annual report 2010

HomeChoice Holdings Limited

contents

annual report 2010

"Our results are testament to both the loyal support of our customers and the dedication of our employees"

Rick Garratt, Chairman

revenue up
34%
to R869m

operating profit up
76%
to R250m

earnings per share up
73%
to 176c

cash generated by operations before working capital changes up
90%
to R277m

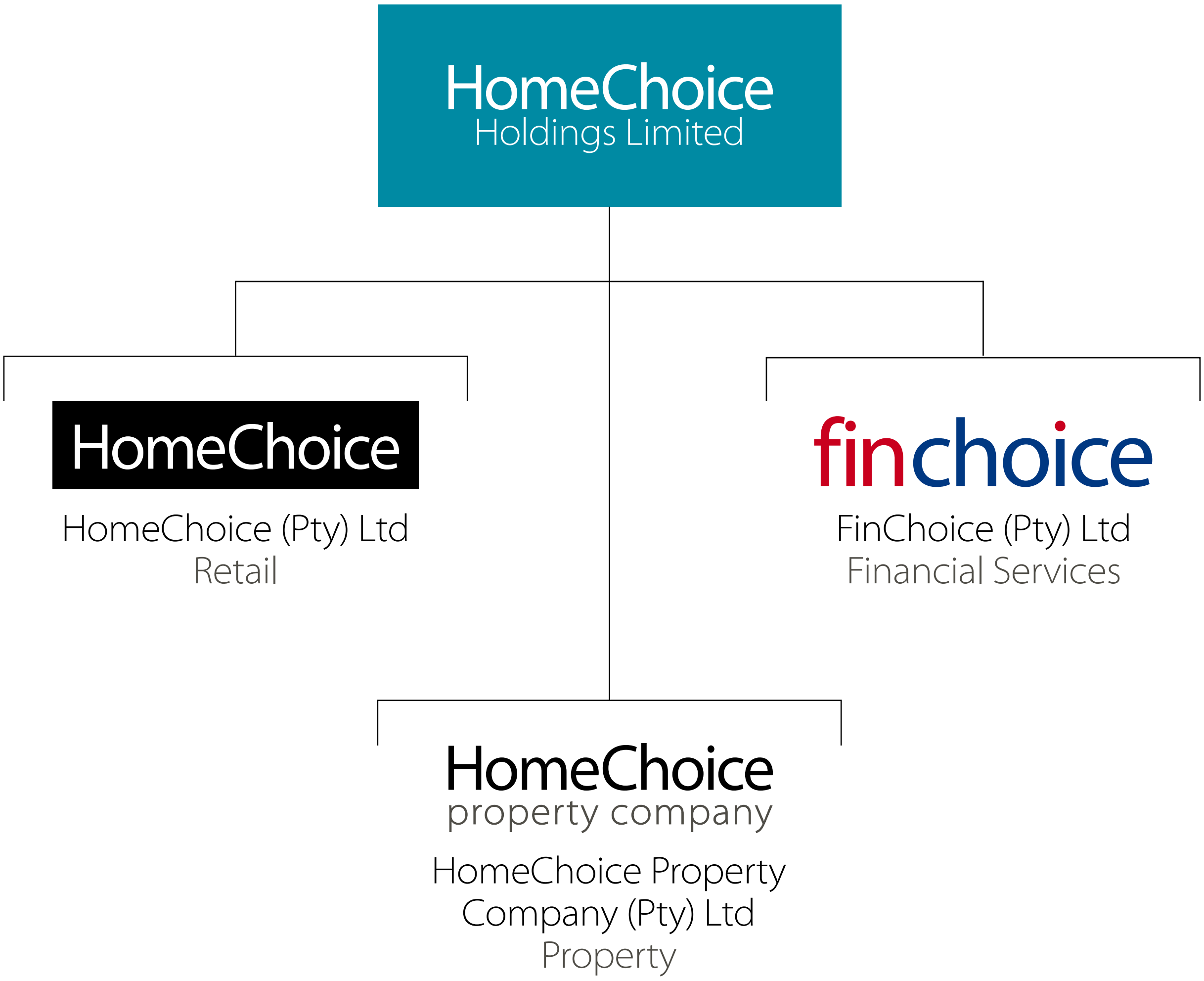
net asset value per share up
27%
to 661c

distribution to shareholders up
100%
to 40c per share

2010 a year of strong growth

over 380
call centre agents

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 main subsidiaries, HomeChoice and FinChoice.



group structure

HomeChoice

Firmly established as the leading direct marketing retailer in southern Africa, HomeChoice has developed an exclusive range of households goods which it sells to the urban mass market. With a proven track record of over 25 years, HomeChoice is the first choice in luxury homewares for thousands of satisfied customers.

> "Our vision: To be our customers' most trusted and exclusive homewares retailer, helping them to easily realise their décor dreams."

South Africa's leading direct marketing retailer

HomeChoice is the direct marketing retail company of the group. We offer an exclusive range of household goods to the urban mass market on cash or credit terms. Quality, luxury homewares and an easy shopping experience with home delivery and free home approval are the foundation of our winning formula.

We opened our doors for trading in 1985 with a single product advertisement. Since then, we have established ourselves as the leading direct marketing retailer in southern Africa, with a current loyal customer base of over 350 000.

We operate throughout South Africa, as well as in Namibia, Botswana, Swaziland and Lesotho. Our market is predominantly female (81%), spans Living Standard Measurements (LSM) 4 – 8 and is representative of the racial demographics of South Africa.

We use integrated direct marketing channels to acquire, service and retain customers.

Our head office is based in Wynberg, Cape Town. We have 510 employees, including 340 in our call centres.

finchoice

FinChoice, the financial services company of the group, markets personal loans to HomeChoice customers of good credit standing. Our loan products offer terms ranging from 6 to 24 months, with the ability for customers to access additional credit on a recurring basis.

Customised financial product offerings to individual customers for individual circumstances

FinChoice is the financial services company of the group. We use a range of direct marketing methods to offer personal loan products to HomeChoice customers of good credit standing. Our loan product terms range from 6 to 24 months, with the ability for customers to access additional credit on a recurring basis.

Born out of the HomeChoice legacy of trust and quality, we started trading in February 2007. Since then, we have helped over 60 000 customers with a customised, personalised financial solution.

Using integrated direct marketing methods across multiple channels, we customise our product offering to individual customers and their individual circumstances. We use best-of-breed call centre and mobile technology to provide low-cost, efficient access for our customers to our products.

Our operations are centralised in Wynberg, Cape Town. We have 66 employees of which 44 are in our call centre.

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

HomeChoice property company

HomeChoice Property Company owns the head office building from which both HomeChoice and FinChoice operate. It also holds vacant land in Blackheath on which it is proposed to develop a new distribution centre.

group structure

customers

18%
growth in average retail sales per existing customer

62%
growth in FinChoice loan book accounts

15%
growth in existing customer base

operations

3 million+
pieces of marketing material distributed per month

400 000+
phone conversations per month

61 000+
orders and loans processed per month

40 000+
parcels despatched per month

+280 000
website visits per month

sustainability

6%
staff headcount growth

84%
black staff representation

2 139
training interventions

231
tons material recycled

finance

43%
growth in net group receivables to R544 million

29%
return on equity

R410 million
economic value added

+R7 million
in social investment since 2006

+R1 billion
cash collected from customers

group operations highlights 2010

group five-year review

statement of financial position

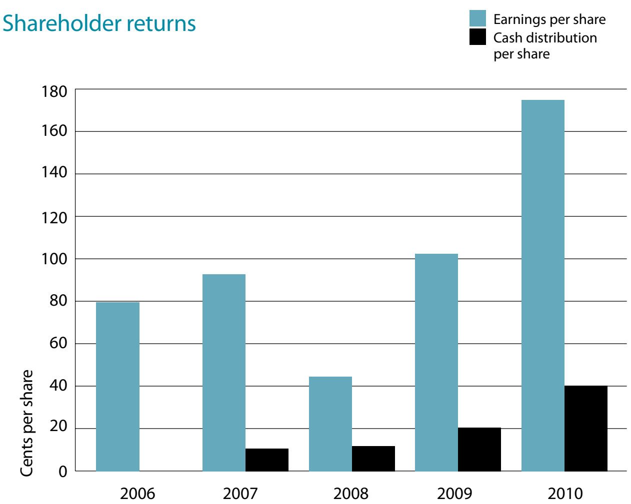
	2010 R000	2009 R000	2008 R000	2007 R000	2006 R000
Assets					
Non-current assets					
Property, plant and equipment	**119 865**	168 710	117 251	46 856	16 636
Intangible assets	**8 901**	7 152	1 826	830	326
Loans to employees	**13 177**	8 848	6 790	–	–
Investment in associate	–	–	7 957	8 808	10 283
Deferred tax	**8 948**	4 963	2 786	4 432	2 487
	150 891	189 673	136 610	60 926	29 732
Current assets					
Non-current assets held for sale	–	963	–	–	–
Available-for-sale investments	**41 445**	45 192	43 346	46 278	50 129
Inventories	**69 846**	37 786	45 669	36 084	32 101
Receiver of Revenue	**1 075**	915	59	53	–
Trade and other receivables	**543 739**	380 051	277 608	249 247	190 390
Trade receivables	**325 390**	256 819	213 463	213 422	184 877
Loans receivable	**206 873**	119 563	57 733	27 748	477
Other receivables	**11 476**	3 669	6 412	8 077	5 036
Cash and cash equivalents	**45 630**	55 891	57 085	74 207	94 759
	701 735	520 798	423 767	405 869	367 379
Total assets	**852 626**	710 471	560 377	466 795	397 111
Total equity	**669 216**	522 527	437 334	386 459	312 755
Non-current liabilities					
Interest-bearing liabilities	**51 340**	85 293	162	804	2 005
Deferred tax	**35 201**	25 084	15 277	20 202	25 269
Other payables	**3 420**	3 390	–	–	–
	89 961	113 767	15 439	21 006	27 274
Current liabilities					
Current portion of interest-bearing liabilities	**6 279**	7 458	535	815	2 457
Receiver of Revenue	**1 936**	2 443	1 628	9 928	22 823
Trade and other payables	**61 228**	45 892	41 281	41 693	22 985
Provisions	**17 400**	11 200	700	6 894	8 817
Loan from non-controlling interest holder	–	7 184	–	–	–
Bank overdraft	**6 606**	–	63 460	–	–
	93 449	74 177	107 604	59 330	57 082
Total liabilities	**183 410**	187 944	123 043	80 336	84 356
Total equity and liabilities	**852 626**	710 471	560 377	466 795	397 111
% growth in trade receivables	**26,7%**	20,3%	0,0%	15,4%	1,0%
% growth in loans receivable	**73,0%**	107,1%	108,1%	5 717,2%	–

group five-year review (continued)

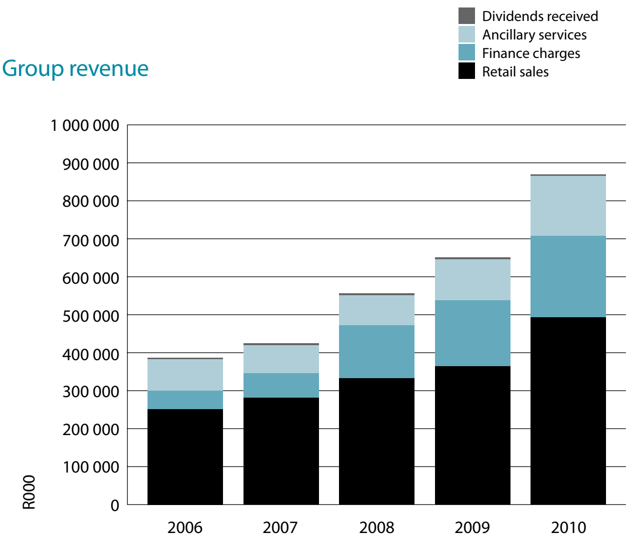
statement of comprehensive income

	2010 R000	2009 R000	2008 R000	2007 R000	2006 R000
Revenue	869 442	651 152	556 981	434 450	386 574
% growth in revenue	33,5%	16,9%	28,2%	12,4%	27,6%
Retail sales	493 008	363 555	332 567	281 107	251 541
Cost of sales	(226 080)	(182 089)	(167 263)	(136 535)	(112 640)
Gross profit	266 928	181 466	165 304	144 572	138 901
% gross profit margin	54,1%	49,9%	49,7%	51,4%	55,2%
Finance charges earned	215 221	174 054	139 027	65 595	47 861
Fees from ancillary services	158 153	108 859	80 221	83 276	83 597
Other net gains and losses	(16 281)	1 065	1 568	30 791	4 921
Trading expenses	(377 386)	(328 631)	(316 707)	(217 362)	(177 611)
Trading profit	246 635	136 813	69 413	106 872	97 669
Dividends received	3 060	4 684	5 166	4 472	3 575
Impairment of available-for-sale investments	–	–	(10 535)	–	–
Operating profit	249 695	141 497	64 044	111 344	101 244
% growth in operating profit	76,5%	120,9%	(42,5%)	10,0%	17,6%
% operating profit margin	28,7%	21,7%	11,5%	25,6%	26,2%
Interest received	3 530	4 484	5 937	8 734	4 111
Interest paid	(6 865)	(9 031)	(3 593)	(577)	(586)
Equity loss on associate	(1 449)	(523)	(3 150)	(2 471)	–
Profit before taxation	244 911	136 427	63 238	117 030	104 769
Taxation	(72 577)	(36 513)	(20 210)	(27 801)	(27 563)
Profit for the year	172 334	99 914	43 028	89 229	77 206

Shareholder returns



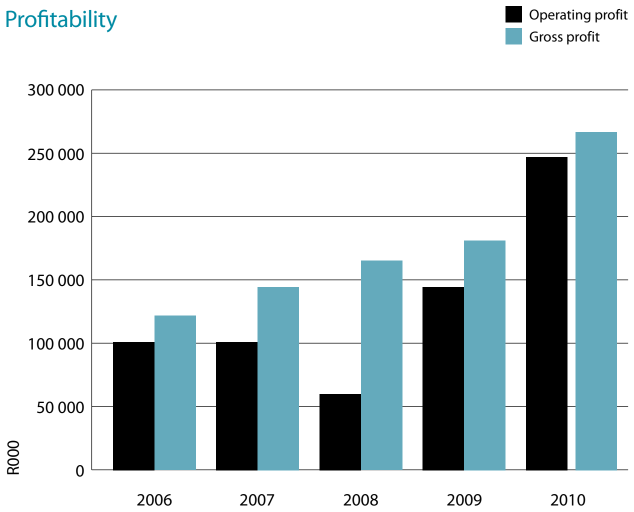
Group revenue

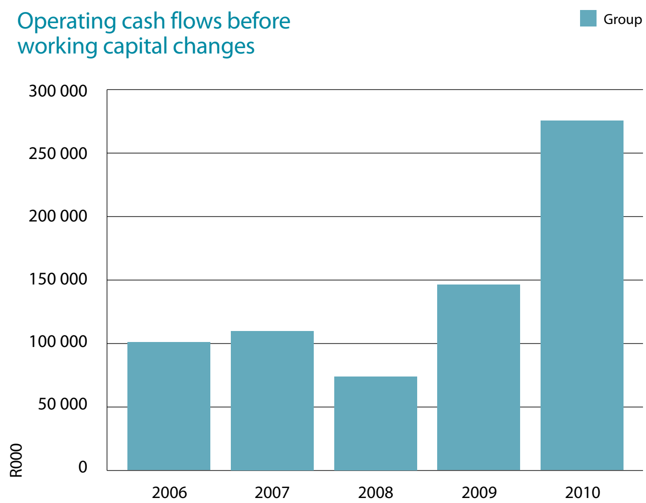


group five-year review (continued)

statement of cash flows

	2010 R000	2009 R000	2008 R000	2007 R000	2006 R000
Operating cash flows before working capital changes	**277 349**	145 882	78 281	110 378	101 770
Movements in working capital	**(175 421)**	(76 549)	(45 325)	(46 175)	(22 146)
Cash generated from operations	**101 928**	69 333	32 956	64 203	79 624
Net interest (paid)/received	**(3 335)**	(4 547)	2 965	8 278	3 383
Net dividends received/(paid)	**3 060**	(8 415)	4 202	(5 166)	3 575
Taxation paid	**(65 497)**	(31 930)	(32 899)	(47 201)	(11 856)
Net cash inflow	**36 156**	24 441	7 224	20 114	74 726
Net cash outflow from investing activities	**(5 115)**	(17 518)	(77 249)	(35 228)	(14 870)
Net cash (outflow)/inflow from financing activities	**(47 908)**	55 343	(10 557)	(5 438)	(15 073)
Net (decrease)/increase in cash balances	**(16 867)**	62 266	(80 582)	(20 552)	44 783
Cash, cash equivalents and bank overdrafts at the beginning of the year	**55 891**	(6 375)	74 207	94 759	49 976
Cash, cash equivalents and bank overdrafts at the end of the year	**39 024**	55 891	(6 375)	74 207	94 759
% growth in operating cash flows before working capital changes	**90,1%**	86,4%	(29,1%)	8,5%	12,1%





group five-year review (continued)

financial ratios

	2010	2009	2008	2007	2006
Operating margin before depreciation and amortisation (%)	**29,8**	23,1	12,1	26,4	27,2
Operating profit/average shareholder's funds (%)	**41,9**	29,3	15,5	31,8	64,7
Operating profit/ average total assets (%)	**31,9**	29,5	15,5	31,8	35,7
Taxed profit/revenue (%)	**19,8**	15,3	7,7	20,5	20,0
Effective taxation rate (%)	**29,6**	26,8	32,0	23,4	26,3
Earnings per share – owners of the parent (cents)	**176,2**	101,9	43,8	92,2	79,1
Distribution paid to shareholders per share (cents)	**40,0**	20,0	11,0	10,0	–
Dividends per share (cents)	**–**	13,0	1,0	10,0	–
Share premium reduction per share (cents)	**40,0**	7,0	10,0	–	–
Return on equity (%)	**28,9**	20,8	10,4	23,5	26,1
Interest paid cover (times)	**36,4**	15,7	17,8	193,0	172,8
Distribution to shareholder cover (times)	**4,4**	5,1	4,0	9,2	–
Current ratio (:1)	**7,5**	7,0	3,9	6,8	5,6
Acid test ratio (:1)	**6,8**	6,5	3,5	6,2	5,0
Debt-equity ratio (:1)	**0,09**	0,18	0,15	0,00	0,01
NAV per share including intangibles (total shares)	**661,3**	520,0	439,0	401,0	321,9
NAV per share excluding intangibles (total shares)	**652,5**	512,9	439,0	401,0	321,8
Weighted average number of shares (000)	**100 896**	100 556	98 199	96 776	97 567
Number of shares in issue (000)	**103 869**	103 869	103 869	104 644	104 644
Number of shares in issue, net of treasury shares (000)	**101 199**	100 479	99 609	96 379	97 154
Employee statistics					
Number of employees	**579**	544	436	402	371
Revenue per employee (R000)	**1 502**	1 197	1 277	1 085	1 043
Assets per employee (R000)	**1 473**	1 306	1 285	1 161	1 070
Average number of years' service	**4,5**	4,1	4,6	4,5	4,9

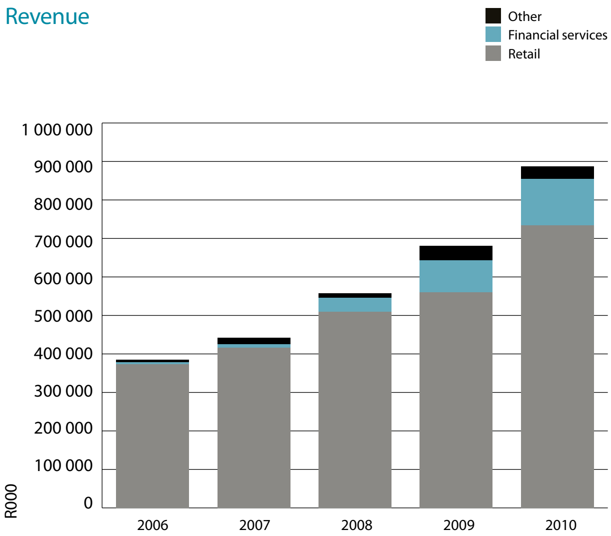
group five-year segmental analysis

	2010 R000	2009 R000	2008 R000	2007 R000	2006 R000
Segmental revenue	**886 821**	682 761	559 534	445 585	386 574
Retail	**733 841**	572 557	513 216	419 596	382 829
Financial services	**121 454**	72 847	37 677	10 382	170
Property	**17 329**	17 273	2 362	–	–
Other	**14 197**	20 084	6 279	15 607	3 575
Intersegment	**(17 379)**	(31 609)	(2 553)	(11 135)	–
Revenue from external customers	**869 442**	651 152	556 981	434 450	386 574
Segmental operating profit/(loss)	**249 695**	141 497	64 044	111 344	101 244
Retail	**187 610**	100 974	75 655	112 884	101 787
Financial services	**57 186**	27 337	5 711	(5 703)	(3 726)
Property	**9 761**	14 922	66	–	(7)
Other	**(4 862)**	(1 736)	(17 388)	4 163	3 190
Profit/(loss) for the period	**172 334**	99 914	43 028	89 229	77 206
Retail	**133 431**	75 483	55 659	82 564	62 660
Financial services	**28 276**	11 372	4 531	(5 281)	(2 640)
Property	**1 875**	7 536	(2 139)	7	(8)
Other	**10 809**	10 082	(1 533)	11 939	17 194
Eliminations	**(2 057)**	(4 559)	(13 490)	–	–
Cash flows before working capital changes	**277 349**	145 882	78 281	110 378	101 770
Retail	**208 352**	106 779	79 155	118 188	105 842
Financial services	**58 360**	28 230	8 034	(9 290)	(3 679)
Property	**17 100**	16 057	66	(232)	(7)
Other	**2 257**	(259)	(269)	(288)	(366)
Eliminations	**(8 720)**	(4 925)	(8 705)	2 000	(20)
Cash generated/(utilised) by operations	**101 928**	69 333	32 956	64 203	79 624
Retail	**126 544**	95 096	57 057	102 448	82 715
Financial services	**(27 006)**	(32 747)	(23 692)	(33 106)	(3 773)
Property	**16 175**	12 673	7 383	(232)	(7)
Other	**(5 227)**	(2 965)	(267)	(287)	(367)
Eliminations	**(8 558)**	(2 724)	(7 525)	(4 620)	1 056

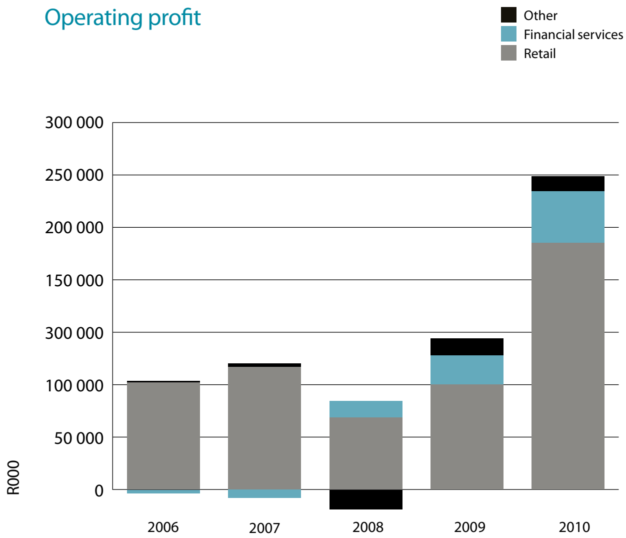
group five-year segmental analysis (continued)

	2010 R000	2009 R000	2008 R000	2007 R000	2006 R000
Segment assets excluding group loans	**843 678**	705 508	557 591	462 363	394 624
Retail	**439 347**	329 652	289 327	290 746	264 263
Financial services	**206 944**	129 323	64 482	31 751	1 362
Property	**107 312**	108 816	101 904	42 249	5 763
Other	**92 583**	139 432	102 015	99 880	123 240
Eliminations	**(2 508)**	(1 715)	(137)	(2 263)	(4)
Segment liabilities excluding group loans	**148 209**	162 860	107 766	60 134	59 087
Retail	**88 958**	64 391	36 353	58 061	58 596
Financial services	**5 451**	3 110	3 606	1 860	407
Property	**55 961**	60 040	67 922	89	1
Other	**347**	37 034	22	124	83
Eliminations	**(2 508)**	(1 715)	(137)	–	–
Group loans receivable/(payable)	**–**	–	–	–	–
Retail	**117 779**	59 213	(4 754)	(27 180)	(68 238)
Financial services	**(179 602)**	(123 046)	(67 392)	(41 045)	(4 672)
Property	**(42 210)**	(44 037)	(36 940)	(42 147)	(5 756)
Other	**104 033**	107 870	109 086	110 372	78 666

Revenue



Operating profit



board of directors

executive directors

1 Rick Garratt (64)

BCom, CA(SA)
Appointed 1991
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.

