position

for the year ended 31 December 2011

	Note(s)	2011 R000	2010 R000
Assets			
Non-current assets			
Investments in subsidiaries	1	549	299
Deferred taxation	2	–	242
Loans to employee share trust	3	13 964	31 521
Loans to subsidiaries	4	247 089	185 932
		261 602	217 994
Current assets			
Loans to subsidiaries	4	33 726	76 602
Taxation receivable		–	625
Cash and cash equivalents	5	14 605	21 361
		48 331	98 588
Total assets		309 933	316 582
Equity and liabilities			
Equity attributable to equity holders of the parent			
Share capital and share premium	6	1 039	1 039
Share premium	7	29 943	97 458
Other reserves	8	545	295
Distributable reserve		123 667	97 267
Total equity		155 194	196 059
Current liabilities			
Trade and other payables	9	307	185
Taxation payable		89	–
Loans from subsidiaries	4	154 343	120 338
Total liabilities		154 739	120 523
Total equity and liabilities		309 933	316 582

statement of comprehensive income

for the year ended 31 December 2011

	Note(s)	2011 R000	2010 R000
Revenue	10	8 069	–
Dividends received		8 069	–
Operating profit		8 069	–
Interest received		25 291	19 519
Profit before taxation		33 360	19 519
Taxation	11	(6 960)	(4 795)
Total comprehensive income for the year		26 400	14 724

statement of changes in equity

for the year ended 31 December 2011

	Share capital R000	Share premium R000	Other reserves R000	Distributable reserve R000	Total equity R000
Balance at 1 January 2010	1 039	139 006	–	82 543	222 588
Changes in equity					
Total comprehensive income for the year	–	–	–	14 724	14 724
Share options granted	–	–	295	–	295
Reduction of share premium	–	(41 548)	–	–	(41 548)
Total changes	–	(41 548)	295	14 724	(26 529)
Balance at 1 January 2011	1 039	97 458	295	97 267	196 059
Changes in equity					
Total comprehensive income for the year	–	–	–	26 400	26 400
Share options granted	–	–	250	–	250
Reduction of share premium	–	(67 515)	–	–	(67 515)
Total changes	–	(67 515)	250	26 400	(40 865)
Balance at 31 December 2011	1 039	29 943	545	123 667	155 194

statement of cash flows

for the year ended 31 December 2011

	Note(s)	2011 R000	2010 R000
Cash flows from operating activities			
Cash generated from operations	i	**123**	71
Interest received		**25 291**	19 519
Dividends received		**8 069**	–
Taxation paid	ii	**(6 005)**	(4 974)
Net cash inflows from operating activities		**27 478**	14 616
Cash flows from investing activities			
Loans repaid by subsidiaries		**15 724**	19 232
Net cash inflows from investing activities		**15 724**	19 232
Cash flows from financing activities			
Reduction of share premium		**(67 515)**	(41 548)
Loans repaid by/(provided to) share trust		**17 557**	(7 234)
Net cash outflows from financing activities		**(49 958)**	(48 782)
Net decrease in cash and cash equivalents		**(6 756)**	(14 934)
Cash and cash equivalents at the beginning of the year		**21 361**	36 295
Cash and cash equivalents at the end of the year		**14 605**	21 361

notes to the statement of cash flows

for the year ended 31 December 2011

		2011 R000	2010 R000
i.	**Reconciliation of cash flows generated by operations**		
	Profit before taxation	33 360	19 519
	Interest received	(25 291)	(19 519)
	Dividends received	(8 069)	–
		–	–
	Movements in working capital		
	Increase in trade and other payables	123	71
	Cash generated by operations	123	71
ii.	**Taxation paid**		
	Amounts receivable at the beginning of the year	625	622
	Current tax charged to comprehensive income	(6 719)	(4 971)
	Amounts payable/(receivable) at the end of the year	89	(625)
	Net outflow	(6 005)	(4 974)

notes to the annual financial statements

for the year ended 31 December 2011

	2011 R000	2010 R000
1. Investments in subsidiaries		
Wholly-owned subsidiaries companies' shares at cost	4	4
Equity-settled contributing to subsidiaries	545	295
	549	299

		Company issued share capital	
	% interest held	Number of shares held 2011	2010
Wholly-owned subsidiary companies			
Operating companies			
– HomeChoice (Proprietary) Limited	100%	1	1
– HomeChoice Property Company (Proprietary) Limited	100%	60	60
– HomeChoice Investments (Proprietary) Limited	100%	120	120
– FinChoice (Proprietary) Limited	100%	1 700	1 700
– Odvest 189 (Proprietary) Limited		120	–
– Matyana van der Merwe (Proprietary) Limited	100%	1 700	1 700
Dormant companies			
– HC Direct (Proprietary) Limited	100%	60	60
– FoneChoice (Proprietary) Limited	100%	60	60
– HomeChoice (Proprietary) Limited (incorporated in Namibia)	100%	1	1
– HomeChoice (Proprietary) Limited (incorporated in Botswana)	100%	100	100
Unless otherwise specified, all companies have been incorporated in South Africa.			