2 Shirley Maltz (39)

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 (42)

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

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

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

non-executive directors

4 John Bester (64)

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 of 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, 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.

5 Willem Jungschläger (54)

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

Willem has over 29 years' experience as a human relations and human performance specialist.

For the last 19 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.

6 Amanda Chorn (52)

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 Pierre Joubert (45)

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

A chartered accountant by profession, Pierre has served in senior positions in several companies. These include 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 at RMB.

operating boards

HomeChoice, FinChoice & HomeChoice Properties

1 Rick Garratt (64)

✱✱✱
BCom, CA(SA)
Chairman
Founded the group in 1985

2 Shirley Maltz (39)

✱✱✱
BCom, CPE, LPC
Chief executive officer – HomeChoice
Joined the group in 2001

3 Annalize Kirsten (42)

✱✱✱
BCompt (Hons), CA(SA)
Chief operating officer – HomeChoice
Joined the group in 1999

7 Mike Roux (50)

✖✖
BSc (Hons), HDE (PG), MPhil
Credit risk director
Joined the group in 2007

8 Elmori Richter (36)

●
Nat Dip HR
Human resources director
Joined the group in 2010

9 Louis Pretorius (45)

●
BEng (Hons), MEng (Electronic)
ICT director
Joined the group in 2010

4 Bradley Bastard (36)

●
BCom, MCom (Tax), CA(SA)
Finance director
Joined the group in 2008

5 Cathy MacKenzie (42)

●
BA
Merchandise director
Joined the group in 2009

6 Anthea Abrahams (40)

●
BPrim Ed, PDM
Marketing director
Joined the group in 2007

10 Rob Ross (66)

●
Logistics director
Joined the group in 1986

11 Sean Wibberley (40)

■
BSc (Elec Eng), MBA
Chief executive officer – FinChoice
Joined the group in 2006

✱✱✱ HomeChoice, FinChoice and HomeChoice Properties

✱✱ HomeChoice and FinChoice

● HomeChoice

■ FinChoice

"cash receipts from customers exceeded R1 billion for the first time, an increase of 42% over 2009"

chairman's report

by Rick Garratt

Highlights

group revenue up
34%
to R869m

operating profit up by
76%
to R250m

earnings per share up
73%
to 176c

Financial overview

It is a pleasure to report on the group's strong performance, despite the difficult economic and retail environment in South Africa during 2010. Group revenue increased by 33,5% to R869,4 million (2009: R651,2 million), operating profit by 76,5% to R249,7 million (2009: R141,5 million) and earnings per share increased by 72,9% to 176,2 cents per share (2009: 101,9 cents per share). I am also pleased to report that cash receipts from customers exceeded R1 billion for the first time, which is an increase of 42,5% over 2009.

HomeChoice and FinChoice both contributed to this growth, although FinChoice continues to show faster growth, off a smaller base, in line with the group's strategy.

HomeChoice substantially exceeded the financial objectives set by management for 2010. HomeChoice's revenue grew by 28,2% to R733,8 million (2009: R572,6 million) and operating profit by 85,8% to R187,6 million.

FinChoice granted personal loans to the value of R324,5 million (2009: R190,0 million), an increase of 70,8%. Revenue increased by 66,7% to R121,5 million (2009: R72,8 million), while operating profit increased by 109,2% to R57,2 million (2009: R27,3 million).

Full 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.

These outstanding results are attributable to the following:

- strong execution of the group's strategy;
- a motivated, focused management team;
- favourable customer response to an improved merchandise offering;
- major marketing efficiencies;
- continued strong demand for our personal loan products;
- incremental credit risk policy changes yielding an improved quality book with lower bad debt; and
- significant credit collection improvements.

Cash flow

During 2010 the group generated operational cash flows of R277,3 million (2009: R145,9 million) before working capital changes and R101,9 million (2009: R69,3 million) after working capital changes. HomeChoice generated R126,5 million and FinChoice consumed R27,0 million after funding the growth in the loan book.

Over the past four years the group has made major investments in capacity building in management and infrastructure to support its growth. In addition, there has been substantial investment in the growth of our receivables, especially the FinChoice loans receivable book.

This investment, amounting to approximately R320 million over the past four years, has been met from internally generated cash resources. The group has no material borrowings, other than long-term property finance, and had R80,5 million in cash and near cash investment balances at the end of 2010.

Net asset value has also grown substantially over this four-year period, from 322 cents per share in 2006 to 661 cents per share in 2010.

Possible JSE listing

During 2010 the board concluded that there are major growth opportunities due to significant increases in customer demand within both the retail and the financial services businesses, especially the latter.

A decision was thus made recently to pursue a possible listing on the JSE in 2012. The major reasons for this decision were:

1. 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;
2. improve incentives for directors and managers by making their shares readily tradeable; and
3. attract talented management and staff.

Associated with the possible listing and to prepare for compliance with the JSE regulations, various improvements in governance and financial reporting have been, and will be implemented in the coming reporting period.

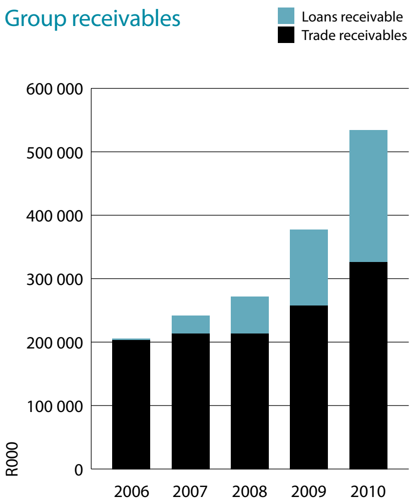
A cautionary was issued to shareholders on 26 November 2010 and we will continue to keep them informed of developments.

Distribution to shareholders

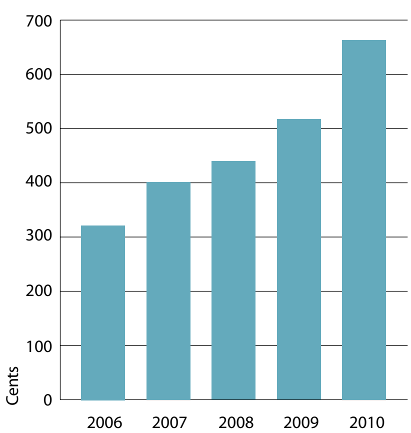
During 2010 40 cents per share was paid to shareholders in the form of a reduction in share premium, executed in two distributions of 20 cents each paid in May and November.

In view of the possible listing on the JSE, the group has decided to adopt a distribution cover policy of approximately 3. This level of cover was considered appropriate in view of the need to retain capital to fund future growth opportunities. This policy will be implemented from the 2012 financial year.

Group receivables



NAV per share



The board has decided to continue the process of two distributions to shareholders each year in May and November. A distribution of 30 cents per share, in the form of a reduction in the share capital, has been proposed for May 2011.

Credit risk

Managing the risk of credit is one of the key focus areas of management. The group's strategy is to attract new customers to HomeChoice and then grant loans only to the best payers through FinChoice.

The group has a specialised credit risk department developing and utilising sophisticated data mining and credit scorecard techniques to filter and manage credit risk.

During 2010 our risk metrics improved, with debtor costs as a percentage of revenue declining from 13,4% in 2009 to 12,6% in 2010.

Homechoice's debtor cost fell from 11,5% to 9,9% in 2010. FinChoice's debtor cost remained similar to 2009 at 29,3% which is within our business model of balancing profitability and risk. FinChoice's provisions as a percentage of the book declined from 11,2% to 10,9% in 2010.

Further details are given in the group credit risk report.

Merchandise and marketing

During 2010 our product range improved considerably. Bedding innovations were extremely well received by customers, our appliances range was updated and improved, and electronic products were introduced on a controlled basis, due to the slightly higher credit risk involved.

Marketing efficiencies led to a significant reduction in marketing costs relative to net sales, especially in the area of new customer acquisition, where our website attracted a large number of new customers and revenue from this source grew substantially.

Further details are given in the retail merchandise report and the group customer report.

Growth of the financial services business

FinChoice's loan demand grew strongly, especially from existing customers, whose repeat business continued to grow significantly.

FinChoice benefits from very low customer acquisition costs as HomeChoice has already incurred these costs, and good payers are offered loans through HomeChoice's catalogues and extensive telemarketing. This substantially improves the FinChoice operating profit margin.

Further details are given in the FinChoice CEO's report.

Developing our people

The group staff complement has grown from 544 to 579 during the year. We improved our skills base with extensive recruitment of seasoned merchandisers and significantly increased our IT skills to cater for future planned system improvements.

During 2010, 510 employees underwent training, most of it conducted by our internal training department.

Governance

The group fully endorses the principles incorporated in the Code of Corporate Practices and Conduct as set out in the King II Report on Corporate Governance (King II). King III will be applicable to the group from January 2011 and a process of ensuring compliance therewith has been implemented.

Further details are given in the corporate governance report, the audit and risk committee report and the remuneration committee report.

Directorate

On 1 February 2010 Mr M Scholtz resigned from the board of HomeChoice Holdings.

Prospects

The economy is showing steady signs of improvement and retail trade is also showing growth.

Our target market, the urban mass market female in LSM 4 – 8, has benefited from lower inflation, real salary increases and lower job losses.

HomeChoice is planning for reasonable growth in 2011, while FinChoice will continue to show good growth.

Appreciation

I would like to thank my fellow directors for their guidance and insight in leading the group. Our results are testament to both the loyal support of our customers and the dedication of employees, and I extend thanks, on behalf of the board, to all our employees for their performance this year. I also acknowledge the support of our shareholders, suppliers and business advisers.

Rick Garratt
Chairman

18 March 2011
Cape Town

> "all the financial objectives for the year were exceeded ... driven by enhanced customer loyalty and support of the retail offering"

retail ceo's report

by Shirley Maltz

Highlights

revenue up
28%
to R734m

retail sales up
33%
to R485m

cash generated by operations before working capital changes up
94%

HomeChoice

The South African retail environment continued to be impacted by the global slow-down during the year under review. However, consumers are showing signs of recovery and the retail sector is starting to experience positive signs of growth.

In this climate, the retail business has produced strong growth and a good all-round performance. Total retail trade sales in the country grew by 7,0% for 2010 compared with 2009 (Statistics, South Africa) while the retail business significantly outstripped this, with revenue increasing 28,2%.

The retail business has continued to focus on its core strengths of targeting the black, urban female and offering her products that represent value, quality and exclusivity with a service offering that suits her lifestyle and time constraints.

Customers reflect their loyalty through their purchasing decisions. I am delighted that we have achieved record levels of customer demand through improvements in the merchandise offer.

Both the established and newer business units have generated pleasing revenue growth. The call centres continue to show good organic growth as a result of the investment in people, systems and infrastructure. The retail business has also experienced strong growth in online sales as a result of continued focus and innovation in this channel.

Trading and financial highlights

All the financial objectives for the year were exceeded. The 28,2% growth in revenue to R733,8 million was driven by enhanced customer loyalty and support of the retail offering. The retail business attempts to achieve a gross profit margin of 50%. In 2010 the gross profit margin increased from 49,9% to 54,5%, primarily due to Rand strength and favourable changes in the product mix. The gross profit improvement, coupled with good cost control and lower bad debts, resulted in a substantial increase in the operating profit margin from 17,6% to 25,6%.

Retail sales were up 33,3% on last year, with all business categories exceeding sales projections. We have built on our core strength in textiles, particularly bedding, which performed well, while the newer appliances and electronics categories experienced excellent growth. The breadth of the offering in these two categories has been expanded significantly, with good customer response.

12 catalogues mailed annually

The buying cycle is rigorously applied, ensuring that we maintain a high degree of innovation, building on our successes while managing risk in our retail formula. The in-house trends and innovation studio has been further entrenched and remains a source of strength for both our merchandise and marketing teams.

We had almost no price inflation over the year due to the strengthening of the Rand. Growth in retail sales was due to volume rather than price increases. Finance charges grew at a lower rate than retail sales due to declining interest rates during the year. Income received from ancillary services, which includes service, delivery and initiation fees, increased by 40,8% from R81,5 million to R114,8 million. The increase is higher than our growth in retail sales due to the delayed accounting recognition of the prior year increase in our initiation fee, which is recognised over the life of the credit agreement. We anticipate that the growth in income received from ancillary services will again exceed merchandise sales growth in 2011 due to increased service fee revenues.

We underestimated customer demand in the first quarter of 2010. This was compounded by closing stock levels for 2009 being unusually low. As a result we experienced inventory shortages which negatively impacted the customer experience. Management felt it prudent to increase stock levels held at the 2010 year-end in anticipation of first quarter increases in sales. This, coupled with revenue growth, reflects a substantial increase in our inventories of 84,7% year on year to R69,8 million. Our current stock ratio has, however, improved significantly over the year with the use of alternative channels for mark-downs. Our current stock ratio has increased from 73% to 95% and we anticipate maintaining these levels in future years.

Managing credit risk

Consistent credit management strategies were applied during the year. Debtor costs as a percentage of revenue improved from 11,5% to 9,9%, and the provision for impairment of trade receivables reduced from 18,9% to 18,1%. This was driven by improvements in payment performance, increased sales to lower risk existing customers and new acquisition strategies.

Further anti-fraud initiatives were added to the application process. This, coupled with an improvement in the credit score of new applicants, had a positive impact on the performance of new customer risk. This resulted in new account acceptance rates increasing from 49,5% to 51,5% while maintaining bad debt expectation.

We experienced higher demand from our existing customer base, with their intake proportion increasing from 62,0% to 64,8%. Existing customers have significantly lower bad debt levels which impacted positively on our overall bad debt experience. Through greater integration of our bad debt models into our marketing selection strategies we cut out marketing campaigns to certain higher risk customers, improving our intake quality and advertising efficiency.

Improvements in our collections area was the main driver of the 33,1% increase in the company's cash generated by operations. Refer to the chief financial officer's report for a detailed review of the financial performance.

Customer demand

Strong growth was experienced in customer demand with average spend per existing customer increasing 18% on last year. Increased focus on retaining existing customers and driving repurchase rates reduced the reliance on new customers for sales, thus improving marketing efficiencies and risk profile. The existing customer base grew by 12% although credit criteria remained consistent. We continue to experience growth in younger customers, who tend to purchase more regularly with better payment performance. This provides a good platform for growth in 2011.

In addition to the strong growth in new customers, the cost of new customer acquisition has improved significantly. This is a result of a shift in marketing campaign tactics and channel and improved the cost of new customer acquisition, with overall advertising spend efficiency improving by 22%. During the financial year we increased the proportion of business through catalogue sales from 68% to 74%. This has an impact on the merchandising risk in that it reduces the number of single mailer offers, whose response is more difficult to forecast.

The telephone remains the most significant source of revenue. During the year we implemented a web-based sales support system for our call centres. This gives the sales agent greater access to customer purchasing history, product affiliation and reflects current offers to the customer. The system has improved their ability to interact with the customer on a one-to-one basis. Our telephony infrastructure was further enhanced with the upgrade of our predictive dialler with capacity for substantial future growth.

Online sales have experienced strong growth of 196%. This is on the back of the increase in the number of visitors to the site through online advertising and e-mail strategies. The internet is becoming increasingly popular with customers as they gain better access and become more confident in online shopping. With a strong pipeline of electronic initiatives and system developments, we are well placed to continue to grow through this channel.

We were recognised as a centre for excellence in online marketing and were awarded an Assegai Award by the Direct Marketing Association for an online campaign. One of our analysts was also awarded an Assegai Award as the Young Direct Marketer of the Year. We were delighted to have received recognition for our staff and the organisation.

Our people

We continue to drive our culture through our values, which remain core to how we do business. These values are entrenched in the induction process and day-to-day business interactions. An annual pulse survey is conducted across the organisation and this highlights areas requiring cultural interventions and further diagnosis.

The business has traditionally focused primarily on call centre training. We spent over R1,2 million on developing our talent. We facilitated over 170 training programmes, resulting in the delivery of 2 076 training interventions. During the 2011 year we plan to shift the focus towards specialist areas while maintaining excellence in the call centres.

Five of our call centre staff are finalists in the 2010 Business Process enabling SA (BPeSA) awards. This body acknowledges excellence in the call centre sector and we are pleased that so many of our staff were recognised.

Investing for the future

HomeChoice undertakes rolling five-year forecasts for financial performance, customer lists and operational requirements. This provides the platform for our infrastructure, systems, recruitment and training strategies. Key focus areas for the directors are capacity building, organisational design, systems and talent management, which we believe are the pillars of future growth.

During 2010 we continued to invest in systems and infrastructure, primarily on call centre and debtors' systems. During the year ahead we will continue to invest in our merchandise, marketing and warehouse systems.

Significant headcount growth is planned for the next two years in the specialist and management areas. This will necessitate investing in our training capacity and in our ability to build the future management teams.

The business has embarked on a customer focus project. This includes simplifying and improving our customers' platforms of communication with us, improving our service to them and deepening knowledge within the organisation of who they are.

Prospects

The directors expect good growth in revenue and steady growth in profits in the year ahead, although the growth is not forecast to be as high as the levels experienced in 2010. The retail division is meeting its customer demand forecast as at the end of February 2011 and this gives us a degree of confidence in our forecast revenue growth for the year. Management plans to maintain the current credit strategy and foresees a similar mix of business to 2010.

The focus in 2011 will be on further developing customer platforms; using technology to enhance her shopping experience; developing planning systems to provide a strong foundation for growth with requisite controls to balance risk of growth; and building training capacity with a focus on our specialist and management teams.

Appreciation

I would like to thank all of our staff for their contribution to our performance in a challenging environment. They have displayed great focus and drive throughout the year and are the primary drivers of our results.

In closing I thank each of the directors for their guidance, support, challenging questions and commitment. I have personally enjoyed working with each of them this year and look forward to the challenges of 2011.

Shirley Maltz
Chief executive officer
HomeChoice (Pty) Ltd

18 March 2011
Cape Town

> three-quarters of our customers become repeat borrowers in time, demonstrating their affinity with our products, loyalty to the FinChoice brand and our convenient customer service

financial services ceo's report

by Sean Wibberley

Highlights

disbursements up
71%
to R324m

operating profit up by
109%
to R57m

revenue up
67%
to R121m

FinChoice has established its brand firmly in the mind of the HomeChoice customer as her preferred credit provider. Our marketing proposition of "10 minutes to R10 000" continues to embody our philosophy of accessible, convenient and rapid access to credit.

FinChoice is a niche loans provider, catering primarily to the unsecured credit needs of the HomeChoice customer. We offer her 6, 12 and 24-month term loans, with the option of access to further credit on a recurring basis. We only supply credit to customers with South African bank accounts from which we can effect early debit order tracking for repayments. Our business model enjoys the following key strengths relative to our mass market competitors:

1. Our cost to acquire a customer is very low due to our access to HomeChoice's loyal customer base and existing marketing platforms.
2. Our marketing segmentation and credit-vetting decisions are informed by in-house payment performance data from the customer's retail account. We are thus able to approve 80% of all applications for credit which we have solicited from HomeChoice prospects; and most new loan applications take just 10 minutes to process as customers do not need to provide paperwork or recapture existing contact information.
3. Our target market already trusts and appreciates the convenience of accessing credit "from a distance", rather than the hassle and cost of having to travel to a bricks-and-mortar branch and queue for a face-to-face credit application. Our prospects are thus highly responsive to FinChoice's direct marketing for both new and repeat loan offers.

Financial highlights

FinChoice enjoyed another successful year in 2010 – our fourth year of trading. Loan disbursements increased from R190,0 million in 2009 to R324,5 million in 2010, growing total revenue from R72,8 million to R121,5 million. This 66,7% increase in revenue was comfortably within our operational, systems and credit management capacities, and proves our ability to scale our direct marketing business efficiently into the future.

Operating profit growth was very strong, increasing from R27,3 million to R57,2 million, a 109,2% growth from 2009. This strong growth relative to revenue is due primarily to our stable fixed cost base and management of the bad debt cost to 29,3% of revenue (29,2% in 2009).

segments, due to better prospect targeting and customer product-matching. This is encouraging for our future booking aspirations from the HomeChoice customer base.

To simplify sales and administration, we stopped booking new 18-month loans in 2010. We focused on driving the popular 6-month and 24-month products, keeping the 12-month product for those customers opting for a payment period in between. We carefully control the mix of shorter and longer term credit 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 FinChoice's cash requirements.

Our repeat lending business from existing FinChoice customers also exceeded expectations in 2010, growing repeat loan disbursements by 82%.

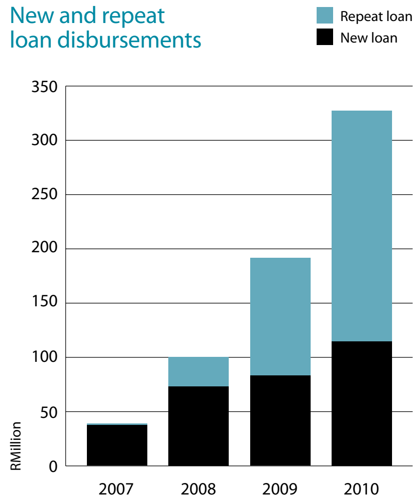
Three-quarters of our customers become repeat borrowers in time, demonstrating their affinity with our products, loyalty to the FinChoice brand and our convenient customer service. The repeat loan business enjoys favourable marketing efficiencies and this, coupled with the strong demand, bodes very well for the future growth of our loan book.

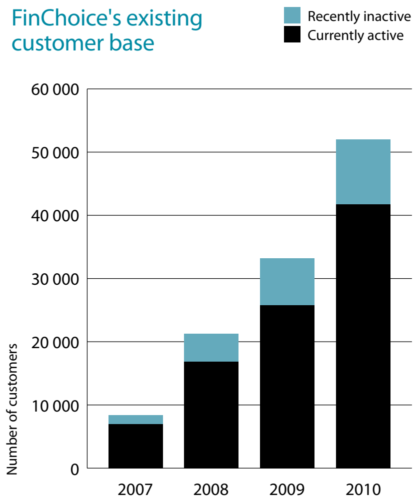
Loan book

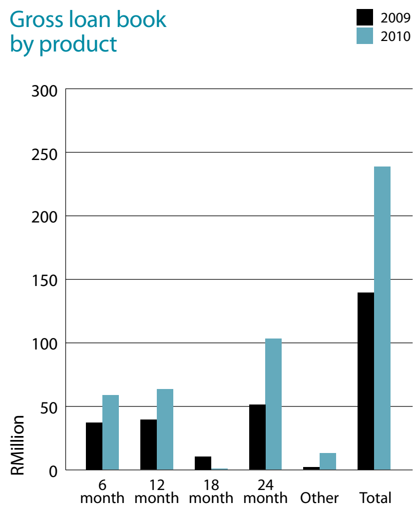
Our gross loan book grew from R134,7 million in 2009 to R232,1 million in 2010.

We now have 42 000 active loan customers, a growth of 62% from 2009, and 10 000 recently inactive customers. Similar to our active book, recently inactive customers demonstrate a high propensity to take out repeat loans with FinChoice.

Our loan book represents only 0,3% of the unsecured and short-term credit lending market in South Africa (source: NCR Consumer Credit Market Report Q3 2010 for lenders with annual disbursements above R15 million). With such a negligible share of the market, we are confident that we have room for growth as a niche loans provider.







We acknowledge that the very best HomeChoice customers do not take our loan offers, due to their having access to cheaper credit from other sources (such as credit cards or overdrafts) or not having a current need to borrow. However, the customers that we do permit to borrow from us have a known level of credit risk, and we manage the acceptance of these customers to optimally balance profitability and debtor cost. Our operating margin in 2010 was a healthy 47,1%, up from 37,5% in 2009.

We were able to realise these profits despite the margin squeeze resulting from the Reserve Bank steadily reducing interest rates since 2008 to record low levels in 2010. We achieved this through careful management of our product mix of short-term credit (with a fixed interest rate cap defined by the National Credit Regulator) and longer term credit (with lower interest rate caps fixed relative to the prevailing repo rate at the time of writing the loan).

Customer demand

In 2010 we experienced good demand for new loans, growing new loan disbursements by 28% year on year. Refinements to our marketing strategy have resulted in improved response levels from niche HomeChoice customer

Our loan book mix shows a shift towards more 24-month loans by the end of 2010. This is a natural progression due to the longer term of the 24-month product and our decision to stop booking new 18-month loans.

Credit risk

Our loan book performed solidly during 2010. Our credit policy and collections processes maintained risk and fraud levels within expectations, and credit vintages across all our loan products have remained stable over 2009 levels.

Our strategy of cherry-picking existing HomeChoice customers of good credit standing for new loan offers continues to serve us well. FinChoice's behavioural scoring models make use of the fact that recent payment performance on a customer's HomeChoice retail account is a strong indicator of repayment propensity with one of our loan products.

With our repeat loan business, we are able to more closely assess repayment propensity for customers who have demonstrated repayment behaviour with our own loan products, thereby lowering credit risk. Almost two-thirds of our loan disbursements were written to repeat loan customers in 2010 and this ratio is set to increase as the book grows – a very positive aspect of our business into the future.

We manage our collections very tightly, collecting all our loan instalments via real-time debit order on the customer's salary date, thereby ensuring timely collection of funds directly from the customer's bank account. Our technology platform is updated systematically after each debit order process, and any unpaid debit orders are distributed to a specialised collections area for immediate follow-up with delinquent customers.

Our credit team closely assesses the efficacy of our credit policy and the health of our loan book, working with the marketing and operations teams to maximise the profitability of our new and existing customers.

Further details on credit risk may be found in the group credit risk report.

Systems

In 2010 we focused on further automation of our business processes and operational reporting. Much of FinChoice's customer communication and new customer acquisition processes has now been automated, making efficient use of our mail, telephone and SMS channels.

Our technology and operational platforms continue to serve us well and have scaled comfortably to accommodate our growing customer base. Exceptional rigour is applied to our critical loans management controls, from system-automated checking sequences to manual monitoring of exception reports. Our loans management and telephony platform is well positioned to meet our growth aspirations for the foreseeable future.

People

The FinChoice management team is now well-established and the departmental structures have matured. In 2010 the business increased its headcount from 54 to 66. We grew our call centre staff to meet the customer service and sales needs of our growing book and recruited additional expertise in our specialist areas of credit risk, technology, operations and marketing.

The 22% increase in headcount year on year compares favourably to the 67% increase in revenue, again demonstrating our ability to leverage fixed costs as a centralised, direct marketing loans provider.

Training continued to be focused on our call centre, although specialist training and exposure to industry seminars increased in 2010 for our specialist resources. In total, training interventions increased from 37 in 2009 to 63 in 2010.

Prospects

In 2010 we achieved our stated objective of growing the revenue and profits in a controlled environment. In 2011, we plan to continue growing the loan book in a controlled fashion, leveraging our technology and operational platforms. In addition we will be introducing product and channel innovations to further entrench our customer loyalty, enhance the convenience and flexibility of our customer servicing, and drive efficiencies.

FinChoice expects the substantial growth in revenue to continue into 2011, albeit not as pronounced as the 2010 growth. Profit growth will be driven by revenue growth, a stable fixed cost base and controlled debtor costs. As at the end of February 2011, demand and payment performance has been in line with our projections.

Appreciation

I would like to thank the FinChoice staff, management team and directors for their ongoing dedication, drive and camaraderie that made 2010 such a success and positioned the business for an exciting future.

Most importantly, FinChoice thanks our customers for their continued loyal support.

Sean Wibberley
Chief executive officer
FinChoice (Pty) Ltd

18 March 2011
Cape Town

"earnings per share have shown an annual compound growth rate of 27,8% over the past five years"

cfo's report

by Annalize Kirsten

Highlights

group revenue up
34%
to R869m

net group receivables up
43%
to R544m

group cash generated by operations before working capital charges up
90%
to R277m

Overview

The group has delivered very pleasing results for the reporting period, with strong growth in revenue and profits from both HomeChoice, the retail company, and FinChoice, the financial services company.

Group operating profit increased by 76,5% from R141,5 million to R249,7 million while earnings per share increased by 72,9% from 101,9 cents to 176,2 cents. Cash generated by operations before working capital changes improved by 90,1% from R145,9 million to R277,3 million.

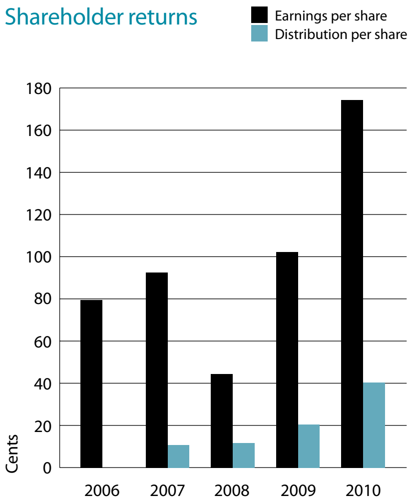
Shareholders received distributions of 40 cents per share compared to 20 cents per share in the prior year. The distribution comprised a share premium reduction of 40 cents per share, compared to a share premium reduction of 7 cents per share and dividends of 13 cents per share during the prior period.

The net asset value of the group increased by 27,2% from 520,0 cents in 2009 to 661,3 cents per share in 2010.

Enhancing shareholder wealth

Earnings per share has shown an annual compound growth rate of 27,8% over the past five years, and distributions have been progressively increased. The group's distribution policy is outlined in the chairman's report.

Shareholder returns



Financial performance

Statement of comprehensive income

Revenue

Group revenue increased by 33,5% from R651,2 million to R869,4 million.

The HomeChoice retail business increased revenue by 28,2% from R572,6 million to R733,8 million, with retail sales increasing 33,3% from R363,6 million to R484,6 million. As highlighted in the retail chief executive officer's report, the business improved and broadened its merchandise offering to customers and this, together with better marketing techniques and an enhanced electronic marketing strategy, has resulted in a substantial increase in demand from customers. FinChoice increased revenue by 66,7% from R72,8 million to R121,5 million, continuing to show strong, controlled growth in personal loans to creditworthy retail business customers.

Gross profit margin

Gross profit margin increased from 49,9% to 54,1%. The gross profit margin is higher than our operational target of 50% primarily due to Rand strength against the Dollar during the year, giving us significant gains.

Finance charges earned

Finance charges earned increased by 23,7%. Since 2008, the Reserve Bank's repurchase rate has reduced by 6%, with a resultant reduction of approximately 13% in the interest rate charged to our customers. The growth rate of finance charges earned is therefore significantly lower than the growth in retail sales, although this has been partially mitigated by the increased contribution and growth in FinChoice, which is less sensitive to interest rate changes, due to the fixed interest rates on short-term loans.

Fees from ancillary services

Fees from ancillary services, which include initiation, service and delivery fees, increased by 45,3%. This growth rate is higher than the growth rate in retail sales due to the delayed accounting recognition of the prior year increase in our retail initiation fee, which is recognised over the life of the credit agreement. In addition, the increased contribution of FinChoice to group revenue, further increased fees from ancillary services.

Other gains and losses

The group disposed of the majority of its interest in an en-commandite partnership providing passenger transportation by air, resulting in an impairment charge of R19,7 million, of which R4,9 million was attributable to the non-controlling interest holder included under other gains and losses. These losses were primarily attributable to movements in the Rand/US Dollar exchange rate (refer to explanation in note 24 to the group annual financial statements).

Debtor costs

During the 2008 calendar year the group experienced a significant increase in bad debt write-offs and delinquency levels, especially in the HomeChoice retail company. Decisive corrective measures were implemented and credit performance has improved as follows over the last three years:

	2010 R000	2009 R000	2008 R000
HomeChoice			
Debtor costs	**72 744**	65 944	101 303
Debtor costs as a % of revenue	**9,9%**	11,5%	19,7%
Provision for impairment as a % of gross receivables	**18,1%**	18,9%	24,4%
FinChoice			
Debtor costs	**35 563**	21 293	14 302
Debtor costs as a % of revenue	**29,3%**	29,2%	38,0%
Provision for impairment as a % of gross receivables	**10,9%**	11,2%	13,7%

Trading expenses

Trading expenses, excluding debtor costs above, were 10,9% higher than the prior period and reduced as a percentage of revenue from 37,1% to 30,8%. This is primarily due to:

- continued focus on cost management;
- strong retail demand enabling more efficient direct marketing expenditure; and
- reduction in costs due to economies of scale, given the high growth rate of the group, and specifically FinChoice.

Operating profit

Group operating profit increased 76,5% from R141,5 million to R249,7 million and operating margin increased from 21,7% to 28,7%.

The HomeChoice retail company increased operating profit by 85,8% from R101,0 million to R187,6 million on the back of the growth in revenue, the gains made in gross margin from Rand strength against the Dollar, good control of costs and efficiencies from high revenue growth, and an improved performance of the debtors' book.

FinChoice increased operating profit by 109,2% from R27,3 million to R57,2 million, continuing its trend of strong profit growth.

Taxation

The group's effective tax rate moved from 26,8% to 29,6% primarily due to the impairment of its interest in the en-commandite partnership. The effective taxation rate is expected to reduce in 2011.

Statement of financial position

The disposal of part of the group's interest in the en-commandite partnership resulted in the group no longer exercising control of the partnership and therefore no longer consolidating its assets and liabilities. This has resulted in the derecognition of its property, plant and equipment and interest-bearing liability in the group's statement of financial position.

Ignoring the effect of the above transaction, the group has increased its investment in property, plant and equipment and intangible assets by R9,6 million.

Inventories have increased significantly from R37,8 million to R69,8 million to support the growth in revenue and enable better fulfilment of the anticipated continued increase in customer orders. As highlighted in the retail chief executive officer's report, inventory levels were unusually low at the end of 2009 and the group believes that current levels are appropriate.

Group receivables increased 43,1% from R380,1 million to R543,7 million. HomeChoice trade receivables increased from R256,8 million to R325,4 million, which is in line with increased revenue. FinChoice loan receivables increased by 73,0% from R119,6 million to R206,9 million.

Statement of cash flows

Cash generated by operations before working capital changes increased by 90,1% to R277,3 million. The improved profitability has enabled management to make the substantial investment of R175,4 million in increased working capital requirements from internal resources. The group expects to be able to continue funding growth in 2011, including the debtors' book, from internal resources.

The cash position of the group remains strong, with the group holding R80,5 million in cash and near cash investment balances at the end of the year.

Capital management

The board is responsible for a balance between efficient capital management and maximising returns to shareholders, ensuring adequate capital to support the growth of the business and a buffer for unexpected losses. Management prepares rolling five-year forecasts to assess future funding requirements, if any, to allow for appropriate capital resources to be in place, while managing the demand on resources through budgetary controls. The group's return on equity increased from 20,8% to 28,9% in 2010.

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 of the HomeChoice Holdings board oversees the management of financial risk.

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 strategies and exposure to specific risks is disclosed in note 3 to the group annual financial statements.

The group endorses the principles incorporated in the Code of Corporate Practices and Conduct outlined in the King II Report and has established a policy framework which guides the group's risk management processes. These policies and frameworks, which are regularly monitored, are being modified for the King III Code which comes into effect from the 2011 reporting period.

For further information relating to financial risk management, refer to the corporate governance report's risk management section.

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 the requirements of the Companies Act of South Africa.

The principal accounting policies are consistent with those applied in the previous year, except for the adoption of new standards as described on pages 75 to 78 of the group annual financial statements.

Acknowledgements

I would like to thank the finance team for their commitment to ensuring that the group achieves a high standard of financial reporting.

Annalize Kirsten
Chief financial officer

18 March 2011
Cape Town

> "Our customer base and the record of their purchase and payment behaviour built up over 25 years is our most important asset"

group customer report

by Anthea Abrahams

Highlights

growth in number of existing customers
12%
to 354 000

growth in sales per customer
18%
to R1 535

drop in customer acquisition cost
32%
to R357

Customers – at the core of our business

Customer centricity may be a cliché in the retail industry, but at HomeChoice it is a reality. Our customer base and the record of their purchase and payment behaviour built up over 25 years is our most important asset. The size and quality of our customer base is the starting point for all marketing activity across the group. It dictates both our revenue expectations in the short term and our investment in customer acquisition in the longer term.

The group takes a life cycle view of customers. The retail division makes the initial investment in attracting the customer and extending credit. Customers with proven payment records are then targeted for ongoing retail purchases by the financial services business. The combination of these offerings helps to retain active customers for longer.

Our customers span all age groups and demographic profiles throughout South Africa, Swaziland, Lesotho, Namibia and Botswana. They are attracted by the quality of the merchandise, the convenience of home delivery and the affordability of the credit terms. The typical HomeChoice customer profile is:

- between 25 and 45 years old;
- black and female;
- employed;
- in the LSM 4 – 8 group; and
- has a monthly household income of R3 000 to R8 000.

However, there has been rapid growth in the number of customers earning above R10 000 per month, linked to increasing internet penetration.

Our target LSMs currently comprise 64% of the adult market and represent the fastest growing group in the economy.

HomeChoice

Customer overview

Existing customers are categorised into three segments:

- active (customers with current outstanding balances);
- recently inactive (no current balance, but transacted in the last 24 months); and
- deeper inactive (last transacted more than 24 months ago).

This segmentation is central to the marketing strategy and determines the level of marketing activity, including the number of mailings and sales calls, and the strength of offers to the different customer categories. Currently active customers receive the most marketing activity because their high response rates justify the additional spend. Recently inactive customers are marketed

HomeChoice
finchoice

less frequently but with more discounted merchandise offerings. The deeper inactive customers get less frequent but more aggressively discounted offers, focused on reactivating them. Inactive customers are selected for marketing offers using sophisticated modelling scorecards. These are developed in-house and optimise advertising efficiency through forecasting customers' propensity to respond to offers.

The currently active and recently inactive customers form the core of the marketing activities each month. They generate a high proportion of revenue and are also the most efficient and lowest risk customers. This core customer base grew rapidly in 2007/8 but the growth slowed in 2009 owing to tougher trading conditions. In 2010, through increased focus on retaining existing customers and driving repurchase in this segment, the proportion of currently active customers improved, and the base grew by 12%. This strategy had the additional benefit of reducing reliance on new customers thus improving marketing efficiency and the risk profile of customers.

Sales per customer for these existing customers grew by 18% in 2010. This growth in existing customer numbers and spend per customer has been driven by:

- broadening the merchandise range. Textiles have been enhanced, the appliance and electronics ranges expanded, providing access to a greater share of customer spend;
- high levels of newness. 17% of the products marketed each month are new, which has helped drive repurchases and maintain customer excitement;
- expanded marketing activity to all existing customers. By using technology-based channels such as SMS and e-mail, and more sophisticated calling strategies, we have increased the frequency with which we interact with these customers while improving efficiency; and
- deeper, more consistent mailing into the recently inactive customer group from 2009 onwards.

The 12% growth in number of customers coupled with the 18% growth in the sales per customer resulted in the overall outstanding growth in HomeChoice retail sales in the last year.

Attracting new customers

Although existing customers are the most efficient source of revenue, attracting new customers is also critical to support long-term growth and compensate for customer attrition. By closely tracking the existing customer base the group can forecast the number of new customers that need to be attracted up to five years in advance, and plan accordingly.

Every new customer can be traced to a specific marketing activity and therefore linked to advertising spend and product offering cost. This information allows us to accurately assess the efficiency of acquisition activities and to tailor the mix to focus on the most efficient channels.

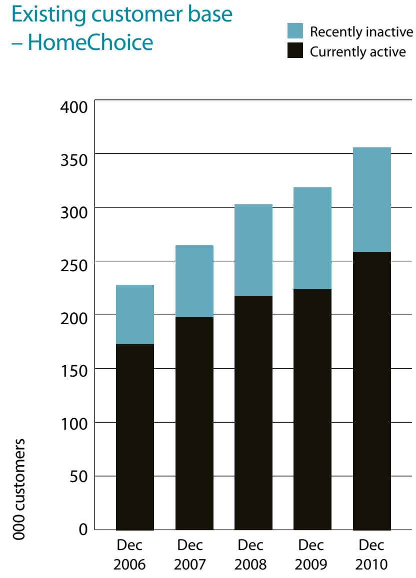
This approach has driven a shift from the traditional new customer acquisition channel – media inserts – to more efficient electronic and sales agent channels. As a result, in 2010 our average cost to acquire a new customer dropped 32% while the number of new customers acquired grew slightly.

In the medium term more of the acquisition activity will be switched to electronic channels, including the internet, e-mail, SMS, MMS and Mobi. These channels have proven highly efficient and indications are that the customers acquired in this way have as good, or superior, payment performance and repurchase rates as those from more traditional channels. The sales agent channel will be expanded more selectively due to concerns over the risk profile of the customers being attracted.

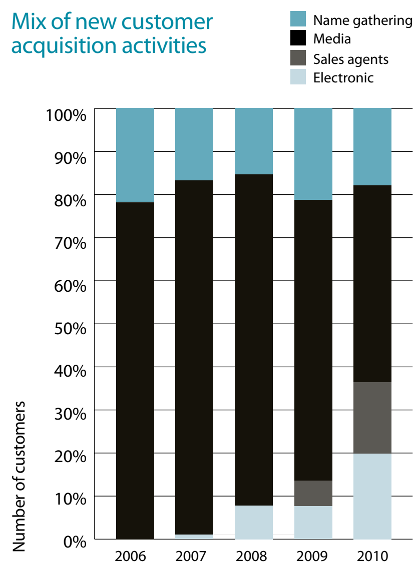
Managing the customer relationship

As a direct marketer HomeChoice enjoys a unique relationship with its customers. The group markets to customers through multiple channels and at multiple opportunities. This breadth of channels means that customers can place orders in several ways and at a time that is most convenient: from the office, at home or

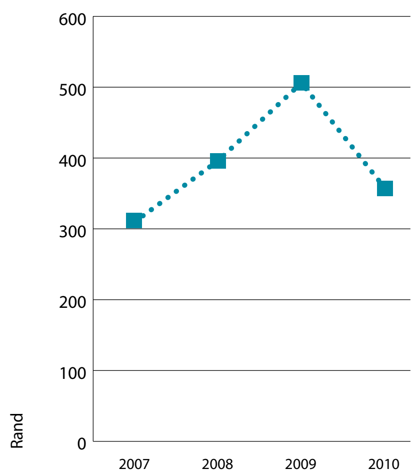
Existing customer base – HomeChoice



Mix of new customer acquisition activities



Adspend cost per new customer



even while commuting. Our "shop" can travel in their handbag, lie on their desk or kitchen table, or wait for them online.

This one-to-one relationship with customers has other benefits. As we have a record of every transaction a customer has had with us, we are able to customise marketing based on any aspect of a customer's account. Examples include:

– sophisticated personalised catalogues to active, low-risk customers;
– targeting promotions and offers to new customers via SMS vouchers and e-mails to prevent cannibalisation of existing customer margins;
– being able to call customers when an out of stock item they requested arrives in stock;
– sending SMSs with advance notice of the month's top promotions and products, especially for product lines which the customer has bought previously;
– sending targeted reactivation vouchers and deals when customers' accounts are almost paid up; and
– sending a customer an SMS when an order is despatched and advising of any delays.

FinChoice

Customer overview

The existing customers of the retail division also form the marketing base for financial services products. FinChoice, the financial services division, targets HomeChoice retail customers of good credit standing for personal loans. In addition to providing valuable cross-sell opportunities, this also deepens the customer relationship and enhances the group's customer retention. At year-end 42 000 customers held active FinChoice accounts.

FinChoice focuses on selling repeat loans to existing customers, as well as attracting new customers. FinChoice, like HomeChoice, also reaches customers through multiple channels. Using integrated direct marketing methods across these channels, FinChoice offers customised, personalised financial solutions to individual customers to suit their individual circumstances. Please refer to the chief executive officer's report for further details.

Managing the customer relationship

Once a HomeChoice customer takes up a FinChoice loan, FinChoice continues to build on the one-to-one relationship with targeted communication through mail, SMS and telephone calls. This has the dual function of keeping customers informed regarding the status of their loan and encourages customers to take repeat loan products. Some examples include:

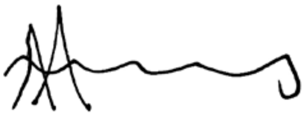
– sending FinChoice customers account status SMSs that keep the customers up to date with the status of a loan and encourage good-paying customers to take additional credit;
– enabling customers to proactively manage their accounts by sending FinChoice an SMS requesting to skip an instalment should they experience any financial constraints in a particular month; and
– enabling customers to request additional credit from FinChoice by simply sending an SMS to us.

Prospects

The existing HomeChoice customer base is expected to continue to grow, although at a slightly lower rate than in 2010, with no deterioration in the active or recently inactive ratio. Existing customer spend is anticipated to continue growing above inflation due to further range expansions and product newness.

HomeChoice's customer acquisition activities, through highly efficient electronic channels, will continue to be expanded and actively tailored to support the growth objectives of the FinChoice business. FinChoice will continue to leverage the opportunities presented by the strong growth of the HomeChoice existing customer base.

A major focus in 2011 will be further developing our relationship with customers by expanding the use of mobile technology to firmly place ˝our brands in her hand˝.



Anthea Abrahams
Retail marketing director

18 March 2011
Cape Town

"debtor costs have dropped across the group, demonstrating an improving credit quality"

group credit risk report

by Mike Roux

Highlights

increase in gross receivables
39%
to R630m

decrease in group write-off
5%
to R86m

group receivables provisions drop to
15,3%
from 16,6%

HomeChoice

finchoice

Credit environment

The credit environment during 2010 was difficult for credit providers. The South African economy showed slow growth in GDP together with decreased employment. As a result of declining interest rates and generally tighter lending criteria, household indebtedness to disposable income has reduced from over 80% in 2009 to 78,2% in 2010. Some improvement in the economic environment has been noted in the last quarter. At HomeChoice there was no relaxation of credit policy during 2010, as we continue a relatively conservative approach to credit granting, especially for new customers.

Group credit strategy

HomeChoice sells its retail products into a predominantly female market through a range of channels. The amount of new customer acquisition is tailored to the group requirements for growth, taking into account the risk level, repurchase propensity and profitability of new customers. Purpose-built scorecards accurately predict the level of risk of a customer and relatively small instalment accounts are granted to new customers. Once the level of payment performance has been established, larger credit amounts are considered for good customers to drive repurchase rates and reduce average bad debt.

The FinChoice loan book is derived from HomeChoice customers who have demonstrated good payment behaviour, which helps us to select lower risk customers. Our behaviour scorecards, based on a customer's payment performance in HomeChoice, enable us to select relatively low-risk prospects for marketing a FinChoice offer. Our selection criteria have enabled us to select a very profitable group of loan customers, with a stable and acceptable risk of bad debt.