	R000	R000
2. Deferred taxation		
The analysis of deferred tax assets and deferred tax liabilities is as follows:		
Deferred tax assets	–	242
Net deferred tax assets	–	242
The gross movement on the deferred income tax account is as follows:		
Balance at beginning of the year	242	65
Deferred tax charge through comprehensive income	936	177
Reversal of unutilised STC credits	(1 178)	–
Balance at the end of the year	–	242
3. Loan to employee share trust		
Balance at the beginning of the year	31 521	24 287
Amount (repaid)/advanced during the current year	(17 557)	7 234
Balance at the end of the year	13 964	31 521

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

notes to the annual financial statements *(cont)*

for the year ended 31 December 2011

	2011 R000	2010 R000
4. Loans to/(from) subsidiaries		
Wholly-owned subsidiaries companies' loans		
Operating companies		
– HomeChoice (Proprietary) Limited	**(151 782)**	(117 779)
– HomeChoice Property Company (Proprietary) Limited	**15 415**	42 210
– HomeChoice Investments (Proprietary) Limited	**(2)**	34 333
– FinChoice (Proprietary) Limited	**247 089**	185 932
– Matyana van der Merwe (Proprietary) Limited	**45**	59
– Odvest 189 (Proprietary) Limited	**18 266**	–
Dormant companies		
– HC Direct (Proprietary) Limited	**(2 559)**	(2 559)
	126 472	142 196
Non-current assets	**247 089**	185 932
Current assets	**33 726**	76 602
Current liabilities	**(154 343)**	(120 338)
	126 472	142 196

The loans are unsecured, interest-free and payable on demand, except for the loan to FinChoice (Proprietary) Limited which incurs interest at a rate of prime plus 2%.

The company has provided, in favour of the group's bankers, unlimited suretyship to HomeChoice (Proprietary) Limited and suretyship limited to R1,000 million to FinChoice (Proprietary) Limited.

	2011 R000	2010 R000
5. Cash and cash equivalents		
Cash at bank	**349**	802
Money market investments	**14 256**	20 559
	14 605	21 361

Money market investments are made depending on cash requirements and earn interest at the respective investment rates.

	2011 R000	2010 R000
6. Share capital		
Authorised		
200 000 000 ordinary shares of 1 cent each	**2 000**	2 000
Issued		
103 869 438 ordinary shares of 1 cent each	**1 039**	1 039
7. Share premium		
Balance at the beginning of the year	**97 458**	139 006
Reduction of share premium	**(67 515)**	(41 548)
Balance at the end of the year	**29 943**	97 458

8. Other reserves

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

	2011 R000	2010 R000
Balance at the beginning of the year	**295**	–
Share-based payment	**250**	295
Balance at the end of the year	**545**	295

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

	2011		2010	
	Average exercise price per share (cents)	**Number of options**	Average exercise price per share (cents)	Number of options
At 1 January	**584**	**250 000**	–	–
Options granted during the year	**782**	**1 229 100**	584	250 000
Options forfeited during the year	**747**	**(93 850)**	–	–
At 31 December	**748**	**1 385 250**	584	250 000

No options were excercisable at 31 December 2011. Share options outstanding at the end of the year have the following vesting date and exercise prices:

Year	**Average exercise price per share (cents)**	**2011**	2010
2012	**747**	251 950	–
2014	**584**	250 000	250 000
2015	**795**	883 300	–
TOTAL	**748**	1 385 250	250 000

Analysis of options granted:

Grant date	1 October 2011	20 May 2011	20 May 2011	29 November 2010	**Total**
Number of share options granted	330 000	612 100	287 000	250 000	**1 479 100**
Grant price (cents)	876	747	747	584	
Fair value of option (cents)	101	94	80	118	

The fair value of options granted are determined using a binomial option-pricing model. The assumptions used in determining the fair value are as follows:

Grant date	1 October 2011	20 May 2011	20 May 2011	29 November 2010
Grant price (cents)	876	747	747	584
Expected option life	4 years	4 years	1 year	4 years
Expected volatility	35%	35%	35%	35%
Expected dividend yield	8,56%	8,43%	8,43%	6,80%
Expected employee attrition	10,00%	10,00%	10,00%	0,00%
Risk-free interest rate	6,80%	7,87%	6,10%	6,40%

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

notes to the annual financial statements *(cont)*

for the year ended 31 December 2011

	2011 R000	2010 R000
9. Trade and other payables		
Other payables	307	185
	307	185
10. Revenue		
Dividends received	8 069	–
	8 069	–
11. Income tax		
Income statement		
South African normal tax – current year	(6 718)	(4 971)
Deferred tax – current year	(242)	176
	(6 960)	(4 795)
Reconciliation of taxation rates	%	%
Standard tax rate	28,0%	28,0%
Adjusted for:		
– Exempt income	(7,9%)	(2,5%)
– Secondary taxation on companies (STC)	0,8%	(0,9%)
Effective rate	20,9%	24,6%

12. Risk management and financial instrument disclosure

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

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

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

12.1 Capital risk management

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

The capital structure of the company also consists of debt, which includes the borrowings disclosed in note 4, and cash and cash equivalents disclosed in note 5.

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

From time to time the company repurchases its own shares or reduces share premium. The timing of these repurchases or share premium reductions depends on the availability of shares to be repurchased and available funding. The decision to repurchase shares or reduce share premium is made on a specific transaction basis. The company does not have a defined share buy-back plan. During the current year the share premium was reduced by 65c (2010: 40c) per share.