Group credit performance

The gross trade and loans receivable book grew by 39,5% to R629,5 million during 2010. This was driven by strong growth of 26,7% in HomeChoice trade receivables and 73,0% growth of FinChoice loan receivables, off a much lower base. In spite of this book growth, bad debt write-offs (net of recoveries) decreased by 4,9% across the group to R86,0 million, primarily through a sharp reduction in the write-offs in HomeChoice, and a slightly reduced rate of write-off in FinChoice.

Provisioning across the group has also reduced as a percentage of the gross book. This reduction is due to the better payment performance experienced.

The proportion of balances subject to debt review has grown rapidly over the last year and has reached 1,1% of the total gross debtors' book in HomeChoice and 1,7% of the FinChoice book (2009: 0,7% and 0,4% respectively). HomeChoice actively tries to accommodate struggling payers in advance of any debt review processes. During 2010, substantial process improvements were made across the group in managing the incidence of debt review applications and ensuring that they are appropriately handled. We support the industry-led improvements to the administration of debt review processes.

Accounts that are more than 180 days in arrears at HomeChoice are written off, provided there has been no payment for 90 days. FinChoice has an accelerated write-off process after 120 days of non-payment, appropriate to the debit order payment mechanism. Written off accounts continue to be collected by outsourced legal agencies. Refer to the aged analysis of our provision for impairment later in this report.

HomeChoice credit risk

New customers

HomeChoice continues to build and upgrade its application scorecards based on credit bureau data, which are tailored to the HomeChoice target market, and therefore significantly outperform the standard bureau scorecards in identifying risk among HomeChoice applicants. Additional scorecards have been developed for applicants without credit bureau records. All these scorecards are monitored continuously to identify any signs of degradation. Scorecards are developed and maintained by the internal team of experienced analysts, as this enables us to react quickly to changes in our acquisition and marketing strategies.

Improved methods to identify customers at risk of early payment default, started in 2009, showed significant reductions in new customer defaults during 2010. The data mining rules are updated regularly and the level of early payment default has continued to decrease during 2010. Once the approach to identifying early payment defaulters had shown good results, acceptance levels of the remaining population were increased slightly, averaging 51,5% for the 2010 year (2009: 49,5%).

New customer vintages demonstrate the effectiveness of HomeChoice's current policies. Early risk measures have shown continued decreases in risk during 2010, particularly when weighted by sales value.

Existing customers

A suite of behaviour scorecards are used for granting further instalment sales. HomeChoice actively manages an exposure limit policy for customers, which is evaluated each month in line with her payment performance, behaviour score and purchasing behaviour. During 2010, the credit exposure rules remained largely unchanged, as our risk from existing customers remains at acceptable and stable levels.

Credit and marketing have worked together to improve the selection of customers to be marketed, taking into account both marketing efficiency and the bad debt incurred. During 2010, the proportion of total credit sales to existing HomeChoice customers increased to 77,0% (2009: 74,3%), and the risk profile of selected customers improved.

Collections performance

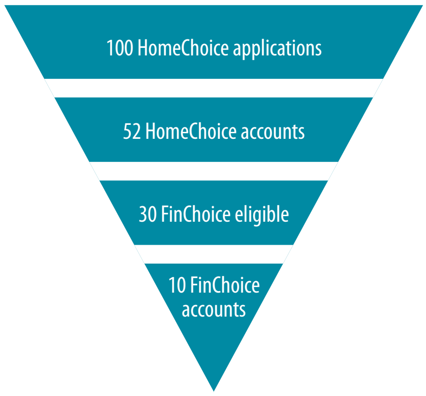
Collections activities have improved over the last 12 months, and the collections operations team have achieved much better payment performance and contact rates with our early delinquent customers. While improvements in payment rates for customers in early stages of delinquency were observed for the whole of 2010, it is only in the second half of 2010 that the payment rate for higher delinquency levels improved over the previous year. The impact of improved payments and lower roll rates can be seen in the table below:

	HomeChoice Provisions		% of book	
Time in arrears	2010	2009	2010	2009
Less than 31 days	10,9%	12,5%	77,0%	75,6%
32 – 60 days	22,6%	25,9%	10,1%	10,0%
61 – 90 days	35,4%	39,3%	4,7%	5,0%
Over 90 days	49,6%	56,5%	8,2%	9,4%

Write-offs (net of recoveries) have decreased from R75,1 million in 2009 to R60,5 million in 2010 in spite of the increased size of the book, and the provisioning level on the book has decreased from 18,9% in 2009 to 18,1% in 2010. We have maintained a cautious approach to the book, as a result of its rapid growth, the increase in debt review applications and continued changes in our new customer acquisition channels.

FinChoice credit risk

The FinChoice risk policy is based on identifying customers in the HomeChoice base who have shown good payment performance. Their ability to pay regularly is highly predictive of their risk when moving to a higher value loan paid by debit order. Of every 100 new credit applicants for HomeChoice, 52 are accepted for credit, and only 30 of these fulfil the criteria for a FinChoice loan offer. We expect a third of these to take up a FinChoice loan.



As a result of this risk-filtering process, the risk of initial loans on the FinChoice book is relatively low. Across all the core loan products, the risk vintages have been stable through the year.

Once a customer has a FinChoice loan, we offer repeat loans, and extended terms, based on her continued payment performance. In assessing these applications, payment performance in both the HomeChoice and FinChoice books is considered. In 2010, 65,0% of total disbursements were repeat loans (2009: 56,7%) and the remainder initial loans. The increase in the percentage of repeat loans assists in the management of risk in the FinChoice book.

FinChoice's collections activities and management have also developed during the course of the year, resulting in an improvement in the overall provisioning level to 10,9% of the book (2009: 11,2%). The provisioning requirement for the 24-month loan product has been prudently increased since 2009, as we have seen rapid growth in this book. Customers who, when offered a choice of terms, select a shorter term, are generally lower risk than those who select longer terms. This accounts for the significantly lower provisioning requirement for the 12-month loan product. We believe that the shift in book distribution reflects a better mix of profitability and expense.

Prospects

We expect the current climate to continue to show slight improvements during 2011. Risk levels in the HomeChoice book are expected to improve marginally during 2011, as a result of continued improvements in our risk identification and vetting processes, the better targeting of low-risk accounts for marketing and the residual effect of actions taken this year. In the FinChoice book, we expect the current levels of risk to be maintained.

Mike Roux
Credit risk director

18 March 2011
Cape Town

	FinChoice Provisions		% of book	
Product	2010	2009	2010	2009
6-month loan	7,1%	8,9%	25,1%	26,9%
12-month loan	7,3%	9,3%	27,0%	28,6%
24-month loan	13,8%	13,0%	44,2%	37,0%

"strong growth was the result of considerable innovation ... as well as an accelerated rate of new product introduction"

retail merchandise report

by Cathy MacKenzie

Highlights

increase in sales per catalogue page

32%

to R357k

gross profit margin increase to

54,5%

from 49,9%

Product

One of our primary metrics for measuring the success of our merchandise activities is net sales per page of the catalogue, rather like sales per square metre of retail trading space. During 2010 our sales per page increased by 32% from R270 000 per page in 2009 to R357 000 per page in 2010.

This strong growth was the result of considerable innovation and extension of our bedding range, which is our main product line, improvements to many products in other areas, such as appliances and electronics, as well as an accelerated rate of new product introduction and special marketing deals. We are pleased that our customers reacted positively to these changes.

Gross profit margins benefited from Rand strength/Dollar weakness during 2010 and the retail business achieved a gross profit margin of 54,5% which is above the target of 50%.

Our product range has expanded significantly in the catalogue with additional items available through our website. The internet is expanding choice and is also working as a clearance vehicle.

The HomeChoice value range has been extended with monthly "WOW" deals offering outstanding value. This supports our strategy of always offering excellent value and being price competitive on key lines.

Our bedding offer is unique in that we are able to present the whole room to our customer – she has access to the complete interior decorated look, all the co-ordination is done for her. We select the product and present it to her visually as a perfectly co-ordinated look, offering her the ultimate in ease of shopping. This is unique in the market-place and sets us apart from our competitors.

In our monthly catalogue, which represents our store, we are also able to explain the uniqueness of our products along with all their features and benefits. Both factors offer an advantage over traditional retailers who are constrained by space limitations in-store. Furthermore, our inhouse photographic studio gives us the flexibility to bring through fashion, seasonality and innovation changes extremely quickly and cost effectively.

Buying and planning formula

We have a highly experienced buying team with an average length of service with the company of over 14 years. Experience brings a deep understanding of our customer base, as well as specialised knowledge in dealing directly with our suppliers. In general we work directly with our global suppliers and avoid working through agents, thus ensuring margin maximisation. Over the years we have built up strong relationships with our supplier base.

We have introduced a highly disciplined buying and planning formula to support risk management and entrench lessons learnt. The buying team's decision-making is informed by a thorough understanding of customer demand blended with newness and excitement of forward trends.

The trend and innovation studio is responsible for identifying new trends and integrating this into the buying strategy, as well as focusing the merchants on the practicalities of delivering on excellence to the customer. The studio supports our business philosophy of driving innovation and our commitment to support investment in innovation. The studio has extensive international trend forecasting tools available, which we use in conjunction with our library of international catalogues to develop and enhance our range and offering.

Our buyers regularly travel internationally to trade shows and fairs sourcing product and monitoring international retailers. This is complemented by an extensive product testing strategy where we selectively market products in advance in order to accurately predict demand. We use electronic media as our primary testing vehicle which offers us a low-cost, accurate testing vehicle.

We have a reputation in the market-place for offering a superior quality product. The quality assurance department works closely with suppliers and buyers throughout the product life cycle to ensure that quality standards are met. All our products meet and exceed international benchmarks for quality. Quality-related merchandise returns continue to reduce on a year-on-year basis.

We are in the process of modifying our merchandising information technology systems, which will lead to further improvements in efficiency. The extensive upgrade of our planning systems is based on international best practice in multi-channel retailing and we expect significant improvements in forecasting and stock management as a result, as well as reductions in lead times and supply chain efficiencies.

Inventory management

Stock turn has improved, in addition our year-end current stock ratio has also improved significantly to 95% from 73% in 2009. This was achieved with an improved focus on clearance across all channels – in particular we saw major increases in efficiency in clearing stock through our website. December closing stock levels have increased substantially on 2009 as planned in anticipation of our first quarter 2011 sales projections. In 2009 we closed substantially below our target.

Warehouse and distribution

Inventory is currently housed in our 16 000 m^2 warehouse in Blackheath where it is picked, packed and distributed to customers in South Africa and neighbouring countries, within controlled timelines.

We not only utilise the resources of the South African Post Office but also offer our own home delivery service in most urban areas in South Africa. By doing so we are able to provide our customers with a secure, convenient and cost-effective method of receiving their orders.

The home delivery service is comprised of local, independent, owner drivers. We are thus able to channel income into the community. Refer to our sustainability report for further details.

Prospects

We will continue to innovate and broaden our range in 2011. Due to the significant increase in global cotton and polyester prices towards the end of 2010 we expect a deterioration in margin in our bedding area. Commodity price increases have also effected input costs, but we plan to manage all these cost pressures and achieve our target gross profit margin of 50% in 2011.

Cathy MacKenzie
Retail merchandise director

18 March 2011
Cape Town

corporate governance report

The group is committed to best corporate governance practice and risk management to safeguard the interests of all stakeholders.

The King Code of Corporate Practices and Conduct

The recommendations of the King II Report were applicable to companies listed on the JSE Limited. Although not bound by King II, the group endorses the principles incorporated in the Code of Corporate Practices and Conduct outlined in the report.

King III, which became effective in South Africa on 1 March 2010, is applicable to the group from January 2011. During 2010 the audit and risk committee initiated a project to evaluate the requirements of the Code, identify areas of partial or non-compliance and these will be addressed during 2011. The audit and risk committee charter was also updated during the year to take into account specific King III requirements.

The Code 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.

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.

The board comprises three executive directors and four independent 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 25 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.

Director appointments are made by the board in a formal and transparent manner. Newly appointed directors participate in an induction programme which includes introductions to key management, and receive documentation such as the board charter, minutes and schedules from recent meetings and the group's annual reports. 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.

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. All directors have unrestricted access to the company secretary and all company records and are entitled to independent professional advice, at company expense, should the circumstances warrant it. 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 of the group.

Board charter

A documented, formal board charter outlines the composition, scope of authority and responsibilities of the board. An abbreviated version of the board charter is 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.

The main board of directors has delegated specific responsibilities to board committees to assist the board in meeting its oversight responsibilities.

The committees 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 retail chief operating officer, the operating finance director, group finance manager and external auditors. The external auditors have unlimited access to the chairman of the committee.

The committee meets at least four times per year. Committee members have unlimited access to all information, documents and explanations required in the discharge of their duties. The external auditors are invited to all meetings and at least annually meet with the committee without senior management being present.

The audit and risk committee is governed by a formal charter, setting out its responsibilities. The role of the committee is, inter alia:

- to review the appropriateness and adequacy of the systems of internal financial and operational control;
- to ensure that written representations on internal control are submitted to the board annually by operational directors, providing assurance on the adequacy and effectiveness of the group's systems of internal control and compliance with laws and procedures;
- to review accounting policies and financial information issued to shareholders;
- to provide effective communication between directors, management and external auditors;
- to identify and continuously evaluate exposure to significant risks;
- to monitor and supervise the effective functioning and performance of internal audit;
- to confirm the nomination and appointment of the external auditors each year and approve the terms of engagement and fees paid; and
- to fulfil the function of audit committee to group subsidiaries.

Remuneration committee

The committee, which is chaired by an independent non-executive director, comprises two non-executive directors, and is also attended by invitees including the executive chairman, retail chief executive officer and retail chief operating officer, 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 meets at least four times per year.

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**	**5**	**6**
Rick Garratt (Chairman)	Executive	3	2#	4#	5
Shirley Maltz	Executive	4		1#	6
Annalize Kirsten	Executive	4	4#	5#	6
John Bester[1]	Independent	4	4	5	6
Amanda Chorn	Independent	3			
Pierre Joubert	Independent	3	3		
Willem Jungschläger[2]	Independent	4	4	5	6

[1] Lead independent director and chairman of the audit and risk committee.

[2] Chairman of the remuneration committee.

\# By invitation.

Conflicts of interest

All board members are required to disclose their shareholdings in HomeChoice, other directorships and any potential conflicts of interest.

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

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 non-executive directors are independent.

During the course of the most recent board appraisal it was identified that greater focus should be placed on succession planning throughout the business. It was also resolved that a risk committee would be formed at the operating company level to enhance the management of risk within the business.

Operating board of directors

The operating board is responsible for management of all aspects of the operations of the trading companies within the group. Information on the composition of the operating board appear on pages 16 to 17. The operating board reports regularly to the board and members are requested to present at board meetings throughout the year.

The operating board is responsible for implementing the risk management plan. To assist in this process, the operating board established a risk sub-committee in 2010.

The sub-committee's 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 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

The group 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. 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.

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 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 assisting management by making recommendations for improvement. As the department is limited in its capacity, the directors also utilise the services of professional audit firms to assist in evaluating internal control and business risks as and when required.

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 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 considered to be as follows:

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	2/2	– Significant investment in IT development – 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 completed during 2010 and access to a spare dialler from a local supplier
2. Data security, including security of the list	2/2	– Sub-committee was formed to consider risks and mitigation strategy, currently defining 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 – Group is strengthening contractual terms and conditions with suppliers who require access to list information – External review of the data security protocols planned for 2011

Risk	Status / impact	Risk mitigation strategy
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 will enable operations to continue in the event of a power failure – Fire protection systems installed – 24-hour security and camera surveillance – Insurance cover in place, including loss of profits – The business has committed itself to improving its Business Continuity plan
4. Risk of loss of key executives and staff	2/2	– Competitive remuneration and incentive schemes – Succession management plans being developed where possible for key employees – Business process and system documentation is being enhanced – A project to develop formal training programmes for specialised positions has also been initiated
5. Management of our supply chain, including exposure to country risk and dependency on key suppliers and the South African Post Office	2/2	– Alternate 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. Ability to anticipate consumer trends	3/3	– Development and retention of talented merchandise team who keeps abreast of global trends – Trend input from in-house innovation studio, trend forecasting services, international trade fairs and international and local retail research – Planning to implement advanced retail forecasting systems to ensure purchasing volumes are correct – Processes being implemented throughout the product life cycle to manage and mitigate the risk – Effective clearance 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: 8.1 Consumer Protection Act 8.2 Protection of Personal Information Act 8.3 Companies Act	2/3	– Compliance with laws and regulations addressed in risk management process – Establishment of project teams to investigate new legislation – Use of legal advisers and consultants – Legislation reviewed regularly and discussed with external consultants

Risk	Status / impact	Risk mitigation strategy
9. Retention of the HomeChoice customer base	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 superior 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 – A project has been launched to focus on and improve the customers' experience

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

audit and risk committe report

The members of the audit and risk committee for the period under review were as follows:

John Bester (Chairman)
Willem Jungschläger
Pierre Joubert

The audit and risk committee is comprised solely of non-executive directors who are independent according to the King III definition. Two of the members, John Bester and Pierre Joubert, are chartered accountants.

The committee met four times during the period under review and the chairman of the committee reports to the board after each committee meeting.

The board of directors has approved written terms of reference, as contained in the audit committee charter, for the audit and risk committee. The committee is appointed to assist the board in discharging its duties relating to:

- the nomination of auditors for appointment as external auditors;
- the determination of the fees and terms of engagement of the external auditors;
- the appointment of the auditors and ensuring that it complies with the Companies Act of South Africa and any other legislation;
- the determination of the nature and extent of any non-audit services that the auditors may provide to the group;
- the approval of any contract with the auditors for the provision of non-audit services to the group;
- preparation of accurate financial reporting and statements in compliance with all applicable legal requirements and accounting standards;
- the operation of adequate systems, control processes and safeguarding of assets;
- compliance with legal and regulatory provisions; and
- further functions as may be prescribed.

The main duties and activities of the committee during the period under review can be summarised as follows:

External audit

The committee nominated for appointment the external auditor, reviewed the audit plan, the terms of engagement and the audit fee budget. It is satisfied that both the external auditor and the engagement partner are independent of the group and management.

The committee reviewed the external auditor's opinion on the financial statements and has considered any reports on risk exposure and weaknesses in internal controls.

The committee preapproves any proposed contract with the auditors for provision of non-audit services.

Results and 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 policy and disclosure. The committee makes recommendations to the board for the adoption of the financial statements.

Risks and internal controls

The committee reviews activities and findings of the internal audit function. The committee reviewed reports on certain internal controls prepared by the internal audit department and independent consultants.

The committee reviewed reports from the external auditor and independent consultants 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 approved the internal audit plan.

The committee was not made aware of any material breach of internal controls during the year.

Compliance with laws and regulations

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

Having considered, analysed, reviewed and debated information provided by management, internal audit and external audit, the committee confirmed 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;
- resources have been utilised efficiently; and
- the skills, independence, audit plan, reporting and overall performance of the external auditors are acceptable and it recommends their reappointment in 2011.

Other responsibilities

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 considered the expertise, resources and experience of the finance function and concluded that they are appropriate.

JA Bester
Chairman of the audit and risk committee

18 March 2011
Cape Town

The committee consists of two independent non-executive directors:

Willem Jungschläger (Chairman)
John Bester

The committee met five times during the period under review and the chairman of the committee reports to the board after each committee meeting.

Remuneration governance

The remuneration committee has been delegated certain powers and responsibilities through a documented charter which include the following:

- approving the group's remuneration philosophy, components of remuneration and incentive measurement and criteria;
- reviewing and recommending to the board of directors for approval, the remuneration of executive directors; and
- reviewing and recommending to the board of directors for approval, the remuneration of non-executive directors based upon recommendations of the executive directors.

Remuneration philosophy

The group recognises that employees are critical in meeting business objectives and ensuring the ultimate success of the group. Our remuneration philosophy is premised upon the objectives of:

- ensuring that the group attracts, develops and retains exceptional talent;
- fostering a performance-driven culture; and
- structuring remuneration to be aligned with the short and long-term objectives of the group.

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. Apart from retirement benefits, the fund 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; and
- collateral surety on a housing loan.

Membership of a medical scheme is encouraged, but is not compulsory.

Employees are entitled to a discount on the purchase of group retail merchandise.

Incentive payments

An annual bonus is payable to all employees that are not on monthly incentives, subject to their personal performance and the group achieving 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 performance against key performance actions.

Sales and collections employees are incentivised on a monthly basis against individual, team and company targets.

The HomeChoice Share Trust

The group established a share incentive scheme during 2008 in terms of which senior employees have been provided loans by the 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 loans become immediately payable and incur penalty interest upon the resignation of an employee within four years of the acquisition date. The employees' shares are also pledged to and held by the trustees of the trust. Refer to note 6 in the group annual financial statements for further details on loans issued during the year.

The group established a share option scheme during 2010 in terms of which identified, senior employees who were not participants in the group's share incentive scheme described above, have been provided options to acquire shares in the group. Refer to note 16 in the group annual financial statements for further details on options issued during the year.

Executive directors' remuneration

Executive directors are employed under terms and conditions applicable to all group employees and receive salaries, benefits and performance bonuses. 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 are determined annually by the executive directors and benchmarked against JSE-listed entities of similar size and complexity. A per meeting fee has not been adopted as non-executive director performance is evaluated through an annual peer review process.

Non-executive directors do not receive incentive payments.

Summary of emoluments paid to directors:

	R000 2010	R000 2009
Non-executive directors		
Fees	**886**	440
Other benefits	**135**	–
Executive directors		
Guaranteed package	**8 094**	6 753
Cash incentives	**2 948**	–

Summary of shareholding in HomeChoice Holdings Limited arising from participation in the group's share schemes:

	Shares owned		Options held	
	2010	2009	**2010**	2009
Non-executive directors	**500 000**	–	**–**	–
Operational directors	**3 250 000**	3 500 000	**250 000**	–
	3 750 000	3 500 000	**250 000**	–

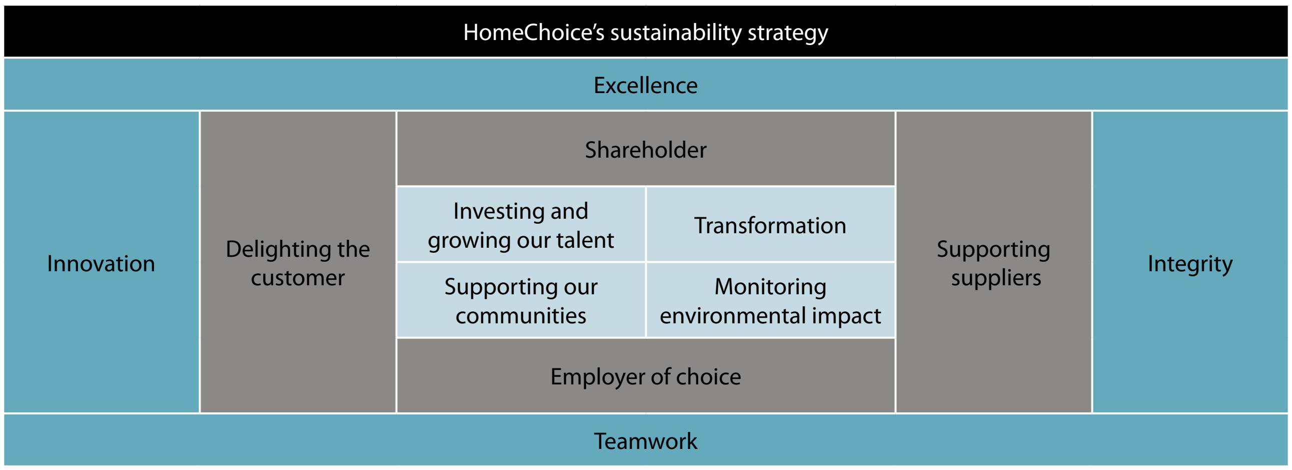
W Jungschläger
Chairman of the remuneration committee

18 March 2011
Cape Town

HomeChoice is committed to engaging and promoting relations with all stakeholders. Management recognises the need to promote sustainable development by managing economic, environmental and social impacts of the business operations.

Sustainability is currently focused mainly on employees and social investment. The scope is being broadened and the group plans to report on sustainability strategy and progress in driving financial, supplier and shareholder sustainability in future years.

A sustainability model has recently been developed which covers relationships with the group's key stakeholders, notably shareholders, employees, customers and suppliers. All interactions with stakeholders are conducted within the company values of excellence, team work, innovation, integrity and "delighting the customer".



Customer satisfaction

We set performance standards targeted to customer satisfaction and monitor customer feedback through a variety of means. We have also recently initiated a project to review all customer-related processes in an effort to improve the customer experience.

Employer of choice

Our vision is that employees need to be empowered, respected, challenged and recognised for their contribution. An employer of choice model has been implemented to support management's objective of continuously improving the employer brand, developing talent, recognising performance and making HomeChoice a desired place to work.

Employee recognition and reward mechanisms include the annual Chairman's Award, Innovation Award, regular recognition awards, attractive commission schemes and an annual bonus scheme which motivates staff to constantly outperform. All awards are aligned to the company values, drive performance and recognise contribution to the success of the business.

Employee engagement

To improve staff engagement levels, the company regularly commissions independent surveys to measure staff satisfaction and to assist in identifying areas to promote employee engagement. An annual pulse survey is conducted to gauge the company climate. A dedicated task team designs cultural interventions and change initiatives where appropriate.

This team's primary focus is to review staff survey results, ensure issues are addressed and that continued improvement is evident and measured. An employee-elected staff forum meets monthly to review staff-related queries and provide feedback on any concerns.

Workforce profile

The total workforce at year-end was 579, an increase of 6% over 2009. Contract employees represent less than 1% of the workforce. The profile continues to diversify, with black employees accounting for 84% of the total employees. Black representation at a senior management level remains a challenge and the group is developing internal talent through leadership and skills programmes.

We were a Top Female Empowered Company in Retail (Top Company 2010) finalist in 2010. 74% of our workforce is female and this trend is evident at all levels within the company.

Employer of choice model					
Reward fairly	Recognise	Manage fairly	Grow	Care	Lead
All salaries annually benchmarked	Robust commission schemes	Annual staff satisfaction survey	Talent management framework	Ergonomically designed workplace	Leadership model
Cost-to-company reward strategy	Biannual performance reviews	Topic surveys	Junior management development programme (accredited)	Green building	Leadership programme
Flexible benefits to structure own package	Annual salary reviews	HomeChoice Task Team	General management development programme (accredited)	Break-out activities and areas	Entrenched values: – Customer delight – Excellence – Integrity – Teamwork – Innovation – Value awards
Provident contributions range from 12% to 18%	Incentive schemes to drive performance with on-the-spot prizes	Management updates	Refresher training	Internet café	
Voluntry medical aid membership and choice of plans	Annual performance awards	Skip level meeting	Performance development plans	Wellness centre	Golden Rules
HomeChoice Club	Meal vouchers	Best practice applied	Annual training needs analysis	On-site nursing sister	Measured through 360^{0} feedback
Group life benefits for all staff allowing x4 annual salary in event of death	Industry awards submissions	Staff forum	Career mapping	Subsidised canteen	
Permanent disability benefits	Long-term incentives	Employment equity and skills development committees	Succession planning	Annual wellness day	
Maternity benefits	"Superstars" programme	Regular communications	Secondee opportunities	Substance abuse and HIV/AIDS awareness campaigns	
Birthday vouchers	Achievement awards		"Free to grow" programme	HomeChoice Development Trust	
				Maternity benefits	

Staff attrition

The attrition rate for the group for 2010 was 16%, with 76% of the workforce that was lost coming from the contact centres, in line with industry norms. The objective is to improve this staff turnover by embedding the employer of choice model and reviewing staff satisfaction levels, analysing exit interviews and promoting employee engagement through revised talent development initiatives.

HIV/AIDS awareness

An HIV awareness programme forms part of the employee well-being programme to provide access to confidential counselling and voluntary testing, and promote an understanding of the nature of the disease. The HIV/AIDS policy aims to protect employees living with AIDS, create awareness, encourage behavioural changes and ensure employees are treated with dignity, fairness and equality.

Employee wellness

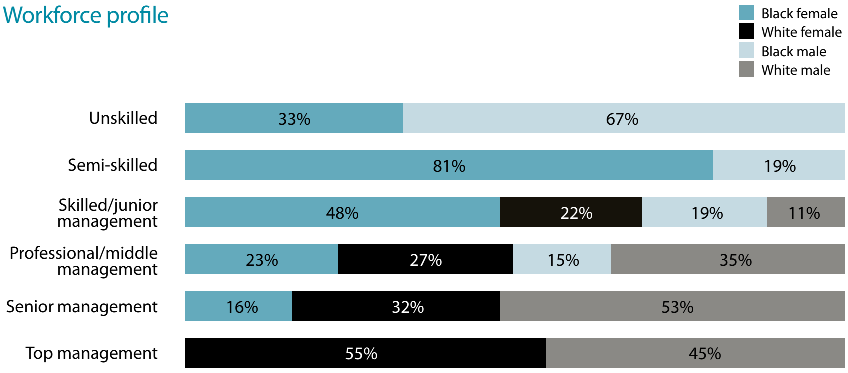
An employee wellness programme addresses both the physical and emotional well-being of employees. A wellness centre has been established at the head office and a nurse practitioner is hosted weekly. Wellness days are organised in conjunction with benefit providers to promote a healthy lifestyle among employees.

HomeChoice Plus offers all employees funeral support, personal counselling, assault, trauma and HIV cover, and support for a range of issues such as stress, financial, legal, substance abuse and health care issues.

Employee benefits

Employees have a choice of medical funds. Membership of a defined contribution provident fund is compulsory, and benefits include group life and permanent disability insurance, while employees may take out loans of up to 50% of their retirement benefits for housing purposes.

Workforce profile



Investing and growing our talent

As an accredited training provider with the Wholesale and Retail SETA and affiliated with the South African Board of People Practice, the group develops and offers a range of learning and development interventions aligned to the National Qualifications Framework. Employees therefore have the benefit of gaining credits towards a national qualification by attending in-house management development programmes. Regular training needs analysis is undertaken in conjunction with biannual performance reviews which measure individual key performance areas, ensuring continual development remains a focus within the business.

Projects supported by the trust include:

- the Empilweni community centre in Khayelitsha which is the only centre in the area that provides support to children, adolescents and families by offering community-based mental health support and counselling;
- Masincedane community centre which provides basic education and support programmes for the Helderberg community;
- funding for six schools in underprivileged areas, with plans to adopt a further five schools in the 2011 financial year;
- merchandise totalling over R400 000 was donated to charities in the past year. Total merchandise donations since 2006 exceed R1,5 million;

	2010
Training programmes	170
Total employees trained	510
Percentage black learners	80%

Supporting our communities

The HomeChoice Development Trust, which focuses on the upliftment of women and children, has invested over R5,5 million in communities since it was established in May 2005.

- a braille machine was donated to Athlone School for the Blind and over R500 000 was invested in art created by emerging young artists in the Western Cape; and
- supporting the Race Ahead initiative which trains black sailors, including funding to youths to participate in Cowes Week in England.

Transformation

The group supports black economic empowerment and recognises the need to create sustainable transformation by increasing black participation at all levels in the economy. In addition to the employee and social investment issues discussed above, HomeChoice's BBBEE strategy focuses on increasing procurement spend to BBBEE-compliant suppliers.

An enterprise development programme is aimed at supporting independent suppliers and enabling them to grow their businesses through the door-to-door delivery of merchandise to customers. These entrepreneurs receive regular training in service excellence and financial support to assist with vehicle maintenance. Several of these independent suppliers have been given personal computers and tracking systems to assist them to grow and manage their businesses, and to assist HomeChoice in delighting customers.

Individuals from local communities are recruited and trained as direct sales agents. These agents are supported in establishing their own network of clients to whom they can sell products.

Impact on the environment

HomeChoice's progress in limiting its environmental impact and reducing its carbon footprint was recognised in the Business Process enabling SA (BPeSA) awards where the group was a finalist in the "green" category.

Activities aimed at reducing the group's environmental impact include:

- encouraging staff to adopt a green culture and educating employees and customers about the importance of conserving natural resources;
- the building management system at the head office is aimed at conserving energy by controlling and monitoring mechanical and electrical equipment such as air-conditioning, lighting, power and security systems;
- the air-conditioning system has an automatic load shedding facility to limit energy usage;
- lighting clusters are controlled by movement sensors, with energy-efficient fluorescent lamps;
- tinted windows minimise heat absorption, LCD computer screens conserve power and all hot water is controlled by timer switches; and
- staff are encouraged to make use of car pools or to cycle to work and make use of the on-site shower facilities.

During 2011 the group will be evaluating its impact on the environment and reporting on the results in the 2011 annual report.

Sustainability objectives for 2011

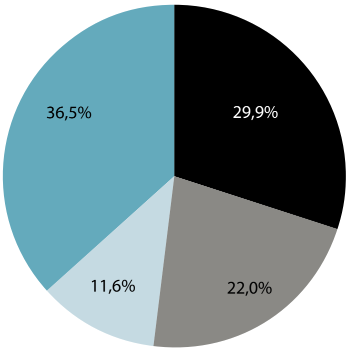
Future initiative include:

- enhancing commitment to transformation and improve the BBBEE rating, with a specific focus on enterprise development;
- implementing a formal talent management framework to ensure appropriate succession planning and adequate focus on specialist development;
- reducing staff attrition by promoting the business as an employer of choice;
- promoting employee involvement in corporate social investment initiatives; and
- reviewing the sustainability strategy to integrate financial, social and environmental goals and to provide a basis for measuring progress in meeting these goals.

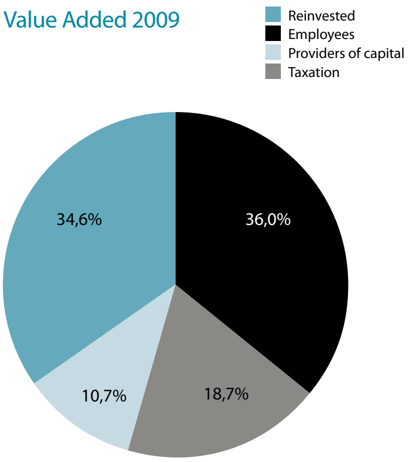
value added statement

	Note(s)	2010 R000	%	2009 R000	%
Revenue		869 442		651 152	
Interest received		3 530		4 484	
Other net gains and losses		(16 281)		1 065	
Paid to suppliers for goods and services		(446 443)		(385 041)	
Value added		410 248	100,0	271 660	100,0
Applied as follows:					
Employees					
Remuneration to employees		122 507	29,9	97 882	36,0
Taxation and duties	2				
SA normal tax		63 808		31 520	
Customs duty		26 504	22,0	19 173	18,7
Providers of capital					
To lenders as finance charges		6 865		9 031	
To shareholders as dividends and share premium reduction		40 546	11,6	20 152	10,7
Reinvested					
Reinvested in the group to finance future expansion and growth	1	150 018	36,5	93 902	34,6
Total		410 248	100,0	271 660	100,0
Notes to the value added statement					
1. Reinvested in the group to finance future expansion and growth					
Depreciation and amortisation		9 459	6,3	9 147	9,7
Deferred taxation		8 769	5,9	4 993	5,3
Retained income		131 790	87,8	79 762	85,0
		150 018	100,0	93 902	100,0
2. Taxation and duties					
Taxation as above		90 312		50 693	
Net value added tax		25 397		9 839	
Employees' taxation		20 816		14 425	
Channelled through the group		136 525		74 957	

Value Added 2010



Value Added 2009



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 structure, CEOs' reports
1.2	Key impacts, risks and opportunities	Risk report, sustainability report
Organisational profile		
2.1 to 2.10	Organisational profile	Group structure, 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	Provided for financial performance. Not assessed for other areas of sustainability performance
Governance, commitments and engagement		
4.1 to 4.10	Governance	Corporate governance report
4.11 to 4.13	Commitments to external initiatives	Not reported
4.14 to 4.17	Stakeholder engagement	Partially reported in sustainability report
Economic performance indicators		
EC1	Economic value	Value added statement
EC2	Financial implications due to climate change	Not assessed
EC3	Defined benefit plan obligations	Group annual financial statements
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	Partially reported in sustainability report. Group's operations are located in South Africa, negligible hiring of non-South Africans
EC8 – 9	Indirect economic impacts	Value added statement
Environmental performance indicators		
EN1 – 30	Environment	A broad outline of the group's environmental approach is provided in the sustainability report. During 2011 the group will undertake an evaluation of its impact on the environment

global reporting initiative index (continued)

GRI G3 reference		Description
Social performance indicators		
Labour practices		
LA1	Total workforce by employment type, contract and region	Workforce demographics provided in sustainability report
LA2	Rate of employee turnover by age, gender and region	Rate of employee turnover provided in sustainability report
LA3 – 5	Labour relations	Sustainability report
LA6 – 9	Occupational health and safety	Sustainability report
LA10	Average hours of training per employee	The group reports on number of training interventions in the sustainability report
LA11	Programmes for skills management and lifelong learning	Sustainability report
LA12	Percentage of employees receiving regular performance and career development reviews	All employees have performance reviews
LA13 – 14	Diversity and equal opportunity	Sustainability report
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	Not assessed. Partially discussed in sustainability report and value added statement
SO2 – 4	Ethics and corruption	Corporate governance report. There have been no reported incidents of corruption
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. 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	Sustainability report
PR6 – 7	Adherence to laws and codes related to marketing communications	No incidents of non-compliance reported. Group is member of the Direct Marketing Association
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 financials

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 1973, 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 2011 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 58.

The financial statements set out on pages 60 to 118 which have been prepared on the going concern basis, were approved by the directors on 18 March 2011 and were signed on their behalf by:

RE Garratt
Chairman

A Kirsten
CFO

18 March 2011

company secretary's certificate

Pursuant to section 268G(d) of the Companies Act (61 of 1973, as amended), I confirm that to the best of my knowledge and belief all returns required in terms of the said Act have been duly lodged with the Registrar of Companies and all such returns are true, correct and up to date.

BJ Bastard
Company secretary

18 March 2011
Cape Town

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

We have audited the group 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 2010, 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 notes, and the directors' report, as set out on pages 59 to 118.

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 in the manner required by 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 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 2010, 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 in the manner required by the Companies Act of South Africa.

PricewaterhouseCoopers Inc

Pricewaterhouse Coopers Inc.
Director: MC Hamman
Registered Auditor

Cape Town
18 March 2011

report of the directors

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 60 to 118, and commentary thereon is provided in the report of the chief financial officer.

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 14 to the group annual financial statements.

Distributions to shareholders

No dividends were declared or paid during the year (2009: R13,503 million or 13 (thirteen) cents per ordinary share). The company's share premium was reduced by an aggregate amount of R41,548 million (2009: R7,271 million) which was utilised to repay members an amount of 40 (forty) cents (2009: 7 (seven) 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 111 of this report. The interest of the company in the aggregate profits after taxation of the subsidiary companies is R237,251 million (2009: R103,490 million).

Share incentive and option scheme

As part of an employee share incentive scheme, 2,060 million (2009: 1,150 million) shares in HomeChoice Holdings Limited were sold to certain directors and senior management at market value for an aggregate amount of R10,856 million (2009: R4,255 million) and financed by the provision of a loan from the HomeChoice Share Trust as reflected in note 6 to the group annual financial statements.

250 000 share options were granted to senior management as reflected in note 16 to the group annual financial statements.

Directors

The names of the company's directors appear on pages 14 to 15 of this report.

HvdM Scholtz resigned from the board on 1 February 2010.

The following directors retire by rotation in terms of the articles of association but, being eligible, offer themselves for re-election as directors:

RE Garratt (Executive)
A Kirsten (Executive)
P Joubert (Non-executive)

Their profiles appear on pages 14 to 15 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 section 270A of the Companies Act No. 61 of 1973. Further detail are contained within the audit and risk committee report on page 44 of this report.

Company secretary

The company secretary is BJ Bastard. His business and postal address appear on the inside back cover of this report.

Special resolutions

On 7 May 2010 the shareholders passed a special resolution to reduce the share premium of the company by R20,774 million and repay members an amount equal to 20 (twenty) cents per ordinary share in the capital of the company.

On 15 October 2010 the shareholders passed a special resolution to reduce the share premium of the company by R20,774 million and repay members an amount equal to 20 (twenty) 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.

group statement of financial position

at 31 December 2010

	Note(s)	2010 R000	2009 R000
Assets			
Non-current assets			
Property, plant and equipment	4	**119 865**	168 710
Intangible assets	5	**8 901**	7 152
Loans to employees	6	**13 177**	8 848
Investment in associate	7	**–**	–
Deferred tax	8	**8 948**	4 963
		150 891	189 673
Current assets			
Non-current assets held for sale	9	**–**	963
Available-for-sale investments	10	**41 445**	45 192
Inventories	11	**69 846**	37 786
Receiver of Revenue		**1 075**	915
Trade and other receivables		**543 739**	380 051
Trade receivables	12	**325 390**	256 819
Loans receivable	12	**206 873**	119 563
Other receivables	12	**11 476**	3 669
Cash and cash equivalents	13	**45 630**	55 891
		701 735	520 798
Total assets		**852 626**	710 471
Equity and liabilities			
Equity attributable to equity holders of the parent			
Share capital	14	**1 039**	1 039
Share premium	14	**97 456**	139 004
Treasury shares	15	**(8 938)**	(6 205)
Other reserves	17	**4 113**	4 942
Distributable reserve		**575 546**	388 245
		669 216	527 025
Non-controlling interest		**–**	(4 498)
Total equity		**669 216**	522 527
Non-current liabilities			
Interest-bearing liabilities	18	**51 340**	85 293
Deferred tax	8	**35 201**	25 084
Other payables	19	**3 420**	3 390
		89 961	113 767
Current liabilities			
Current portion of interest-bearing liabilities	18	**6 279**	7 458
Receiver of Revenue		**1 936**	2 443
Trade and other payables	20	**61 228**	45 892
Provisions	21	**17 400**	11 200
Loan from non-controlling interest holder	22	**–**	7 184
Bank overdraft	13	**6 606**	–
		93 449	74 177
Total liabilities		**183 410**	187 944
Total equity and liabilities		**852 626**	710 471

group statement of comprehensive income

for the year ended 31 December 2010

	Note(s)	2010 R000	2009 R000
Revenue	23	**869 442**	651 152
Retail sales		**493 008**	363 555
Cost of sales		**(226 080)**	(182 089)
Gross profit		**266 928**	181 466
Finance charges earned		**215 221**	174 054
Fees from ancillary services		**158 153**	108 859
Other net gains and losses	24	**(16 281)**	1 065
Trading expenses	25	**(377 386)**	(328 631)
Trading profit		**246 635**	136 813
Dividends received		**3 060**	4 684
Operating profit		**249 695**	141 497
Interest received		**3 530**	4 484
Interest paid		**(6 865)**	(9 031)
Equity loss on associate		**(1 449)**	(523)
Profit before taxation		**244 911**	136 427
Taxation	26	**(72 577)**	(36 513)
Profit for the year		**172 334**	99 914
Other comprehensive income:			
Gains arising on available-for-sale assets		**2 099**	1 849
Gains on property, plant and equipment revaluation		**–**	5 405
Realised gain on available-for-sale financial assets		**(455)**	–
Taxation related to components of other comprehensive income		**258**	(2 637)
Other comprehensive income for the year net of taxation		**1 902**	4 617
Total comprehensive income		**174 236**	104 531
Profit attributable to:			
Owners of the parent		**177 806**	102 501
Non-controlling interest		**(5 472)**	(2 587)
		172 334	99 914
Total comprehensive income attributable to:			
Owners of the parent		**179 708**	107 118
Non-controlling interest		**(5 472)**	(2 587)
		174 236	104 531

group statement of changes in equity

for the year ended 31 December 2010

	Share capital R000	Share premium R000	Treasury shares R000	Other reserves R000	Distribut-able reserve R000	Equity attributable to owners of the parent R000	Non-controlling interest R000	Total equity R000
Balance at 1 January 2009	1 039	146 275	(7 223)	325	296 918	437 334	–	437 334
Changes in equity								
Total comprehensive income for the year	–	–	–	4 617	102 501	107 118	(2 587)	104 531
Purchases of treasury shares by share trust	–	–	(1 160)	–	–	(1 160)	–	(1 160)
Sale of treasury shares by share trust	–	–	1 960	–	2 294	4 254	–	4 254
Tax on shares sold by the share trust	–	–	–	–	(369)	(369)	–	(369)
Reduction of share premium	–	(7 271)	218	–	–	(7 053)	–	(7 053)
Dividends paid	–	–	–	–	(13 099)	(13 099)	–	(13 099)
Non-controlling interest arising from business combinations	–	–	–	–	–	–	(1 911)	(1 911)
Total changes	–	(7 271)	1 018	4 617	91 327	89 691	(4 498)	85 193
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
Tax on shares sold by the 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 31 December 2010	1 039	97 456	(8 938)	4 113	575 546	669 216	–	669 216

group statement of cash flows

for the year ended 31 December 2010

	Note(s)	2010 R000	2009 R000
Cash flows from operating activities			
Operating cash flows before working capital changes	28	277 349	145 882
Movements in working capital (excluding the effects of acquisition and disposal of subsidiaries)	28	(175 421)	(76 549)
Cash generated from operations	28	101 928	69 333
Interest income		3 530	4 484
Interest paid		(6 865)	(9 031)
Dividends received		3 060	4 684
Dividends paid		–	(13 099)
Taxation paid	29	(65 497)	(31 930)
Net cash inflow from operating activities		36 156	24 441
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(5 642)	(12 531)
Proceeds on disposal of property, plant and equipment		1 232	690
Purchase of intangible assets	5	(3 920)	(5 988)
Proceeds from sale of available-for-sale investments		5 845	–
Acquisition of subsidiary, net of cash acquired		–	(1 846)
Loans repaid by employees		328	2 157
Investment in associate		(2 812)	–
Disposal of subsidiary	30	(146)	–
Net cash outflow from investing activities		(5 115)	(17 518)
Cash flows from financing activities			
Reduction of share premium		(40 546)	(7 053)
Purchases of treasury shares		(904)	(120)
Loan from non-controlling interest holder		452	2 230
Proceeds from interest-bearing liabilities		–	72 367
Repayments of interest-bearing liabilities		(6 910)	(12 081)
Net cash (outflow)/inflow from financing activities		(47 908)	55 343
Net (decrease)/increase in cash and cash equivalents and bank overdrafts		(16 867)	62 266
Cash, cash equivalents and bank overdrafts at the beginning of the year		55 891	(6 375)
Cash, cash equivalents and bank overdrafts at the end of the year	13	39 024	55 891

group segmental analysis
for the year ended 31 December 2010

	Retail			Financial services		
	2010 R000	mvt	2009 R000	**2010 R000**	mvt	2009 R000
Segmental revenue	**733 841**		572 557	**121 454**		72 847
– Retail sales	**484 562**		363 555	**–**		–
– Finance charges earned	**134 495**		127 463	**79 583**		46 590
– Fees from ancillary services	**114 784**		81 539	**41 871**		26 257
– Dividends received	**–**		–	**–**		–
Intersegment						
Revenue from external customers	**733 841**	28%	572 557	**121 454**	67%	72 847
Segmental operating profit/(loss)	**187 610**		100 974	**57 186**		27 337
Intersegment	**13 751**		13 312	**4 651**		3 961
Operating profit/(loss) from external parties	**201 361**	76%	114 286	**61 837**	98%	31 298
Interest received	**1 450**		3 102	**131**		272
Intersegment	**–**		(2 234)	**–**		–
Interest received from external parties	**1 450**	67%	868	**131**	(52%)	272
Interest paid	**(363)**		(393)	**(17 755)**		(12 016)
Intersegment	**–**		–	**17 755**		12 016
Interest paid to external parties	**(363)**	(8%)	(393)	**–**		–
Profit/(loss) before taxation	**188 696**		103 683	**39 561**		15 592
Tax (expense)/credit	**(55 265)**		(28 200)	**(11 285)**		(4 220)
Profit/(loss) for the period	**133 431**	77%	75 483	**28 276**	149%	11 372
Segment assets excluding group loans	**439 347**		329 652	**206 944**		129 323
Segment liabilities excluding group loans	**88 958**		64 391	**5 451**		3 110
Group loans receivable/(payable)	**117 779**		59 213	**(179 602)**		(123 046)
Operating cash flows before working capital changes	**207 248**		106 778	**58 360**		28 230
Movements in working capital	**(80 704)**		(11 682)	**(85 366)**		(60 977)
Cash generated/(utilised) by operations	**126 544**		95 096	**(27 006)**		(32 747)
Depreciation and amortisation	**6 173**		5 649	**1 139**		777
Additions to property, plant and equipment	**5 262**		4 283	**380**		549
Additions to intangible assets	**3 892**		4 068	**28**		1 920
Non-current assets held for sale	**–**		–	**–**		–