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

12. Risk management and financial instrument disclosure (continued)

12.2 Financial risk management

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

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

	Loans and receivables R000
Assets	
2011	
Loan to employee share trust	**13 964**
Loans to subsidiaries	**280 815**
Money-market investments	**14 256**
Cash at bank	**349**
Total	**309 384**
2010	
Loan to employee share trust	31 521
Loans to subsidiaries	262 534
Money-market investments	20 559
Cash at bank	802
Total	315 416

	At amortised cost R000
Liabilities	
2011	
Other payables	**307**
Loans from subsidiaries	**154 343**
Total	**154 650**
2010	
Other payables	185
Loans from subsidiaries	120 338
Total	120 523

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the company. Potential concentrations of credit risk consist principally of loans and receivables, short-term cash deposits and credit guarantees. The company's maximum exposure to credit risk at year end in respect of financial assets is shown in note 12.2.

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

Loans and receivables

Loans and receivables comprise loans with related parties. The loans are unsecured and repayable on demand and are therefore recorded at cost.

Cash and cash equivalents

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

notes to the annual financial statements *(cont)*

for the year ended 31 December 2011

12. Risk management and financial instrument disclosure (continued)

12.2 Financial risk management (continued)

Liquidity risk management

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

The other payables balance in the company is interest-free and repayable on demand.

Market risk management

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of market prices. The only market risk to which the company is exposed is interest rate risk. Financial instruments are affected by interest rate risk short-term deposits and loans to certain subsidiaries.

Interest rate risk management

At year end the company's interest-bearing assets comprised money market investments and loans to subsidiaries. All interest-bearing assets are sensitive to fluctuations in interest rates. The company measures sensitivity to interest rates as the effect of a change in the Reserve Bank repo rate on the profit after tax based on the company's exposure at 31 December. The company regards a 1% (2010: 1%) change in the Reserve Bank repo rate as being reasonably possible at 31 December 2011.

	Movement in basis points	Effect on profit after tax R000
2011		
Cash and cash equivalents	**+100**	**3**
	-100	**(3)**
Money market investments	**+100**	**103**
	-100	**(103)**
Loans to subsidiaries	**+100**	**1 779**
	-100	**(1 779)**
2010		
Cash and cash equivalents	+100	6
	-100	(6)
Money market investments	+100	148
	-100	(148)
Loans to subsidiaries	+100	1 339
	-100	(1 339)

13. Related parties

The following companies and other entities are regarded as related party companies:

Holding company

HomeChoice Holdings Limited

Fellow subsidiaries

HomeChoice (Proprietary) Limited
HomeChoice Investments (Proprietary) Limited
HomeChoice Property Company (Proprietary) Limited
FinChoice (Proprietary) Limited
Matyana van der Merwe (Proprietary) Limited
Odvest 189 (Proprietary) Limited
HC Direct (Proprietary) Limited
FoneChoice (Proprietary) Limited
HomeChoice (Proprietary) Limited (incorporated in Namibia)
HomeChoice (Proprietary) Limited (incorporated in Botswana)

Associates of holding company

En-commandite partnerships

Trusts

The HomeChoice Share Trust
The HomeChoice Development Trust

The following table provides the total amount of transactions which have been entered into between HomeChoice Holdings Limited and related parties for the relevant financial year (for information regarding the outstanding loan balances at year end refer to notes 3 and 4).

	2011 R000	2010 R000
Related party transactions		
Dividends received from related parties		
HomeChoice Investments (Proprietary) Limited	**8 069**	–
Interest received from related parties		
FinChoice (Proprietary) Limited	**23 995**	17 755
Share premium distributed to related parties		
HomeChoice Share Trust	**1 841**	1 002

Terms and conditions of transactions with related parties

The loan to FinChoice (Proprietary) Limited is unsecured and is charged interest at a rate of prime plus 2%. All other intergroup loans are unsecured, interest-free and repayable on demand.

The company has provided, in favour of the group's bankers, unlimited suretyship to HomeChoice (Proprietary) Limited and suretyship limited to R1,000 million to FinChoice (Proprietary) Limited.

	2011 R000	2010 R000
Directors' emoluments		
Non-executive directors		
– Fees	**1 045**	1 022
Executive directors		
– Remuneration	**6 689**	7 396
– Bonus	**5 708**	2 948
– Retirement, medical, disability and death benefits	**675**	699
	14 117	12 065

All the directors' emoluments are paid by subsidiaries. No service contracts exists with any directors. Share options have been granted to certain executives of the company and are discussed in the remuneration report on pages 76-78.

notes to the annual financial statements *(cont)*

for the year ended 31 December 2011

	2011 R000	2010 R000

14. Contingent liabilities and commitments

The company has guaranteed letters of credit of HomeChoice (Proprietary) Limited amounting to R55,999 million (2010: R35,010 million) at the balance sheet date.

definitions

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

notice to shareholders

Notice is hereby given that the annual general meeting of shareholders (the "Shareholders") of HomeChoice Holdings Limited (registration number 1991/005430/06) (the "Company") will be held at HomeChoice, 78 Main Road, Wynberg, on Friday, 4 May 2012, at 15:00 to deal with such business as may lawfully be dealt with at the meeting and to consider and, if deemed fit, pass, with or without modification, the ordinary and special resolutions set out hereunder in accordance with the Companies Act, 2008 (as amended) (the "Companies Act"), which meeting is to be participated in by Shareholders recorded in the Company's securities register as at the record date.