Property			Other			Eliminations			Total		
2010 R000	mvt	2009 R000	**2010 R000**	mvt	2009 R000	**2010 R000**	mvt	2009 R000	**2010 R000**	mvt	2009 R000
17 329		17 273	**14 197**		20 084	**–**		–	**886 821**		682 761
–		–	**8 446**		–	**–**		–	**493 008**		363 555
–		–	**1 143**		–	**–**		–	**215 221**		174 053
17 329		17 273	**1 548**		(1 492)	**–**		–	**175 532**		123 577
–		–	**3 060**		21 576	**–**		–	**3 060**		21 576
(17 273)		(17 273)	**(106)**		(14 336)				**(17 379)**		(31 609)
56		–	**14 091**	145%	5 748	**–**		–	**869 442**	34%	651 152
9 761		14 922	**(4 862)**		(1 736)	**–**		–	**249 695**		141 497
(17 273)		(17 273)	**(1 129)**		–	**–**		–	**–**		–
(7 512)	(220%)	(2 351)	**(5 991)**	(245%)	(1 736)	**–**	–	–	**249 695**	76%	141 497
1		2	**19 703**		15 358	**–**		–	**21 285**		18 734
–		–	**(17 755)**		(12 016)	**–**		–	**(17 755)**		(14 250)
1	(50%)	2	**1 948**	(42%)	3 342	**–**		–	**3 530**	(21%)	4 484
(5 359)		(6 273)	**(1 143)**		(4 599)	**–**		–	**(24 620)**		(23 281)
–		–	**–**		2 234	**–**		–	**17 755**		14 250
(5 359)	(15%)	(6 273)	**(1 143)**	(52%)	(2 365)	**–**		–	**(6 865)**	(24%)	(9 031)
4 403		8 651	**15 330**		13 428	**(3 079)**		(4 927)	**244 911**		136 427
(2 528)		(1 115)	**(4 521)**		(3 346)	**1 022**		368	**(72 577)**		(36 513)
1 875	(75%)	7 536	**10 809**	7%	10 082	**(2 057)**	55%	(4 559)	**172 334**	72%	99 914
107 312		108 816	**92 583**		139 432	**(2 508)**		(1 715)	**843 678**		705 508
55 961		60 040	**347**		37 034	**(2 508)**		(1 715)	**148 209**		162 860
(42 210)		(44 037)	**104 033**		107 870	**–**		–	**–**		–
17 137		16 057	**2 257**		(2 965)	**(7 653)**		(2 218)	**277 349**		145 882
(962)		(3 384)	**(7 484)**		–	**(905)**		(506)	**(175 421)**		(76 549)
16 175		12 673	**(5 227)**		(2 965)	**(8 558)**		(2 724)	**101 928**		69 333
1 181		1 135	**966**		1 586	**–**		–	**9 459**		9 147
–		7 699	**–**		49 337	**–**		–	**5 642**		61 868
–		–	**–**		–	**–**		–	**3 920**		5 988
–		963	**–**		–	**–**		–	**–**		963

group segmental analysis (continued)

for the year ended 31 December 2010

A reconciliation of operating profit is provided as follows:

	2010 R000	2009 R000
Operating profit for reportable segments	255 686	143 233
Operating loss for all other segments	(5 991)	(1 736)
Total segments	249 695	141 497
Reportable segment's assets are reconciled to total assets as follows:		
Segment assets for reportable segments	753 603	567 791
Other segment assets	92 583	139 432
Intersegment eliminations	(2 508)	(1 715)
Total segments	843 678	705 508
Deferred tax	8 948	4 963
Total assets per the statement of financial position	852 626	710 471
Reportable segment's liabilities are reconciled to total liabilities as follows:		
Segment liabilities for reportable segments	150 370	127 541
Other segment liabilities for reportable segments	347	37 034
Intersegment eliminations	(2 508)	(1 715)
Total segments	148 209	162 860
Deferred tax	35 201	25 084
Total liabilities per the statement of financial position	183 410	187 944

accounting policies

for the year ended 31 December 2010

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 intra-group 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%
Aircraft	20,0%

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:

Development costs	10,0% – 33,3%
Software	14,3% – 33,3%
Mailing lists and trademarks	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 or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;

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- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit 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.

Non-current assets held for sale

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use.

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 off-set 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 impairments, 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.

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 remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

Derivatives are categorised as held for trading at fair value through profit 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 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 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, any fees, points paid or received, transaction costs and other premiums or discounts included in the calculation of the effective interest rate have been 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.

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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.

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 page 74.

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 and interest received, 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 and interest received

Finance charges earned includes finance charges and delinquent interest earned on trade and other receivable balances. Interest received is earned on surplus cash balances.

Finance charges and 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.

Dividend received

Dividend received on equity instruments is 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. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Costs directly related to the provision of services recognised as revenue in the current period is 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

Group companies operate one retirement provident fund scheme. The scheme is funded through payments to insurance companies, determined by periodic actuarial calculations. The scheme is a defined contribution plan. 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.

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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 off-set 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 to utilise such STC credits.

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, with significant business interests in property and transportation. The group's reportable segments have been identified as follows:

Retail: HomeChoice is the catalogue retail company of the group providing 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 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 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.

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.

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

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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 used the Black-Scholes valuation model to determine the value of the options at issue date.

Stock obsolescence provision

Stock items are reviewed on a line-by-line basis 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 and adopted 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:

- Annual improvements to IFRS (2008)
- Annual improvements to IFRS (2009)
- IFRS 1 (Amended): First-time Adoption on International Financial Reporting Standards
- IFRS 2 (Amended): Share-based payment – Group Cash-settled Share-based Payment Transactions
- IFRS 3 (Revised): Business Combinations
- IAS 27 (Revised): Consolidated and Separate Financial Statements
- IAS 39 (Amended): Financial Instruments: Recognition and measurement – Eligible Hedged Items
- IFRIC 17: Distributions of Non-cash Assets to Owners
- IFRIC 18: Transfers of Assets from Customers
- AC 504: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction in the South African Pension Fund Environment

The principal effects of these changes are as follows:

Annual Improvements to IFRS (2008)

During 2008 the International Accounting Standards Board (IASB) and IFRIC approved the following amendment to IFRS 5 which became effective this year.

IFRS 5 – Plan to sell controlling interest in a subsidiary

Clarification that assets and liabilities of a subsidiary should be classified as held for sale if the parent is committed to a plan involving loss of control of the subsidiary, regardless of whether the entity will retain a non-controlling interest after the sale. Disclosures for discontinued operations would be required by the group when the subsidiary meets the definition of a disposal group.

The application of this has had no material impact on the group's financial statements.

Annual Improvements to IFRS (2009)

During the prior year the IASB and IFRIC approved various minor amendments to existing IFRS. In the main these amendments sought to provide guidance or clarification on principles that had already been appropriately applied within the group. The application of these amendments have therefore not had a material impact on the financial performance or position of this group, but have impacted on certain disclosures in the financial statements.

The standards that have been impacted by the 2009 Annual Improvements Project are listed below:

IFRS 2 – Scope of IFRS 2 and revised IFRS 3

The scope of IFRS 2 is to be amended to clarify that the contributions of a business on formation of a joint venture and common control transactions are not within the scope of IFRS 2 even though they are scoped out of the revised IFRS 3 (issued in 2008).

IFRS 5 – Disclosures of non-current assets (or disposal groups) classified as held for sale or discontinued operations

Clarifies that disclosures in other standards do not apply to assets (or disposal groups) classified as held for sale or discontinued operations unless specifically required by another standard or the disclosures relate to the measurement of assets or liabilities within a disposal group that are outside the scope of IFRS 5's measurement requirements and the information is not disclosed elsewhere in the financial statements.

IFRS 8 – Disclosure of information about segment assets

Clarifies that disclosure of segment assets is only required if such amounts are regularly provided to the chief operating decision-maker.

IAS 1 – Current/non-current classification of convertible instruments

Clarifies that the ability of the holder of convertible debt to force conversion does not automatically make the convertible debt current

IAS 7 – Classification of expenditure on unrecognised assets

Clarifies that only expenditures that result in the recognition of an asset can be classified as cash flows from investing activities.

IAS 17 – Classification of leases of land and buildings

A lease that includes both land and buildings can be separated into two elements and each classified as appropriate. This means that where land was previously classified as an operating lease it can now be classified as a finance lease.

IAS 18 – Determining whether an entity is acting as a principal or as an agent

The appendix of IAS 18 is to be amended to include guidance on distinguishing between an agent and principal arrangement.

IAS 36 – Unit of accounting for goodwill impairment test

Clarifies that each unit or group of units to which goodwill is to be allocated for the purposes of impairment testing, shall not be larger than an operating segment per IFRS 8 before any aggregation.

IAS 38 – Measuring the fair value of intangible assets acquired in a business combination

The amendment provides a description of valuation techniques commonly used to measure the fair value of intangible assets where there is no active market (i.e. relief from royalty approach or cost approach). IAS 38 was further amended to reflect that if an intangible asset acquired in a business combination is separable or arises from contractual or other legal rights, sufficient information exists to measure the fair value of the asset reliably.

IAS 39 – Scope of exemption for business combination contracts, cash flow hedge accounting, treating loan prepayment penalties as closely related embedded derivatives

Scope exemption for business combination contracts was narrowed. Contracts between an acquirer and a vendor in a business combination to buy and sell an acquiree at a future date is to be amended to clarify that it applies only to binding forward contracts. Common examples include mutual buy-out options (put/call arrangements) within joint venture agreements.

The effective portion of gains and losses on cash flow hedging instrument should be recycled to profit or loss, as a reclassification adjustment, when the expected forecasted cash flows affect the statement of comprehensive income.

An embedded prepayment option in a host debt instrument should not be separately recognised as an embedded derivative where repayment penalties are designed to reimburse a lender for lost interest over the remaining term of the host contract.

IFRIC 9 – Scope of IFRIC 9 and IFRS 3R

Clarifies that IFRIC 9 does not apply to business combinations, control transactions or formation of joint ventures.

IFRIC 16 – Amendment to the restriction on the entity that can hold hedging instruments

The amendment removes the restriction that a hedging instrument cannot be held by the foreign operation whose net investment is being hedged.

IFRS 1 (Amended): First-time Adoption of International Financial Reporting Standards

This amendment exempts first-time adopters from retrospective application of IFRS for oil and gas assets and provides guidance for determining whether an arrangement contains a lease.

IFRS 1 (Amended): First-time Adoption of International Financial Reporting Standards

This amendment exempts first-time adopters of IFRS from providing the additional disclosures introduced in March 2009 relating to improved IFRS 7 disclosures.

IFRS 2 (Amended): Share-based Payment

This amendment clarifies how an individual subsidiary in a group should account for certain cash-settled share-based payment arrangements in its own financial statements.

IFRS 3 (Revised): Business Combinations

This revised standard requires amendments to the scope of the standard, as well as changes to the treatment of certain transactions within a business combination. The scope changes to include mutual entities and combinations without consideration and excludes entities under common control.

Changes to the treatment of transactions included the treatment of costs of issuing debt or equity instruments, contingent consideration changes, goodwill and non-controlling interests, partial disposals and accounting for pre-existing relationships.

IAS 27 (Revised): Consolidated and Separate Financial Statements – Amendments arising from IFRS 3

This revised standard arises from revisions made to IFRS 3: Business Combinations, in which the treatment of certain transactions within a business combination has changed.

IAS 39 (Amended): Financial Instruments: Recognition and Measurement – Eligible Hedged Items

This amendment clarified the treatment of inflation in a financial hedged item and clarifies the value that should be assigned to a one-sided risk in a hedged item. The application of this amendment has had no impact on the group's financial statements.

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IFRIC 17: Distributions of Non-cash Assets to Owners

This interpretation clarified the recognition, measurement and disclosure requirements when an entity distributes non-cash assets to its owners. The application of this interpretation has had no impact on the group's financial statements.

IFRIC 18: Transfer of Assets from Customers

This interpretation applies to the accounting for transfers of items of property, plant and equipment by the entity that receives items of property, plant and equipment from its customers and must use the property, plant and equipment to either connect its customers to a network or to provide the customer with the ongoing access to a supply of goods or services or both. The application of this interpretation has had no impact on the group's financial statements.

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

This interpretation, issued by the South African Accounting Practices Committee, provides guidance on the application of IFRIC 14 in South Africa in relation to defined benefit pension obligations. This interpretation became effective for periods beginning on or after 1 April 2009, but currently does not apply to the activities of the group.

Standards and interpretatitons 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.

Annual Improvements to IFRS (2010)

During the prior year the IFRS Committee approved various minor amendments to existing IFRS. The application of these amendments will not have a material impact on the financial performance or position of this group, but may impact on certain disclosures in the financial statements.

These amendments become effective for annual periods beginning on or after 1 July 2010 or 1 January 2011.

The standards that have been impacted by the 2010 Annual Improvements Project are listed below:

IFRS 1: First-time Adoption of International Financial Reporting Standards

A first-time adopter that changes its accounting policies or its use of IFRS 1 exemptions after publishing a set of IAS 34 interim financial information should explain those changes and include the effects of such changes in its opening reconciliations within the first annual IFRS reporting.

The exemption to use a "deemed cost" arising from a revaluation triggered by an event such as a privatisation that occurred at or before the date of transition to IFRS is extended to revaluations that occur during the period covered by the first IFRS financial statements.

Entities subject to rate regulation are allowed to use previous GAAP carrying amounts of property, plant and equipment or intangible assets as deemed cost on an item-by-item basis. Entities that use this exemption are required to test each item for impairment under IAS 36 at the date of transition.

IFRS 3: Business Combinations

Contingent consideration arrangements arising from business combinations with acquisition dates preceding the application of IFRS 3R are to be accounted for in accordance with the guidance in the previous version of IFRS 3.

The choice of measuring non-controlling interest (NCI) at fair value or at the proportionate share of the acquiree's net assets applies only to instruments that represent present ownership interests and entitle their holders to a proportionate share of the net assets in the event of liquidation. All other components of NCI are measured at fair value unless another measurement basis is required by IFRS.

The application guidance in IFRS 3 applies to all share-based payment transactions that are part of a business combination, including unreplaced and voluntarily replaced share-based payment awards.

IFRS 7: Financial Instruments: Disclosures

The amendments include multiple clarifications related to the disclosure of financial instruments.

IAS 1: Presentation of Financial Statements

Entities may present either in the statement of changes in equity or within the notes an analysis of the components of other comprehensive income by item.

IAS 27: Consolidated and Separate Financial Statements

The consequential amendments to IAS 21, IAS 28 and IAS 31 resulting from the 2008 revisions to IAS 27 are to be applied prospectively.

IAS 34: Interim Financial Reporting

Greater emphasis has been placed on the disclosure principles in IAS 34 involving significant events and transactions, including changes to fair value measurements, and the need to update relevant information from the most recent annual report.

IFRIC 13: Customer Loyalty Programmes

The meaning of the term "fair value" is clarified in the context of measuring award credits under customer loyalty programmes.

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 reduces complexity. The standard is intended to ultimately replace IAS 39 and becomes effective for annual periods beginning on or after 1 January 2013.

IAS 24 (Amended): Related Party Disclosures

This amendment provides a partial exemption from disclosure requirements for government-related entities and simplifies the definition of a related party. This amended standard becomes effective for annual periods beginning on or after 1 January 2011, but will not have a material impact for this group.

Standards and interpretations not yet effective or relevant

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 1 (Amended): First-time Adoption of International Financial Reporting Standards (IFRS) – IFRS 7 fair value hierarchy exemption

The amendment relieves first-time adopters of IFRS from providing the additional disclosures introduced in March 2009 by Improving Disclosures about Financial Instruments (Amendments to IFRS 7). It thereby ensures that first-time adopters benefit from the same transitional provisions that Amendments to IFRS 7 provides to current IFRS preparers. This amendment becomes effective for periods beginning on or after 1 July 2010, but currently does not apply to the activities of this 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. This amended standard becomes effective for annual periods beginning on or after 1 January 2011, and will have an impact on the disclosures of financial instruments for the group.

IAS 12 (Amended): Income Taxes

This 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, but currently does not apply to the activities of this group.

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. This amendment becomes effective for periods beginning on or after 1 February 2010, but will not have a material impact for this group.

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. This new interpretation becomes effective for periods beginning on or after 1 July 2011, but will not have a material impact for this group.

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. This amendment becomes effective for periods beginning on or after 1 January 2011, but currently does not apply to the activities of this group.

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. This amendment becomes effective for periods beginning on or after 1 January 2011, but currently does not apply to the activities of this group.

group notes to the annual financial statements

for the year ended 31 December 2010

3. Risk management and financial instrument disclosure

3.1 Capital risk management

The group's objectives when managing capital are to:

– safeguard the group's ability to continue as a going concern in order to maximise returns for shareholders and benefits for other stakeholders; and
– maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the group consists of debt, which includes the borrowings disclosed in note 18, cash and cash equivalents disclosed in note 13, and equity attributable to equity holders, comprising issued share capital, share premium, other reserves and distributable reserves less treasury shares, as disclosed in the statement of changes in equity.

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 40 cents (2009: 7 cents) 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 board of HomeChoice Holdings Limited is responsible for the financial risk management of the group and is assisted by the directors of the subsidiary companies.

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.

	Note(s)	Loans and receivables R000	Available-for-sale investments R000	Non-financial assets R000	Total R000

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:

	Note(s)	Loans and receivables R000	Available-for-sale investments R000	Non-financial assets R000	Total R000
Assets					
2010					
Non-current assets	6	**13 177**	**–**	**–**	**13 177**
Loans to employees					
Current assets					
Available-for-sale investments	10	**–**	**41 445**	**–**	**41 445**
Trade receivables	12	**325 390**	**–**	**–**	**325 390**
Loans receivable	12	**206 873**	**–**	**–**	**206 873**
Other receivables	12	**8 964**	**–**	**2 512**	**11 476**
Money market investments	13	**20 559**	**–**	**–**	**20 559**
Cash at bank	13	**25 071**	**–**	**–**	**25 071**
Total		**600 034**	**41 445**	**2 512**	**643 991**
Guarantees		**–**			
Maximum exposure to credit risk		**600 034**			
2009					
Non-current assets					
Loans to employees	6	8 848	–	–	8 848
Current assets					
Available-for-sale investments	10	–	45 192	–	45 192
Trade receivables	12	256 819	–	–	256 819
Loans receivable	12	119 563	–	–	119 563
Other receivables	12	2 530	–	1 139	3 669
Money market investments	13	36 386	–	–	36 386
Cash and cash equivalents	13	19 505	–	–	19 505
Total		443 651	45 192	1 139	489 982
Guarantees		–			
Maximum exposure to credit risk		443 651			

group notes to the annual financial statements (continued)

for the year ended 31 December 2010

3. Risk management and financial instrument disclosure (continued)

3.2 Financial risk management (continued)

	Note(s)	Amortised cost R000	Non-financial liabilities R000	Total R000
Liabilities				
2010				
Non-current liabilities				
Borrowings from bank	18	**50 558**	**–**	**50 558**
Suspensive sale agreements	18	**782**		**782**
Non-current other payables	19	**3 420**	**–**	**3 420**
Current liabilities				
Trade payables	20	**49 354**	**–**	**49 354**
Other payables	20	**10 158**	**1 716**	**11 874**
Borrowings from bank	18	**4 518**	**–**	**4 518**
Suspensive sale agreements	18	**1 761**	**–**	**1 761**
Bank overdraft	13	**6 606**	**–**	**6 606**
Total		**127 157**	**1 716**	**128 873**
2009				
Non-current liabilities				
Borrowings from bank	18	55 208		55 208
Suspensive sale agreements	18	30 085		30 085
Non-current other payables	19	3 390	–	3 390
Current liabilities				
Trade payables	20	35 402	–	35 402
Other payables	20	10 186	304	10 490
Borrowings from bank	18	3 844	–	3 844
Suspensive sale agreements	18	3 614	–	3 614
Total		141 729	304	142 033

3. Risk management and financial instrument disclosure (continued)

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.

3.3.1 Trade and loans receivable

Trade and loans receivable 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 a regular basis. Methods used to grant credit to customers comply with the requirements of the National Credit Act.

Trade and loan receivables have repayment terms of 6 to 24 months and attract interest based on rates determined by the National Credit Act.

A provision for impairment is raised when there is objective evidence that the business will not be able to collect all amounts due according to the original terms of the receivable. A default or delinquency in payment is regarded as objective evidence that a receivable might be impaired. Accordingly a percentage of all trade and loans receivable is provided for and at 31 December all trade and loans receivable past due had been impaired.

The group manages the ageing of HomeChoice trade receivables on a contractual basis. Write-off of accounts are subject to a 90-day recency.

The ageing of trade receivables at 31 December was:

	2010	2009
Current or past due less than 30 days	**77,0%**	75,6%
Past due 31 – 60 days	**10,1%**	10,0%
Past due 61 – 90 days	**4,7%**	5,0%
Past due more than 91 days	**8,2%**	9,4%
	100,0%	100,0%

The group manages the ageing of FinChoice loans receivable on a recency basis.

The ageing of loan receivables at 31 December was:

	2010	2009
Current	**87,1%**	88,6%
Past due 1 – 30 days	**9,4%**	5,1%
Past due 31 – 60 days	**1,5%**	2,2%
Past due more than 61 days	**2,0%**	4,1%
	100,0%	100,0%

3.3.2 Cash and cash equivalents

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

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 page 83 details the group's expected maturity for its financial liabilities. The amounts are based on the undiscounted contractual maturities of the financial liabilities.

group notes to the annual financial statements (continued)

for the year ended 31 December 2010

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
2010							
Non-interest-bearing liabilities							
– Non-current other payables	–	–	–	–	–	770	2 650
– Trade and other payables	–	18 105	37 519	2 594	1 299	–	–
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	–	–	–	–	–
		24 711	38 428	4 411	9 476	19 560	61 548
2009							
Non-interest-bearing liabilities							
– Non-current other payables	–	–	–	–	–	1 440	1 950
– Trade and other payables	–	17 386	26 221	1 577	770	–	–
Interest-bearing liabilities							
– Borrowings from the bank	10,50	–	795	1 591	7 157	38 172	59 865
– Suspensive sale agreements	10,50	–	187	1 432	4 737	32 923	–
		17 386	27 203	4 600	12 664	72 535	61 815

The group has the following undrawn borrowing facilities available:

	2010 R000	2009 R000
General banking facilities at date of this report	65 000	53 000
Guarantees	6 700	4 700
Suspensive sale arrangements at date of this report	8 000	8 000
	79 700	65 700
Borrowings, guarantees and letters of credit	(37 637)	(39 784)
Unutilised borrowing facility	42 063	25 916

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 loans receivable, loans and borrowings, cash and cash equivalents, available-for-sale investments and derivative financial instruments.