The record date for delivery of this notice of the Shareholders' meeting was Friday, 16 March 2012. In terms of section 59 of the Companies Act, the record date on which Shareholders must be recorded in the securities register for purposes of being entitled to attend and vote at this meeting is Monday, 30 April 2012.

The quorum requirement for the ordinary and special resolutions set out below is sufficient persons being present to exercise, in aggregate, at least 25% of all voting rights that are entitled to be exercised on the resolutions, provided that at least three Shareholders of the Company are present at the annual general meeting. The percentage of voting rights required to pass the ordinary resolutions is more than 50% of the voting rights exercised, and the percentage of voting rights required to pass the special resolutions is at least 75% of the voting rights exercised thereon.

AGENDA

1. To receive and adopt the integrated annual report of the Company and its subsidiaries (the "Group"), which includes the annual financial statements, report of the directors and the report of the audit and risk committee, for the year ended 31 December 2011.
2. To elect three directors in the place of S Maltz, J Bester and W Jungschläger who retire in terms of the Company's memorandum of incorporation. S Maltz, J Bester and W Jungschläger, being eligible, offer themselves for re-election. Brief curricula vitae of the nominees for re-election are set out on page 37 of the integrated annual report.
3. To elect the members of the audit and risk committee. J Bester, W Jungschläger and P Joubert offer themselves for re-election.
4. To consider the reappointment of PricewaterhouseCoopers as the external auditors.
5. To authorise the payment of future remuneration of directors for their services as directors.
6. To consider and endorse, by way of an advisory non-binding vote, the Group's remuneration policy as set out on pages 76-78 of the Group's integrated annual report for the period ended 31 December 2011.
7. To approve the payment of a final dividend of 50c (fifty cents) per ordinary share.
8. To authorise the provision of financial assistance by the Company to a related or inter-related (as such terms are defined in the Companies Act) company or corporation, and to directors and prescribed officers of the Company and persons related or inter-related to them.
9. To place the authorised unissued shares in the Company under the control of the Board.
10. To consider any other matters raised by Shareholders.

RESOLUTIONS AND ADVISORY VOTES

The Shareholders will be requested to consider and, if deemed fit, to pass with or without modification the following resolutions:

Ordinary resolution number 1

"It is hereby resolved that the integrated annual report of the Company and its subsidiaries (the "Group"), which includes the annual financial statements, report of the directors and the report of the audit and risk committee for the year ended 31 December 2011, are hereby adopted and approved."

ELECTION OF DIRECTORS

Ordinary resolution number 2.1

"It is hereby resolved that S Maltz is elected as a director of the Company."

Ordinary resolution number 2.2

"It is hereby resolved that J Bester is elected as a director of the Company."

Ordinary resolution number 2.3

"It is hereby resolved that W Jungschläger is elected as a director of the Company."

ELECTION OF AUDIT COMMITTEE

Ordinary resolution number 3.1

"It is hereby resolved that J Bester is elected as a member of the audit and risk committee."

Ordinary resolution number 3.2

"It is hereby resolved that W Jungschläger is elected as a member of the audit and risk committee."

Ordinary resolution number 3.3

"It is hereby resolved that P Joubert is elected as a member of the audit and risk committee."

Explanation regarding ordinary resolutions numbers 3.1 to 3.3

It is noted that the name of the audit committee is expanded to the "audit and risk committee" because in addition to the statutory functions of the audit committee, the Board has resolved to mandate the audit committee to also attend to the functions of a risk committee.

Ordinary resolution number 4

"It is hereby resolved that Pricewaterhouse-Coopers is reappointed as external auditors, to hold office from the conclusion of the annual general meeting until the conclusion of the next annual general meeting."

Special resolution number 1

"Resolved that payment of the following remuneration to each non-executive director for his/her services as director is hereby authorised:

1 a maximum amount of R600,000.00 (six hundred thousand rand) per annum for the year ending 31 December 2012 to each non-executive director, and
2 an amount to be determined by the remuneration committee of the Company for the year commencing on 1 January 2013, up to an amount not exceeding R600,000.00 (six hundred thousand rand) per annum, increased by the percentage increase in the prevailing Consumer Price Index for all areas as determined or published by Statistics South Africa (or its successor body) (as same may be amended or replaced) plus 2% (two percent) to each non-executive director."

Explanatory Information of special resolution number 1
The resolution obtains the advance approval of the Shareholders for the fees of the non-executive directors for their services as directors of the Company as required by the Companies Act.

Advisory remuneration policy endorsement

"The Group's remuneration policy as set out on pages 76-78 of the Group's integrated annual report (excluding the remuneration of the non-executive directors for their services as directors and members of the board committees) is hereby endorsed by way of a non-binding advisory vote."

Explanatory information re advisory vote
In accordance with the principles of King III an advisory vote is being put to Shareholders for the approval of the Group's remuneration policy. As the votes on this endorsement are non-binding, the results will not be binding on the Board. However, the Board will take cognisance of the outcome of the vote when considering its remuneration policy in future.

Ordinary resolution number 5

"It is hereby resolved that the payment of a final dividend of 50c (fifty cents) per ordinary share declared by the Board is approved."

Explanatory information in respect of ordinary resolution number 5
The Board proposes to declare a final dividend of 50c (fifty cents) per ordinary share to be paid by the end of May 2012, and will comply with the requirements of section 46 of the Companies Act, in particular, it will pass a resolution to the effect that it has applied the solvency and liquidity test (as defined in the Companies Act) and that it reasonably appears that the Company will satisfy the solvency and liquidity test immediately after completing the proposed distribution.
The record date for the receipt of the aforementioned dividend is 4 May 2012.

Special resolution number 2

"Resolved, as a general approval, in terms of sections 44 and 45 of the Companies Act that, subject to the requirements of the Companies Act and the conditions below, the Company may provide direct or indirect financial assistance ("Financial Assistance") by way of advances for expenses, assisting with administration of transactions, making payments, extending credit, lending money or providing loan facilities, discharging debts, performing obligations, providing contractual undertakings, sureties or guarantees, providing related security (including, without limitation, by way of mortgages or pledges of property, cessions of rights, bonds, charges or otherwise) or any similar transaction or arrangement, on such terms as may be authorised by the Board in accordance with the following:

1 Financial Assistance can be provided for the purpose of, or in connection with, the subscription of any option, or any securities, issued or to be issued by the Company or a related or inter-related company (as defined in the Companies Act) or for the purchase of any securities of the Company or a related or inter-related company as contemplated in section 44 of the Companies Act (collectively referred to as an "acquisition of securities or related securities") and for any other purpose regulated by section 45 of the Companies Act ("other purpose").
2 Such Financial Assistance may only be provided for a period of two years following the date of the adoption of this special resolution.
3 Financial Assistance in relation to the acquisition of securities or related securities can be provided to the following categories of potential recipients:
i a present or future company or corporation related or inter-related to the Company or to a person related to such company or corporation,
ii a present or future member of a corporation related or inter-related to the Company or to a person related to such member,
iii a present or future director or prescribed officer of the Company or of a related or inter-related company, or a person related to such directors or prescribed officer, and
iv any other person in connection with the acquisition of securities in the Company in order to provide capital to the Company or to assist the Company in meeting the listings requirements of any exchange on which the securities of the Company are anticipated to be listed or to facilitate any such listing or any underwriting an offer of shares,
4 Financial Assistance for any other purpose not related to the acquisition of securities can be provided to the following category of potential recipients (without limitation to the Board's authority to provide financial assistance that does not require approval by way of a special resolution in terms of section 45(3)(ii)):
i any present or future company or corporation related or inter-related to the Company or to a person related to such company or corporation,
ii a present or future member of a corporation related or inter-related to the Company or to a person related to such member,
iii any present or further director or prescribed officer of the Company or of a related or inter-related company, or a person related to such directors or prescribed office,or
iv any other person,
5 The aggregate amount (where no amount is readily ascertainable, then the value as determined by the Board or its delegee in the same manner as required in applying the solvency and liquidity test in section 4 of the Companies Act) of the Financial Assistance provided pursuant to this general approval shall not in aggregate exceed an amount of R350 million (three hundred and fifty million Rand) (in this regard any financial assistance that may be separately approved by the Shareholders by way of a specific approval shall not be included in the aggregate financial assistance calculation or taken into account in determining this general approval maximum amount).
6 Nothing in these terms and conditions shall limit the provision of financial assistance that does not require approval by way of a special resolution of the Shareholders in terms of sections 44 and 45 of the Companies Act.
7 This approval is subject to the Board complying with sections 44 and 45 of the Companies Act."

Explanatory Information in respect of special resolution 2
Section 44 of the Companies Act essentially requires, subject to limited exceptions, approval by way of special resolution for the provision of financial assistance for the purpose of, or in connection with, the subscription of any option, or any securities, issued or to be issued by the Company or a related or inter-related company, or for the purchase of any securities of the Company or a related or inter-related company.

Section 45 of the Companies Act essentially requires, subject to limited exceptions, approval by way of special resolution for the provision of financial assistance, amongst others, to companies and corporations related or inter-related to the Company and any director or prescribed officer or a person related or inter-related to such persons.

Both sections 44 and 45 provide inter alia that the financial assistance may only be provided pursuant to a special resolution passed by Shareholders within the previous two years.

The Board would like the authority to be able to provide financial assistance to companies and corporations related or inter-related to the Company and any director or prescribed officer or a person related or inter-related to such persons and other persons , where they regard it as desirable. For example, to provide loans and guarantees for loans and other financial assistance to companies in the Group, as and when required.

This special resolution, if adopted, will have the effect of authorising the Company to provide the described financial assistance, including to the directors, prescribed officers, employee share scheme beneficiaries and related and inter-related companies and corporations, if the Board decides it is desirable to do so (subject to the conditions set out in the resolution). This approval is subject to the Board complying with the sections 44 and 45 of the Companies Act, which currently provide inter alia that the Board must:

- be satisfied that, immediately after providing the financial assistance, the Company would satisfy the solvency and liquidity test in section 4 of the Companies Act,
- be satisfied that the terms under which the financial assistance is proposed to be given are fair and reasonable to be Company, and
- ensure that any conditions or restrictions in respect of the granting of financial assistance set out in the Company's memorandum of incorporation have been satisfied.

It is disclosed that three of the directors of the Company are also directors of subsidiaries of the Company and if any Financial Assistance is provided to any subsidiary, the recipient subsidiary is likely to have a financial interest in the contemplated financial assistance. Further, it is disclosed that if any financial assistance is provided to any directors or prescribed officers of the Company, or any person related to them, then it is likely that the recipient will have a financial interest in the contemplated financial assistance. Any conflicts of interests that may arise shall be managed in accordance with the requirements of the Companies Act.