3.5.1 Equity price risk management

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

3. Risk management and financial instrument disclosure (continued)

3.5 Market risk management (continued)

3.5.1 Equity price risk management (continued)

At the reporting date, the exposure to listed equity securities at fair value was R41,445 million (2009: R45,192 million). An increase of 10% on the value of these investments would have an impact of R4,145 million (2009: R3,886 million) on other comprehensive income of the group. A decrease of 10% on the value would have an impact of R3,493 million (2009: R1,590 million) on other comprehensive income and R0,652 million (2009: R2,296 million) on profit or loss.

3.5.2 Foreign currency risk management

The group undertakes certain transactions in foreign currencies, hence exposure to exchange rate fluctuations arise. When deemed appropriate by the directors the group enters into forward exchange contracts to cover foreign purchases in order to assist in managing its foreign currency exposure.

The group enters into contracts to purchase inventory from Asia and enters into forward foreign exchange contracts to economically hedge the exchange rate risk arising from these transactions, when deemed appropriate.

There were no outstanding foreign exchange contracts at 31 December 2009.

At 31 December 2010 the following forward foreign exchange contracts were outstanding.

	Maturity date	Contract exchange rate	Foreign currency US$000	Contract value R000	Fair value R000
Commitment to buy US Dollars (US$):					
– CGP0922052	31 Jan 2011	7,17	1 000	7 173	6 688
– CGP0922053	14 Feb 2011	7,19	500	3 595	3 351
– CGP0922054	28 Feb 2011	7,20	500	3 602	3 359
– CGP0922055	14 Mar 2011	7,22	500	3 610	3 366
– CGP0922056	28 Mar 2011	7,24	500	3 618	3 372
				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 group's exposure at 31 December. The company regards a 15% change in exchange rates as being reasonably possible at 31 December 2010 (2009: 15%).

The sensitivity of the group's profit after tax due to a reasonably possible change in exchange rates, with all other variables held constant, through the impact on foreign purchases is as follows:

	Movement in basis points	Effect on profit after tax R000
2010		
	+15%	**(1 062)**
	-15%	**1 062**
2009		
	+15%	(768)
	-15%	768

The group had uncovered foreign liabilities at 31 December 2010 amounting to US$1,954 million (2009: US$4,505 million).

Included in cash and cash equivalents is a US$-denominated overdraft of US$0,977 million (2009: US$0,295 million) which has been translated at the prevailing exchange rate to R6,504 million (2009: R2,180 million).

group notes to the annual financial statements (continued)

for the year ended 31 December 2010

3. Risk management and financial instrument disclosure (continued)

3.5 Market risk management (continued)

Included in trade and other payables are US$-denominated payables of US$1,480 million (2009: US$0,961 million) which have been translated at the prevailing exchange rate to R9,857 million (2009: R7,114 million).

3.5.3 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% (2009: 1%) change in the Reserve Bank repo rate as being reasonably possible at 31 December 2010.

	Movement in basis points	Effect on profit after tax R000
2010		
Cash and cash equivalents	+100	133
	-100	(133)
Money market invesments	+100	148
	-100	(148)
Borrowings from the bank	+100	(397)
	-100	397
Suspensive sale agreement	+100	(18)
	-100	18
2009		
Cash and cash equivalents	+100	140
	-100	(140)
Money market investments	+100	262
	-100	(262)
Borrowings from the bank	+100	(425)
	-100	425
Suspensive sale agreement	+100	(243)
	-100	243

3.6 Fair value of financial instruments

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

– Level 1: Quoted prices in active markets for identical assets or liabilities.
– Level 2: Inputs other than quoted prices that are observable for the asset or liability.
– 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 page 85:

	Level 1 R000	Level 2 R000	Level 3 R000	Total balance R000
Assets				
2010				
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
Assets				
2009				
Equity investments	45 192	–	–	45 192
Total financial assets	45 192	–	–	45 192

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

– Forward exchange contracts: Forward exchange contracts 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: The fair values of availale-for-sale equity investments are determined with reference to the quoted market prices.

4. Property, plant and equipment

	2010			2009		
	Cost/ valuation R000	Accumulated depreciation R000	Carrying value R000	Cost/ valuation R000	Accumulated depreciation R000	Carrying value R000
Land and buildings	106 665	(2 281)	104 384	106 701	(1 135)	105 566
Motor vehicles	1 988	(1 200)	788	2 579	(1 211)	1 368
Computer equipment	12 837	(6 751)	6 086	11 253	(5 635)	5 618
Equipment, furniture, fittings and plant	15 156	(6 549)	8 607	13 143	(4 736)	8 407
Aircraft	–	–	–	49 337	(1 586)	47 751
Total	136 646	(16 781)	119 865	183 013	(14 303)	168 710

group notes to the annual financial statements (continued)

for the year ended 31 December 2010

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment – 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

Reconciliation of property, plant and equipment – 2009

	Opening balance R000	Additions R000	Additions through business combination R000	Disposals R000	Transfers R000	Depreciation R000	Total R000
Land and buildings	99 965	7 699	–	–	(963)	(1 135)	105 566
Motor vehicles	2 521	–	–	(835)	–	(318)	1 368
Computer equipment	8 160	2 598	–	(31)	(1 955)	(3 154)	5 618
Equipment, furniture, fittings and plant	8 431	2 234	–	(95)	–	(2 163)	8 407
Aircraft	–	–	49 337	–	–	(1 586)	47 751
	119 077	12 531	49 337	(961)	(2 918)	(8 356)	168 710

The net book value of property, plant and equipment subject to suspensive sale agreements (see note 18) as at 31 December 2010 was R4,178 million (2009: R53,437 million), and includes certain motor vehicles, computer equipment, office equipment and the aircraft in 2009.

Land and buildings include a book value of R104,384 million (2009: R105,566 million) currently encumbered as shown in note 18.

Included in disposals are equipment, furniture and fittings and plant with a cost of R0,377 million (2009: R1,089 million) and accumulated depreciation of R0,375 million (2009: R0,994 million) and computer equipment with a cost of R1,665 million (2009: R1,888 million) and accumulated depreciation of R1,617 million (2009: R1,844 million), which had no further economic value and have been removed from the register.

The group's aircraft was impaired prior to disposal. The aircraft is reported under other in the segmental analysis. Refer to notes 24 and 30 for further details.

Land and buildings comprise:

- 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); and
- 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).

Refer to note 9 for the disclosure of property, plant and equipment held for sale at the end of 31 December 2009.

Land and buildings are recorded at cost. At 31 December 2010, had the land and buildings been carried at fair value, their carrying amount would have been approximately R140,710 million (2009: R140,710 million).

The directors believe that there has been no change in fair value from the prior year.

		2010 R000	2009 R000
5.	**Intangible assets**		
	Computer software		
	Opening balance	10 506	–
	Transferred from property, plant and equipment	–	4 518
	Additions	3 920	5 988
	Balance at 31 December	14 426	10 506
	Accumulated amortisation		
	Opening balance	3 354	–
	Accumulated amortisation transferred from property, plant and equipment	–	2 563
	Amortisation for the year	2 171	791
	Balance at 31 December	5 525	3 354
	Book value at 31 December	8 901	7 152
6.	**Loans to employees**		
	Loans to employees	13 177	8 848

As part of the Employee Share Incentive Scheme, loans have been provided to certain employees and directors within the HomeChoice group to enable them to acquire shares in HomeChoice Holdings Limited at market value.

These full recourse 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 HomeChoice Share Trust.

The amortised cost adjustment is based on an effective interest rate of 8% (2009: 11%).

	2010 R000	2009 R000
Movement in carrying value of the loans were as follows:		
Opening balance	8 848	6 790
Loans issued during the year	10 883	4 266
Loans repaid	(6 550)	(2 501)
Amortised cost adjustment	(1 171)	(790)
Notional interest recognised during the year	1 167	1 083
Closing balance	13 177	8 848

Refer to note 32 for details of loans provided to directors and key management personnel.

group notes to the annual financial statements (continued)

for the year ended 31 December 2010

	2010 R000	2009 R000
7. Investment in associate		
Carrying amount of the investment	–	–

The group was a founder partner in an en-commandite partnership formed for the transportation of passengers by air for fare. The group held a 49,5% interest in the partnership and accounted for its interest as an associate.

During 2009, the group acquired a further 25,75% interest in the partnership, resulting in the group obtaining control and the partnership was consolidated as a subsidiary.

During June 2010, the group disposed of 25,75% of its interest in the partnership and subsequently accounts for its interest as an associate. Refer to notes 24 and 30 for details of this disposal.

A further 24,50% interest in the partnership was disposed of during November 2010, and the group holds a 25% interest as at 31 December 2010. An impairment in the group's investment in associate of R0,335 million was recognised on revaluing the partnership's property, plant and equipment at the prevailing Rand/Dollar exchange rate of R6,88.

	2010 R000	2009 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	2 812	–
Equity loss in associate	(1 114)	–
Impairment	(335)	–
Closing balance	–	–
Share of associate's revenue and profit and loss		
Revenue	374	216
Loss	(1 488)	(739)
Impairment of investment in associate	(335)	–
Share of associate's assets and liabilities:		
Non-current assets	9 378	–
Current assets	96	–
Non-current liabilities	–	–
Current liabilities	(3 671)	–
	5 803	–

During 2010 the group revalued the non-current assets, resulting in the carrying value of the investment in associate being RNil.

	2010 R000	2009 R000
8. Deferred tax		
The analysis of deferred tax assets and deferred tax liabilities is as follows:		
Deferred tax assets	8 948	4 963
Deferred tax liabilities	(35 201)	(25 084)
Deferred tax liabilities (net)	(26 253)	(20 121)
The gross movements on the deferred income tax account is as follows:		
At 1 January	(20 121)	(12 491)
Acquisition of subsidiaries	–	(2 378)
Disposal of subsidiaries	2 378	–
Profit or loss (charge)/credit	(8 769)	(4 993)
Tax change relating to components of other comprehensive income	259	(259)
At 31 December	(26 253)	(20 121)

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 2009	3 826	–	39 131	–	42 957
Charged to profit or loss	862	–	13 402	–	14 264
Charged to other comprehensive income	–	–	–	259	259
Acquisition of subsidiary	–	2 378	–	–	2 378
At 31 December 2009	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

	Debtors' provisions R000	Assessed loss R000	Secondary tax on companies' credit R000	Other R000	Total R000
Deferred tax assets					
At 1 January 2009	(26 351)	(1 797)	(925)	(1 393)	(30 466)
(Credited)/charged to profit or loss	(6 947)	49	584	(2 957)	(9 271)
At 31 December 2009	(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)

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.

group notes to the annual financial statements (continued)

for the year ended 31 December 2010

	2010 R000	2009 R000

9. Non-current assets held for sale

	2010 R000	2009 R000
Land and buildings held for sale	–	963

A signed offer to purchase land and buildings, being erf 58080 Cape Town at Claremont situated in the City of Cape Town, in extent of 159 square metres (acquired in 2006) was accepted on 25 November 2009. The transaction was concluded during 2010.

Reconciliation of profit made on sale of non-current assets held for sale:

	2010 R000	2009 R000
Proceeds	965	–
Carrying value	(963)	–
Profit on sale	2	–

10. Available-for-sale investments

	2010 R000	2009 R000
Listed preference shares at market value	41 445	45 192
	Quantity	Quantity
Listed preference shares		
FirstRand Limited	126 400	126 400
Investec Bank Limited	117 000	117 000
Nedcor Limited	544 450	1 088 900
Standard Bank Limited	117 300	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	45 192	43 343
Revaluation	2 099	1 849
Disposals	(5 846)	–
Closing balance	41 445	45 192

544 450 Nedcor Limited shares were sold in 2010 for proceeds of R5,845 million, resulting in a gain of R0,455 million.

There were no restrictions on the investments at 31 December 2010.

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.

11. Inventories

	2010 R000	2009 R000
Merchandise for resale	43 710	26 163
Provision for inventory obsolescence	(4 180)	(4 384)
Goods in transit	30 316	16 007
	69 846	37 786

Inventory sold at less than cost during the current year was R5,289 million (2009: R2,438 million). There was no reversal of any provisions for write-down of inventory in the year (2009: RNil).

	2010 R000	2009 R000
12. Trade and other receivables		
Trade receivables	397 452	316 622
Provision for impairment on trade receivables	(72 062)	(59 803)
	325 390	256 819
Loans receivable	232 054	134 686
Provision for impairment on loans receivable	(25 181)	(15 123)
	206 873	119 563
Other receivables	12 686	3 669
Provision for impairment on other receivables	(1 210)	–
	11 476	3 669
Total trade and other receivables	543 739	380 051

A percentage of all trade and loans receivable balances past due has been provided for and therefore at 31 December all trade and loans receivable past due had been impaired. Refer to significant accounting judgements, estimates and assumptions for further details regarding the calculation of impairment of debtors.

	2010 R000	2009 R000
Movements in the provision for impairment of trade receivables were as follows:		
Opening balance	(59 803)	(68 979)
Debts provided for during the year	(72 744)	(65 944)
Debts written off during the year, net of recoveries	60 485	75 120
Closing balance	(72 062)	(59 803)
Movements in the provision for impairment of loans receivable were as follows:		
Opening balance	(15 123)	(9 135)
Debts provided for during the year	(35 563)	(21 293)
Debts written off during the year, net of recoveries	25 505	15 305
Closing balance	(25 181)	(15 123)
Movements in the provision for impairment of other receivables were as follows:		
Opening balance	–	–
Debts provided for during the year	(1 374)	–
Debts written off during the year, net of recoveries	164	–
Closing balance	(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 loans receivable are amounts approximating R49,063 million (2009: R33,132 million) that contractually fall due in excess of one year.

group notes to the annual financial statements (continued)

for the year ended 31 December 2010

	2010 R000	2009 R000
13. Cash and cash equivalents		
Cash at bank	25 071	19 505
Money market investments	20 559	36 386
	45 630	55 891
Bank overdraft	(6 606)	–

The bank overdraft incurred interest at prime less 1,5% (2009: prime less 1,5%) on Rand-denominated balances and between 1,6% and 1,7% (2009: 1,6% and 2,2%) on US$-denominated balances.

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.

14. Share capital and premium

14.1 Share capital

	2010 R000	2009 R000
Authorised		
200 000 000 (2009: 200 000 000) ordinary shares of 1 cent each	2 000	2 000
Issued		
103 869 000 (2009: 103 869 000) ordinary shares of 1 cent each	1 039	1 039

	Number of shares	Number of shares
Reconciliation of movement in issued shares		
Number of issued shares	103 869	103 869
Treasury shares held by share trust	(2 670)	(3 390)
Adjusted issued shares at the end of the year	101 199	100 479
Shares held by share trust as a percentage of the issued shares at the end of the year	2,6%	3,3%

14.2 Share premium

	R000	R000
Balance at the beginning of the year	139 004	146 275
Share premium reduction	(41 548)	(7 271)
Balance at the end of the year	97 456	139 004

15. Treasury shares

	2010 R000	2009 R000
Balance at the beginning of the year	(6 205)	(7 223)
Share premium reduction	1 002	218
Purchased during the year	(7 102)	(1 160)
Sold during the year	3 367	1 960
Balance at the end of the year	(8 938)	(6 205)

	Quantity	Quantity
Balance at the beginning of the year	3 390	4 260
Purchased during the year	1 340	280
Sold during the year	(2 060)	(1 150)
Balance at the end of the year	2 670	3 390

16. Share-based payment

Share options were granted to two directors and one employee of a subsidiary of HomeChoice Holdings Limited. The exercise price of the options was equal to the market price of the shares on the date of the grant. Options are conditional on the participant being in service with the group on the vesting date, which is four years from the date of the grant. 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:

	2010		2009	
	Average exercise price per share (cents)	**Number of options**	Average exercise price per share (cents)	Number of options
At 1 January 2010	–	–	–	–
Granted	**584**	**250 000**	–	–
At 31 December 2010	**584**	**250 000**	–	–

No options were exercisable at 31 December 2010. Share options outstanding at the end of the year have the following vesting date and exercise prices:

		Number of options	
	Exercise price per share (cents)	**2010**	2009
29 November 2014	584	**250 000**	–

The fair value of options granted during the period, determined using a Black-Scholes valuation model, was 118 cents per option. The significant inputs into the model at grant date were a market value and exercise price of R5,84, an expected option life of four years, volatility of 35%, a dividend yield of 6,8%, a risk-free interest rate of 6,4% and employee attrition rate of 0%.

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 R0,006 million (2009: RNil) relating to equity-settled share-based payments were recognised during the year. Refer to note 17 for disclosures of share-based payment reserves.

group notes to the annual financial statements (continued)

for the year ended 31 December 2010

	Property, plant and equipment revaluation R000	Available-for-sale investments R000	Share-based payment reserve R000	Total R000
17. Other reserves				
Balance at 1 January 2009	–	325	–	325
Gains and losses on property, plant and equipment revaluation	5 404	–	–	5 404
Unrealised gain on available-for-sale investments	–	1 849	–	1 849
Taxation relating to components in other comprehensive income	(2 378)	(258)	–	(2 636)
Total changes	3 026	1 591	–	4 617
Balance at 1 January 2010	**3 026**	**1 916**	–	**4 942**
Gains and losses on property, plant and equipment revaluation	**(5 404)**	–	–	**(5 404)**
Realised gain on available-for-sale investments disposed of 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 31 December 2010	–	**3 818**	**295**	**4 113**

	2010 R000	2009 R000
18. Interest-bearing liabilities		
Long-term portion		
Suspensive sale agreements	**782**	30 085
FirstRand Bank Limited	**6 907**	7 509
RMB Private Bank	**43 651**	47 699
Total non-current interest-bearing liabilities	**51 340**	85 293
Short-term portion payable within one year		
Suspensive sale agreements	**1 761**	3 614
FirstRand Bank Limited	**582**	488
RMB Private Bank	**3 936**	3 356
Total current interest-bearing liabilities	**6 279**	7 458
Total interest-bearing liabilities	**57 619**	92 751

	2010 R000	2009 R000
18. Interest-bearing liabilities (continued)		
Movements in the suspensive sale agreements were as follows:		
Opening balance	33 699	697
Borrowings raised	–	4 927
Interest and administration fees	1 471	2 747
Payments made	(4 405)	(5 689)
Acquisition of subsidiary	–	31 017
Disposal of subsidiary	(28 222)	–
Closing balance	2 543	33 699
Movements in the FirstRand Bank Limited liability were as follows:		
Opening balance	7 997	–
Borrowings raised	–	8 000
Interest and administration fees	762	214
Payments made	(1 270)	(217)
Closing balance	7 489	7 997
Movements in the RMB Private Bank liability were as follows:		
Opening balance	51 055	–
Borrowings raised	–	51 870
Interest and administration fees	4 596	2 631
Payments made	(8 064)	(3 446)
Closing balance	47 587	51 055

The suspensive sale agreements are repayable in monthly instalments of R0,159 million (2009: R0,171 million) and quarterly instalments of RNil (2009: R1,095 million) including interest and capital. Interest rates are linked to the prime overdraft rate and varied between 10,5% and 9,5% (2009: 9% and 10,5%) 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 the farm Wimbledon 454, bears interest at prime and is repayable over 10 years.

The RMB Private Bank facility is secured by a general covering bond over the remaining extent of erf 66592 in Cape Town, bears interest at prime less 0,5% (2009: 0,5%) and is repayable over 10 years.

	2010 R000	2009 R000
19. Other payables		
Non-current trade and other payables		
Amounts owed to prize winners payable in excess of 12 months	3 420	3 390

group notes to the annual financial statements (continued)

for the year ended 31 December 2010

	2010 R000	2009 R000
20. Trade and other payables		
Trade payables	**49 354**	35 402
Annual leave pay accrual	**2 819**	2 466
Value-added taxation	**1 965**	268
Derivative financial instruments	**1 104**	–
Other accounts payable	**5 986**	7 756
	61 228	45 892

Refer to note 27 for disclosure on commitments regarding lease liabilities.

21. Provisions

	Opening balance R000	Utilised during the year R000	Raised R000	Total R000
Reconciliation of provisions – 2010				
Bonus provision	**11 200**	**(11 043)**	**17 243**	**17 400**
Reconciliation of provisions – 2009				
Bonus provision	**700**	**(600)**	**11 100**	**11 200**

The provision total comprises provisions for bonuses 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.

	2010 R000	2009 R000
22. Loan from non-controlling interest holder		
Non-controlling interest holder	–	7 184
The loan was unsecured, interest-free and repayable on demand. Refer to note 30 for details on the disposal of the subsidiary.		
23. Revenue		
Retail sales	**493 008**	363 555
Finance charges earned	**215 221**	174 054
Fees from ancillary services	**158 153**	108 859
Dividends received	**3 060**	4 684
	869 442	651 152

Refer to segment report for analysis of revenue per segment.

	2010 R000	2009 R000
24. Other net gains and losses		
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)	–
Foreign exchange gains	522	350
Realised gain on available-for-sale investments	455	–
Loss on disposal of property, plant and equipment	(144)	(271)
Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost	–	57
Interest on loans to employees	2 360	1 083
Other income/(losses)	689	(154)
	(16 281)	1 065
25. Expenses by nature		
Amortisation –intangible assets	2 171	791
Auditor's remuneration	1 237	972
– Current year	1 027	909
– Underprovision	141	–
– Other services	69	63
Consulting fees paid to non-employees	2 262	2 328
Debtor costs – total	109 681	87 237
– HomeChoice	72 744	65 944
– FinChoice	35 563	21 293
– Other	1 374	–
Depreciation – property, plant and equipment	7 288	8 356
Operating lease charges – immovable property	1 027	642
Marketing costs	78 642	83 452
Staff costs	122 507	97 882
Other trading expenses	52 571	46 971
Total trading expenses	377 386	328 631

group notes to the annual financial statements (continued)

for the year ended 31 December 2010

	2010 R000	2009 R000
26. Income tax		
Income statement		
SA normal tax – current year	(64 589)	(31 520)
– prior years	781	–
Deferred tax – current year	(7 565)	(4 993)
– prior years	(1 204)	–
	(72 577)	(36 513)
Reconciliation of tax rate	%	%
Standard tax rate	28,0	28,0
Lower tax rate – capital gains tax (CGT)	–	(0,4)
Disallowable expenditure	2,6	0,2
Exempt income	(0,9)	(1,4)
Secondary tax on companies (STC)	(0,2)	0,4
Prior year adjustments	0,1	–
Effective tax rate	29,6	26,8

If total distributable reserves of the group of R575,546 million (2009: R388,245 million) were to be declared as dividends, the secondary tax impact at a rate of 10% (2009: 10%) would be R52,322 million (2009: R35,295 million). These amounts should however be considered taking into account the proposal by the South African Government to replace STC with a dividend tax on shareholders.

27. Commitments

Leases are contracted for periods not exceeding five years and contain escalation clauses of 9% and renewal options. The lease expenditure charged to the statement of comprehensive income during the year is disclosed in note 25.