Special resolution number 3

"Resolved that, all the unissued authorised shares in the Company are placed under the control of the Board, and subject to the requirements of the Companies Act, the Board is authorised, as they in their discretion think fit, to allot, issue and grant options or any other rights exercisable for, authorised but unissued shares in the Company from time to time on such terms as may be determined by the Board in its discretion, including without limitation, for such monetary or other consideration (whether payable in cash or otherwise) and to such person or persons as they in their discretion deem fit including, without limitation, to:

a a director, future director, prescribed officer, or future prescribed officer of the Company or to a person related or inter-related to such directors and prescribed officers;
b to persons related or inter-related to the Company;
c a nominee of a person contemplated in paragraph (a) or (b).

Such authority shall endure until the forthcoming annual general meeting of the Company (at which time this authority shall lapse, unless it is renewed at the aforementioned annual general meeting), provided that it shall not extend beyond 15 months from the date of this meeting.

Explanatory information in respect of special resolution number 3

The resolution authorises the directors to issue the unissued authorised shares of the Company, subject to the requirements of the Companies Act. This resolution is proposed as a special resolution because in terms of section 41(1) of the Companies Act the contemplated authorisation to allot, issue and grant options or any other rights exercisable for authorised but unissued shares in the company to the persons specified in paragraphs (a) to (b) of special resolution number 3 requires approval by way of a special resolution unless it falls within the provisions of section 41(2) of the Companies Act.

Solvency and liquidity test

In regard to ordinary resolution number 5 and special resolution number 2, the Company (acting through the board) will have to satisfy the solvency and liquidity test in section 4 of the Companies Act at the relevant time, which essentially requires that, considering all reasonably foreseeable financial circumstances of the Company at that time:

- the assets of the Company, as fairly valued, equal or exceed the liabilities of the Company, as fairly valued, and
- it appears that the Company will be able to pay its debts as they become due in the ordinary course of business for a period of:
  - 12 months after the date of which the test is considered, or
  - in the case of the distribution contemplated in ordinary resolution number 5, 12 months after that distribution.

Dividend payable to shareholders

Subject to the provisions regulating exchange control in South Africa, as briefly discussed below, it is anticipated that payments in respect of the dividend will be made to Shareholders by the end of May 2012. Unless otherwise agreed to by the Company, payment shall be effected by way of cheque sent by ordinary post, at the risk of the Shareholder, to the address of the relevant Shareholder as set forth in the shareholders register of the Company. Payment by cheque as aforesaid shall be a complete discharge by the Company of its payment obligations in terms of the distribution.

If several persons are entered in the shareholders register as joint holders, then payment to any one of them under the distribution shall be an effective and complete discharge by the Company of the amount so paid, notwithstanding any notice (express or otherwise) which the Company may have of the right, title, interest of claim of any other person to the shares in question.

Exchange control regulations and rulings

The following guideline is a summary of South African Exchange Control Regulations issued in terms of the Currency and Exchange Act, 1933 ("Regulations") and the rulings issued to Authorised Dealers by the South African Reserve Bank ("Rulings"). It is not a comprehensive statement and Shareholders who have any doubt as to the action they must take should consult with their professional adviser. Brokers are required to comply with the Regulations and Rulings as

set out herein.
On or prior to 4 May 2012, each Shareholder who is an emigrant from, or non-resident of, the "common monetary area" shall provide to the Company secretary, in writing, the full details of its/her/his Authorised Dealer, including the name, address and account number of its/her/his Authorised Dealer. Should such detail not be provided, monies owing will be held in trust by the Company and no interest will accrue in respect thereof.

1 Emigrants from the common monetary area
Payments arising as a result of the distribution to Shareholders are not freely transferable from South Africa and must be dealt with in terms of the Regulations and Rulings of South Africa. Cheques issued as a result of the distribution will be forwarded, at the risk of the Shareholder, to the Shareholder's Authorised Dealer in foreign exchange in South Africa controlling the emigrant's blocked assets. You are advised to take instructions from your Authorised Dealer in relation to your blocked assets and the procedures attaching to any potential repatriation thereof from South Africa.

2. All other non-residents of the common monetary area
Distributions to a Shareholder who is a non-resident of the common monetary area, who has never resided in the common monetary area and whose registered address is outside the common monetary area will be dealt with as follows:

Subject to:

- the relevant share certificates carrying a non-resident endorsement and the amount of share capital and share premium having been recorded as such by the relevant authorised dealer which received the funds at the time that the shares were endorsed "non-resident", and
- the Company's bank being presented with the resolution authorising the distribution,

a banker's draft for the amount due in the currency nominated by the Shareholder (at a rate of exchange ruling at close of business on 4 May 2012 or as soon as possible after the date that this special resolution is passed) will be purchased on behalf of such Shareholder and on the instruction and at the expense of such Shareholder. The banker's draft will be posted, at the risk of the Shareholder, to such Shareholder. All foreign exchange risk in this regard shall be with the non-resident Shareholder.

GENERAL

Shareholders are informed that:

- a Shareholder entitled to attend and vote at the general meeting is entitled to appoint a proxy (or more than one proxy) to attend, participate in and speak and vote at the general meeting in the place of the Shareholder, and Shareholders are referred to form of proxy on page 161,
- a proxy need not also be a Shareholder of the Company,
- Shareholders who wish to appoint proxies are required to complete and return the form of proxy to reach the registered office of the Company at least 24 hours before the appointed time of the meeting, but at least before the proxy exercises any right of the appointing Shareholder at the general meeting,
- in terms of section 63(1) of the Companies Act, any person attending or participating in a meeting of shareholders must present reasonably satisfactory identification and the person presiding at the meeting must be reasonably satisfied that the right of any person to participate in and vote (whether as shareholder or as proxy for a shareholder) has been reasonably verified. Forms of identification include valid identity documents, driver's licences and passports.

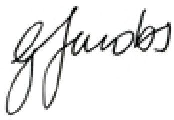
Electronic participation:

- Shareholders are advised that they, or their proxies, will be able to participate in the meeting by way of electronic communication. A limited number of telecommunication lines will be made available for this purpose.
- Shareholders who wish to participate by way of electronic communication must register such request in writing with the company secretary by no later than 15:00 on Monday 30 April 2012 and provide their email and cell phone contact details.
- Each participant will be contacted between 09:00 and 11:00 on the day of the meeting via email and/or SMS and will be provided with a code and the relevant telephone number to allow them to dial into the general meeting.
- The cost of the Shareholder's phone call will be for his/her own expense. By registering the abovementioned request, the Shareholder acknowledges that the telecommunication lines are provided by a third party and indemnifies the Company against any loss, injury, damage, penalty or claim arising in any way from the use or possession of the telecommunication lines whether or not the problem is caused by any act or omission on the part of the Shareholder or anyone else.

Summary of rights in terms of section 58 of the Companies Act:

- a shareholder of a company may, at any time and in accordance with the provisions of section 58 of the Companies Act, appoint any individual (including an individual who is not a Shareholder) as a proxy to participate in, and speak and vote at, a shareholders' meeting on behalf of such shareholder,
- a proxy may delegate her or his authority to act on behalf of a shareholder to another person, subject to any restriction set out in the instrument appointing such proxy,
- irrespective of the form of instrument used to appoint a proxy, the appointment of a proxy is suspended at any time and to the extent that the relevant shareholder chooses to act directly and in person in the exercise of any of such shareholder's rights as a shareholder,
- any appointment by a shareholder of a proxy is revocable, unless the form of instrument used to appoint such proxy states otherwise,
- if an appointment of a proxy is revocable, a shareholder may revoke the proxy appointment by (i) cancelling it in writing, or making a later inconsistent appointment of a proxy and (ii) delivering a copy of the revocation instrument to the proxy and to the relevant company,
- a proxy appointed by a shareholder is entitled to exercise, or abstain from exercising, any voting right of such shareholder without direction, except to the extent that the relevant company's memorandum of incorporation, or the instrument appointing the proxy, provides otherwise, and
- if the instrument appointing a proxy or proxies has been delivered by a shareholder to a company, then, for so long as that appointment remains in effect, any notice that is required in terms of the Companies Act or such company's Memorandum of Incorporation to be delivered to a shareholder must be delivered by such company to –
  - the relevant shareholder, or

– the proxy or proxies, if the relevant shareholder has: (i) directed such company to do so, in writing and (ii) paid any reasonable fee charged by such company for doing so.



By order of the board
G Jacobs
Company secretary
16 March 2012
Cape Town

notes

form of proxy

HomeChoice

Registration number: 1991/005430/06

Annual general meeting on Friday, 4 May 2012

I/We ____

of (address) ____

being a shareholder of HomeChoice Holdings Limited and entitled to ____________________ votes (one per share)

hereby appoint ____

or failing him/her ____

or failing him/her the chairman of the meeting, as my/our proxy to vote for me/us and on my/our behalf at the general meeting of the company to be held on 4 May 2012 and at any adjournment thereof as follows*:

	Insert "X" in the appropriate box		
	For	Against	Abstain
Ordinary resolution 1: To receive and adopt the integrated annual report of the Company and its subsidiaries.			
Ordinary resolution 2.1: To elect S Maltz as an executive director of the Company.			
Ordinary resolution 2.2: To elect J Bester as a non-executive director of the Company.			
Ordinary resolution 2.3: To elect W Jungschläger as a non-executive director of the Company.			
Ordinary resolution 3.1: To elect J Bester as a member of the audit and risk committee.			
Ordinary resolution 3.2: To elect W Jungschläger as a member of the audit and risk committee.			
Ordinary resolution 3.3: To elect P Joubert as a member of the audit and risk committee.			
Ordinary resolution 4: To approve the reappointment of PricewaterhouseCoopers as the external auditors.			
Special resolution 1: To approve the remuneration of directors for services as directors.			
Advisory Remuneration Policy Endorsement : To endorse by way of an advisory non-binding vote the Group's remuneration policy as set out on pages 76-78 of the group's integrated annual report for the period ended 31 December 2011.			
Ordinary resolution 5: To approve the payment of a final dividend of 50c (fifty cents) per ordinary share.			
Special resolution 2: To authorise the provision of financial assistance by the Company.			
Special resolution 3: To place the unissued shares in the authorised share capital of the company under the control of the directors for allotment and issue.			

* Shareholders are advised to review the Notes to the Form of Proxy overleaf.

* Please see the notice of annual general meeting for the full proposed resolution.

* If you return this form duly signed without any specific voting directions indicated in the appropriate spaces above, you will be deemed to authorise and direct the chairman of the general meeting, if your proxy is the chairman, to vote in favour of the resolutions. If the chairman is not your proxy, then the proxy will be entitled to vote or abstain from voting at the general meeting as he/she thinks fit.

Signed by me at ____________________ on this ____________________ day of ____________________ 2012.

Signature ____

assisted by (where applicable) ____

notes to the form of proxy

1. A shareholder entitled to attend and vote at the abovementioned meeting is entitled to appoint a proxy or two alternative proxies of the shareholder's choice (who need not be a shareholder of the company) to attend, speak and vote thereat in his/her/its stead ,by inserting his/her/their name/s in the space/s provided, with or without deleting "the chairman of the meeting" but the shareholder must initial any such deletion. The person whose name stands first on this form of proxy and who is present at the meeting will be entitled to act as proxy to the exclusion of those whose names follow.
2. This proxy form and power of attorney (if any) under which it is signed must be addressed to the company secretary and reach the registered office of the company, at 78 Main Road, Wynberg 7800 (Private Bag X150, Claremont 7735), not less than twenty-four hours before the appointed time of the meeting.
3. A shareholder's instructions to the proxy regarding voting should be indicated by the insertion of the relevant number of votes exercisable by the shareholder in the appropriate box provided. Failure to comply with this will be deemed to authorise the proxy to vote or to abstain from voting at the meeting as he/she deems fit in respect of all the shareholder's votes.
4. A shareholder is entitled to one vote on a show of hands and, on a poll, one vote in respect of each share held.
5. A vote given in terms of an instrument of proxy shall be valid in relation to the meeting notwithstanding the death, insanity or other legal disability of the person granting it, or the revocation of the proxy, or the transfer of the shares in respect of which the proxy is given, unless a notice of any of the aforementioned matters shall have been received by the company at its registered office or by the chairperson of the meeting at the venue of the meeting before commencement of the meeting.
6. If a shareholder does not indicate on this form that his proxy is to vote in favour or against any resolution or to abstain from voting, or gives contradictory instructions, or should any further resolution(s) or any amendment(s) which may properly be put before the meeting be proposed, the proxy shall be entitled to vote as he/she thinks fit.
7. The chairperson of the meeting may reject or accept any form of proxy which is completed and/or received other than in compliance with these notes.
8. The completion and lodging of this form of proxy will not preclude the relevant shareholder from attending the meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof, should such shareholder wish to do so.
9. Documentary evidence establishing the authority of a person signing the form of proxy in a representative capacity must be attached to this form of proxy, unless previously recorded with the company or unless the chairperson of the meeting waives this requirement.
10. Where this form of proxy is signed under power of attorney, such power of attorney must accompany this form of proxy, unless it has been registered by the company or waived by the chairman of the general meeting.
11. A minor or any other person under legal incapacity must be assisted by his/her parent or guardian, as applicable, unless the relevant documents establishing his/her capacity are produced or have been registered by the company.
12. Where there are joint holders of shares:
    12.1. All joint holders must sign the form of proxy;
    12.2. the vote(s) of the senior shareholders (for that purpose seniority will be determined by the order in which the names of shareholders appear in the company's register of shareholders) who tenders a vote (whether in person or by proxy) will be accepted to the exclusion of the vote(s) of the other joint shareholder(s).
13. Any proxy appointed pursuant to this form of proxy may not delegate his/her authority to act on behalf of the relevant shareholder.
14. In terms of section 58 of the Companies Act, unless revoked, an appointment of a proxy pursuant to this form of proxy remains valid only until the end of the general meeting or any adjournment of the general meeting.
15. This form of proxy shall be valid at any resumption of an adjourned scheme meeting to which it relates, although this form of proxy shall not be used at the resumption of an adjourned scheme meeting if it could not have been used at the meeting from which it was adjourned for any reason other than it was not lodged timeously for the meeting from which the adjournment took place. This form of proxy shall, in addition to the authority conferred by the Companies Act, 2008 except insofar as it provides otherwise, be deemed to confer the power generally to act at the meeting in question, subject to any specific direction contained in this form of proxy as to the manner of voting.
16. Any alteration or correction made to this form of proxy, other than the deletion of alternatives, must be initialled by the signatory(ies).

administration

Company registration number
1991/005430/06

Company secretary
G Jacobs

Registered office
78 Main Road
Wynberg 7800

Private Bag X150
Claremont
7735

Attorneys
Edward Nathan Sonnenbergs Inc.
Edward Nathan Sonnenbergs House
1 North Wharf Square
Loop Street
Foreshore
Cape Town 8001

Auditors
PricewaterhouseCoopers Inc.
No. 1 Waterhouse Place
Century City 7441
PO Box 2799
Cape Town 8000

Commercial bank
FirstRand Bank Limited
3rd Floor, Great Westerford
Main Road, Rondebosch 7700

Country of incorporation
South Africa

shareholders' diary

Financial year end	31 December 2012
Annual general meeting	4 May 2012
Distributions to shareholders	May and November

Reports and profit statements:

Publication of annual report	Approximately 31 March 2012
Interim report	Approximately 24 August 2012

2011
integrated
annual report

www.homechoiceholdings.co.za