	2010 R000	2009 R000
At 31 December the future minimum operating lease commitments amounted to the following:		
Properties		
Payable within one year	6 614	1 253
Payable between two and five years	12 779	745
	19 393	1 998
Suspensive sale agreements		
Payable within one year	1 904	6 360
Payable between two and five years	793	32 140
	2 697	38 500
Future finance charges on suspensive sale agreements	(154)	(4 801)
	2 543	33 699
The present value of suspensive sale agreement payments is as follows:		
Payable within one year	1 761	3 614
Payable between two and five years	782	30 085
	2 543	33 699
Capital commitments		
Capital commitments for property, plant and equipment		
Approved by the directors	–	582
Approved by directors and contracted for	–	–
	–	582

group notes to the annual financial statements (continued)

for the year ended 31 December 2010

	2010 R000	2009 R000
28. Reconciliation of cash flows generated from operations		
Profit before taxation	244 911	136 427
Equity loss from associate	1 449	523
Loss on disposal of property, plant and equipment	144	271
Profit on sale of available-for-sale investments	(455)	–
Loans to employees – amortised cost adjustment	1 171	790
Notional interest on loans to employees	(1 167)	(1 083)
Depreciation and amortisation	9 459	9 147
Impairment of aircraft in en-commandite partnership	19 708	–
Disposal of group's interest in subsidiary	455	–
Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost	–	(57)
Share-based employee service expense	295	–
Derivative financial instruments	1 104	–
Interest paid	6 865	9 031
Interest received	(3 530)	(4 484)
Dividends received	(3 060)	(4 684)
Operating cash flows before working capital changes	277 349	145 881
Movements in working capital	(175 421)	(76 548)
(Increase)/decrease in inventories	(32 060)	7 883
Increase in trade receivables	(69 143)	(42 541)
Increase in loans receivable	(87 310)	(61 830)
(Increase)/decrease in other receivables	(7 806)	2 743
Increase in trade and other payables	14 698	6 697
Increase in provision	6 200	10 500
	101 928	69 333
29. Taxation paid		
Amounts owing at beginning of period	(1 528)	(1 569)
Amounts charged to profit or loss	(72 577)	(36 513)
SA normal tax	(63 808)	(31 520)
Defered tax	(8 769)	(4 993)
Taxation directly charged to equity	(1 022)	(369)
Deferred tax movement	8 769	4 993
Amounts owing at the end of the year	861	1 528
Net outflow	(65 497)	(31 930)

30. Disposal of controlling interest in subsidiary

In June 2010, the group disposed of its majority interest in its subsidiary involved in the transportation of passengers by air for fare. This transaction resulted in an impairment charge of R19,708 million, of which R4,878 million was attributable to the non-controlling interest holder, and a group loss on disposal of R0,455 million. The impairment is primarily a reversal of an R8,494 million revaluation gain recognised directly in equity, less deferred tax, during 2009 when the group obtained control of the subsidiary as disclosed in note 7. The gain was attributable to revaluing the partnership's property, plant and equipment at the prevailing Rand/Dollar exchange rate of R9,92 whereas the rate at the date of disposal was R7,50.

	Fair value R000	Portion disposed R000
30 June 2010 disposal of 25,75% interest:		
Book value of assets and liabilities:		
– Property, plant and equipment	27 077	6 702
– Receivables	572	142
– Cash and cash equivalents	146	36
– Suspensive sale agreement	(28 222)	(8 353)
– Accounts payable	(429)	(106)
– Deferred tax	(2 378)	(589)
– Other payables	(8)	(2)
– Loan from non-controlling interest holder	(7 636)	(7 636)
	(10 878)	(9 806)
Non-controlling interest (24,75%)	9 970	–
Group's interest	(908)	–
Less: Retained investment as at 30 June 2010	1 363	–
Less: Loss on disposal of subsidiary	(455)	–
Proceeds on disposal of subsidiary	–	–
Purchase consideration settled in cash	–	–
Cash in subsidiaries disposed of	(146)	–
Net cash outflow from disposal of subsidiaries	(146)	–

31. 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.

group notes to the annual financial statements (continued)

for the year ended 31 December 2010

32. Related party transactions

Subsidiaries, associate and related trusts

During the year, in the ordinary course of business, certain companies within the group entered into certain intra-group transactions. These intra-group transactions have been eliminated on consolidation. For a list of the group's subsidiaries, associate and related trusts, refer to page 117.

Other related parties

The HomeChoice Provident fund

HomeChoice 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 of the fund, which is performed every three years, as at 31 December 2008 confirmed that the fund was in a sound financial position.

	2010 R000	2009 R000
Contributions to the provident fund	8 358	7 382

Directors

Remuneration

Details relating to executive and non-executive directors' remuneration are disclosed in the remuneration committe report on pages 46 to 47.

Interest of directors in contracts

As disclosed in note 30, the group disposed of a portion of its interest in an en-commandite partnership to two entities in which Mr Garratt, a director, has a controlling interest. The purchase price was based upon valuations provided by an independent aviation retailer, and Mr Garratt was recused from the board during deliberations and voting to conclude the transaction.

Mrs Steyn, former director of one of the company's subsidiaries, HomeChoice (Proprietary) Limited, has a non-controlling interest in an entity providing the group with information technology consultancy services. Transactions with this entity are made at normal market prices. Fees paid to the entity up until the date of resignation of Mrs Steyn on 31 May 2010 amounted to R2,866 million (2009: R6,132 million) and purchases of computer hardware and software amounted to R1,488 million (2009: R1,200 million).

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.

	2010 R000	2009 R000
Loans to employees as reported in annual financial statements	13 177	8 848
Unearned notional interest	4 902	4 897
Total loans receivable	18 079	13 745
Made up as follows:		
Non-executive directors	2 442	–
Operational directors	12 099	12 692
Other employees	3 538	1 053
	18 079	13 745

32. Related party transactions (continued)

Directors (continued)

Share options

Share options were granted to two directors and one employee of a subsidiary of HomeChoice Holdings Limited as disclosed in note 16.

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 (Proprietary) Limited and FinChoice (Proprietary) Limited, excluding those who are also executive directors of HomeChoice Holdings Limited, have been classified as key management personnel. Summary of emoluments paid:

	2010 R000	2009 R000
– Remuneration	7 381	8 685
– Bonus	2 817	500
– Retirement, medical, disability and death benefits	990	1 222
	11 188	10 407

Shareholding

At 31 December 2010, the ultimate controlling party of the group was GarFam Holdings Limited. Shareholders with a beneficial interest of 5% or more in the company:

- GarFam Holdings Limited;
- RMB, a division of FirstRand Bank Limited; and
- Clariden Bank Zurich.

contents

company annual financials

company statement of financial position

at 31 December 2010

	Note(s)	2010 R000	2009 R000
Assets			
Non-current assets			
Investments in subsidiaries	1	299	4
Deferred tax	2	242	65
Loans to employee share trust	3	31 521	24 287
Loans to subsidiaries	4	185 932	123 046
		217 994	147 402
Current assets			
Loans to subsidiaries	4	76 602	88 626
Receiver of Revenue		625	622
Cash and cash equivalents	5	21 361	36 295
		98 588	125 543
Total assets		316 582	272 945
Equity and liabilities			
Equity attributable to equity holders of the parent			
Share capital and share premium	6, 7	98 497	140 045
Other reserves	8	295	–
Distributable reserve		97 267	82 543
Total equity		196 059	222 588
Current liabilities			
Trade and other payables	9	185	113
Loans from subsidiaries	4	120 338	50 244
Total liabilities		120 523	50 357
Total equity and liabilities		316 582	272 945

company statement of comprehensive income

for the year ended 31 December 2010

	Note(s)	2010 R000	2009 R000
Revenue	10	–	13 503
Dividends received		–	13 503
Operating profit		–	13 503
Interest received		19 519	15 087
Interest paid		–	(2 320)
Profit before taxation		19 519	26 270
Taxation	11	(4 795)	(3 258)
Total comprehensive income for the year		14 724	23 012

company statement of changes in equity

for the year ended 31 December 2010

	Share capital R000	Share premium R000	Other reserves R000	Distributable reserve R000	Total equity R000
Balance at 1 January 2009	1 039	146 275	–	73 034	220 348
Changes in equity					
Total comprehensive income for the year	–	–	–	23 012	23 012
Dividends paid	–	–	–	(13 503)	(13 503)
Reduction of share premium	–	(7 269)	–	–	(7 269)
Total changes	–	(7 269)	–	9 509	2 240
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 issued	–	–	295	–	295
Dividends paid	–	–	–	–	–
Reduction of share premium	–	(41 548)	–	–	(41 548)
Total changes	–	(41 548)	295	14 724	(26 529)
Balance at 31 December 2010	1 039	97 458	295	97 267	196 059

company statement of cash flows

for the year ended 31 December 2010

	Note(s)	2010 R000	2009 R000
Cash flows from operating activities			
Cash generated from operations	i	71	91
Interest received		19 519	15 087
Interest paid		–	(2 320)
Dividends received		–	13 503
Dividends paid		–	(13 503)
Taxation paid	ii	(4 974)	(3 309)
Net cash inflows from operating activities		14 616	9 549
Cash flows from investing activities			
Loans repaid by/(advanced to) subsidiaries		19 232	(13 887)
Net cash inflows/(outflows) from investing activities		19 232	(13 887)
Cash flows from financing activities			
Reduction of share premium		(41 548)	(7 269)
Loans provided to share trust		(7 234)	(408)
Net cash outflows from financing activities		(48 782)	(7 677)
Net decrease in cash and cash equivalents		(14 934)	(12 015)
Cash and cash equivalents at the beginning of the year		36 295	48 310
Cash and cash equivalents at the end of the year		21 361	36 295

company notes to the statement of cash flows

for the year ended 31 December 2010

		2010 R000	2009 R000
i.	**Reconciliation of cash flows generated by operations**		
	Profit before taxation	19 519	26 270
	Interest received	(19 519)	(15 087)
	Interest paid	–	2 320
	Dividends received	–	(13 503)
		–	–
	Movements in working capital		
	Increase in trade and other payables	71	91
	Cash generated by operations	71	91
ii.	**Taxation paid**		
	Amounts receivable at the beginning of the year	622	52
	Current tax charged to comprehensive income	(4 971)	(2 739)
	Amounts receivable at the end of the year	(625)	(622)
	Net outflow	(4 974)	(3 309)

company notes to the annual financial statements

for the year ended 31 December 2010

	2010 R000	2009 R000
1. Investments in subsidiaries		
Wholly-owned subsidiary companies' shares at cost	4	4
Equity-settled contribution to subsidiary	295	–
	299	4

		Company issued share capital	
		Number of shares held	
	% interest held	2010	2009
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
– 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 tax		
The analysis of deferred tax assets and deferred tax liabilities is as follows:		
Deferred tax assets	242	65
Deferred tax liabilities	–	–
Net deferred tax assets	242	65
The gross movement on the deferred income tax account is as follows:		
Balance at beginning of the year	65	584
Deferred tax charge through comprehensive income	177	(519)
Balance at the end of the year	242	65
3. Loan to employee share trust		
Balance at the beginning of the year	24 287	23 879
Amount advanced during the current year	7 234	408
Balance at the end of the year	31 521	24 287

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

	2010 R000	2009 R000
4. Loans to/(from) subsidiaries		
Wholly-owned subsidiary companies' loans		
Operating companies		
– HomeChoice (Proprietary) Limited	(117 779)	(47 682)
– HomeChoice Property Company (Proprietary) Limited	42 210	47 242
– HomeChoice Investments (Proprietary) Limited	34 333	41 384
– FinChoice (Proprietary) Limited	185 932	123 046
– Matyana van der Merwe (Proprietary) Limited	59	(2)
Dormant companies		
– HC Direct (Proprietary) Limited	(2 559)	(2 560)
– FoneChoice (Proprietary) Limited	–	–
	142 196	161 428
Non-current assets	185 932	123 046
Current assets	76 602	88 626
Current liabilities	(120 338)	(50 244)
	142 196	161 428

The loans are unsecured, interest-free and payable on demand, except for FinChoice (Proprietary) Limited loans that are charged interest at a rate of prime plus 2%.

The company has ceded its rights in and to the loan account of HomeChoice (Proprietary) Limited in favour of the group's bankers.

The company has provided, in favour of the group's bankers, unlimited suretyship to HomeChoice (Proprietary) Limited and suretyship limited to R1 000 000 to FinChoice (Proprietary) Limited.

	2010 R000	2009 R000
5. Cash and cash equivalents		
Cash at bank	802	–
Money market investments	20 559	36 295
	21 361	36 295

Money market investments are made depending on the cash requirements and earn interest at the respective investment rates.

	2010 R000	2009 R000
6. Share capital		
Authorised		
200 000 000 ordinary shares of 1 cent each	2 000	2 000
Issued		
103 869 000 ordinary shares of 1 cent each	1 039	1 039
7. Share premium		
Balance at the beginning of the year	139 006	146 275
Share premium reduction	(41 548)	(7 269)
Balance at the end of the year	97 458	139 006

company notes to the annual financial statements (continued)

for the year ended 31 December 2010

8. Other reserves

Other reserves includes a share option reserve in respect of share options granted to two directors and one employee of a subsidiary of HomeChoice Holdings Limited. The exercise price of the options was equal to the market price of the shares on the date of the grant. Options are conditional on the participant being in service with the group on the vesting date, which is four years from the date of the grant. 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:

	2010			2009		
	Average exercise price per share (cents)	Number of options	Value of share options (R000)	Average exercise price per share (cents)	Number of options	Value of share options (R000)
At 1 January	–	–	–	–	–	–
Granted	584	250 000	295 000	–	–	–
At 31 December	584	250 000	295 000	–	–	–

No options were excercisable at 31 December 2010. Share options outstanding at the end of the year have the following vesting date and exercise prices:

	Exercise price per share (cents)	Number of options 2010	2009
29 November 2014	584	250 000	–

The fair value of options granted during the period determined using a Black-Scholes valuation model was 118 cents per option. The significant inputs into the model were a market value and exercise price of R5,84 at the grant date, an expected option life of four years, volatility of 35%, a dividend yield of 6,8%, a risk-free interest rate of 6,4% and employee attrition rate of 0%. The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analyses of monthly share prices of listed peers over the last three years.

	2010 R000	2009 R000
9. Trade and other payables		
Other payables	185	113
	185	113
10. Revenue		
Dividends received	–	13 503
	–	13 503

	2010 R000	2009 R000
11. Income tax		
Income statement		
South African normal tax – current year	(4 971)	(2 739)
Deferred tax – current year	176	(519)
	(4 795)	(3 258)
Reconciliation of taxation rates	%	%
South African normal tax rate	28,0%	28,0%
Adjusted for:		
– Exempt income	(2,5%)	(17,6%)
– Disallowable expenses	0,0%	0,0%
– Secondary taxation on companies (STC)	(0,9%)	(3,2%)
– STC credits used	0,0%	5,2%
Effective rate	24,6%	12,4%

12. Risk management and financial instrument disclosure

12.1 Capital risk management

The company's objectives when managing capital are to safeguard the company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the company consists of debt, which includes the borrowings disclosed in notes 3 and 4, cash and cash equivalents disclosed in note 5, and equity attributable to equity holders, comprising issued share capital, share premium, revaluation reserves and distributable reserves less treasury shares, as disclosed in the statement of changes in equity.

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 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 company does not have a defined share buy-back plan.

During the current year the share premium was reduced by 40 cents (2009: 7 cents) 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.

12.2 Financial risk management

The board of HomeChoice Holdings Limited is responsible for the financial risk management of the company.

The company is exposed to a variety of financial risks arising from the use of financial instruments including credit risk, liquidity risk and market risk.

company notes to the annual financial statements (continued)

for the year ended 31 December 2010

	Loans and receivables R000
12. Risk management and financial instrument disclosure (continued)	
12.2 Financial risk management (continued)	
In assesing risk the company classifies financial assets and liabilities as follows:	
Assets	
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**
2009	
Loan to employee share trust	24 287
Loans to subsidiaries	211 672
Money market investments	36 295
Total	272 254

	At amortised cost R000
Liabilities	
2010	
Other payables	**185**
Loans from subsidiaries	**120 338**
Total	**120 523**
2009	
Other payables	113
Loans from subsidiaries	50 244
Total	50 357

12.2.1 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.

12.2.1.1 *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.

12.2.1.2 *Cash and cash equivalents*

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

12. Risk management and financial instrument disclosure (continued)

12.2 Financial risk management (continued)

12.2.2 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 other payables balance in the company is interest-free and repayable on demand.

12.2.3 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.

12.2.3.1 *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 group's exposure at 31 December. The group regards a 1% (2009: 1%) change in the Reserve Bank repo rate as being reasonably possible at 31 December 2010.

	Movement in basis points	Effect on profit after tax R000
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)
2009		
Money-market investments	+100	261
	-100	(261)
Loans to subsidiaries	+100	543
	-100	(543)

company notes to the annual financial statements (continued)

for the year ended 31 December 2010

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
HC Direct (Proprietary) Limited
FoneChoice (Proprietary) Limited
HomeChoice (Proprietary) Limited (incorporated in Namibia)
HomeChoice (Proprietary) Limited (incorporated in Botswana)

Associate of holding company

En-commandite partnership

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).

	2010 R000	2009 R000
Related party transactions		
Dividends paid to related parties		
HomeChoice Share Trust	–	404
Share premium distributed to related parties		
HomeChoice Share Trust	1 002	218

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 ceded its rights in and to the loan account of HomeChoice (Proprietary) Limited in favour of the group's bankers.

The company has provided, in favour of the group's bankers, unlimited suretyship to HomeChoice (Proprietary) Limited and suretyship limited to R1 000 000 to FinChoice (Proprietary) Limited.

	2010 R000	2009 R000
Directors' emoluments		
Non-executive directors		
– Fees	1 022	440
Executive directors		
– Remuneration	7 396	6 090
– Bonus	2 948	–
– Retirement, medical, disability and death benefits	699	663
	12 065	7 193

All the directors' emoluments are paid by subsidiaries. No service contracts exists with any directors.

	2010 R000	2009 R000
14. Contingent liabilities and commitments		
The company has guaranteed letters of credit of HomeChoice (Proprietary) Limited amounting to R35,010 million (2009: R33,335 million) at the reporting date.		
15. Reclassifications		
In order to provide increased disclosure, certain reclassifications have been made. These changes have no impact on overall equity, net assets or profitability.		
The effect of the reclassification is as follows:		
Statement of financial position		
Non-current assets: loans to subsidiaries	–	123 046
Current assets: loans to subsidiaries	–	(123 046)
Profit or loss		
Decrease in dividends received	–	(2 985)
Increase in interest received	–	5 305
Increase in interest paid	–	(2 320)
	–	–

Summary of changes

– Interest received from investments previously included in dividends received has been reclassified to interest received so as to reflect the economic substance of the transaction over its legal form.

– Interest received, previously disclosed as net of interest received has now been disclosed separately of interest paid.

– The non-current portion of loans to subsidiaries has been reclassified from current to non-current.

definitions

Active customers	All customers with a balance outstanding of > R0 that have not been transferred to legal.
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.
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 inventories on hand at the end of the 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	A customer who had their first item ever despatch in the period.
Net asset value per share	Net assets divided by the 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.
Recently inactive customer	All customers that 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.
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 total assets.
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 members

Notice is hereby given that the annual general meeting of members of HomeChoice Holdings Limited (registration number 1991/005430/06) will be held at HomeChoice, 78 Main Road, Wynberg, on Friday, 6 May 2011, at 15:00 for transacting the following business:

1. To receive and adopt the annual financial statements of the company and the group for the year ended 31 December 2010.
2. To elect three directors in the place of RE Garratt, A Kirsten and P Joubert who retire in terms of the company's articles of association. RE Garratt, A Kirsten and P Joubert, being eligible, offer themselves for re-election. Brief curricula vitaes of the nominees for re-election are set out on pages 14 to 15.
3. To place the unissued shares in the authorised share capital of the company under the control of the directors of the company for allotment and issue at such price or prices, or for such consideration, whether payable in cash or otherwise, at such time or times and to such person or persons as they in their discretion deem fit, subject to the then prevailing provisions of the Companies Act, 1973, as amended or replaced by the Companies Act, 2008 (as amended).
4. To approve the remuneration of directors for services as directors.
5. To approve the reappointment of PricewaterhouseCoopers as the external auditors.
6. To approve the composition of the audit and risk committee. J Bester (chairman), W Jungschläger and P Joubert offer themselves for re-election.
7. To consider any other matters raised by members.

The shareholders will be requested to consider and, if deemed fit, to pass with or without modification the following resolutions:

Ordinary resolution number 1

"Hereby resolved that the annual financial statements of the company and group for the year ended 31 December 2010 are hereby approved and adopted."

Ordinary resolution number 2.1

"It is hereby resolved that Richard Garratt is elected as a director of the company."

Ordinary resolution number 2.2

"It is hereby resolved that Annalize Kirsten is elected as a director of the company."

Ordinary resolution number 2.3

"It is hereby resolved that Pierre Joubert is elected as a director of the company."

Ordinary resolution number 3

"It is hereby resolved that all the unissued shares in the authorised share capital of the company are placed under the control of the directors for allotment and issue from time to time on such terms as may be determined by the directors in their 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, provided that any such issue shall be subject to the board complying with provisions of the Companies Act, 1973 (as amended) or the Companies Act, 2008 (as amended) after it comes into effect, to the extent applicable at the relevant time."

Resolution number 4

If this meeting takes place before the Companies Act, 2008 has come into effect then the following resolution is proposed to be moved as an ordinary resolution, however, if the meeting takes place on a date after the Companies Act, 2008 has come into force and effect, then the following resolution is proposed to be moved as a special resolution:

"The remuneration of the directors for services as directors is hereby approved and ratified."

The reason is to approve and ratify the directors' remuneration for the relevant period and the effect will be to authorise and ratify the payment of such remuneration.

Ordinary resolution number 5

"It is hereby resolved that PricewaterhouseCoopers are reappointed as external auditors."

Ordinary resolution number 6.1

"It is hereby resolved that John Bester is elected a member of the audit and risk committee."

Ordinary resolution number 6.2

"It is hereby resolved that Willem Jungschläger. is elected a member of the audit and risk committee."

Ordinary resolution number 6.3

"It is hereby resolved that Pierre Joubert is elected a member of the audit and risk committee."

Special resolution number 1 – Repayment of the share premium to members

"Hereby resolved, with effect from the date of adoption of this resolution that, subject to the requirements of the companies Act, 1973 (as amended) or the Companies Act, 2008 (as amended) if it has come into effect, that:

(a) the board of directors of HomeChoice Holdings Limited (the 'company') be and are hereby authorised in accordance with article 74 of the company's articles of association, to, at any time within eight calendar months of the adoption of this special resolution:
  (i) reduce the company's share premium account by an aggregate amount of R31 160 831,40 (the 'consideration'); and
  (ii) utilise the consideration to pay to members registered at the close of business on Friday, 29 April 2011, an amount equal to 30 (thirty) cents per ordinary share in the capital of the company ('HomeChoice shares') held by its members;

(b) the approval given in terms of (a) above shall be effective for a period of eight months from the date of adoption of this special resolution by the Registrar of Companies;

(c) the board of directors shall only exercise the authority granted to it pursuant to this special resolution if the board reasonably believes that requirements of the Companies Act, 1973 (as amended) or the Companies Act 2008 (as amended) after it comes into effect, to the extent applicable at the relevent time, are met and in this regard believes at the date of this notice that:
  (i) the company would, after the contemplated payment, be able to pay its debts as they become due in the ordinary course of business for a period of twelve months; and
  (ii) the consolidated assets of the company, fairly valued, would, after payment of the consideration, not be less than the consolidated liabilities of the company.

Reasons for and effect of special resolution

The reason for special resolution number 1 is to grant the directors of the company the authority, in accordance with the provisions of section 90 of the Companies Act, or section 46 of the Companies Act, 2008 (whichever is applicable at the relevent time) and article 74 of the company's articles of association, to reduce the company's share premium account by an aggregate amount of R31 160 831,40 and to utilise those funds to repay to members an amount equal to 30 (thirty) cents per HomeChoice share held by its members, which authority shall be valid for a period of eight months from the date of adoption of this special resolution.

The passing and registration of this special resolution will have the effect of authorising the company to so reduce its share premium account and to utilise the consideration to repay to members an aggregate amount of R31 160 831,40, the equivalent of 30 (thirty) cents per HomeChoice share.

Background information

As disclosed in the company's latest published financial statements for the year ended 31 December 2010, attached to this notice, the company has substantial amounts of liquid investments and cash. The board of directors hereby propose, subject to the approval of the members in general meeting, that:

(i) the company's share premium be reduced by an aggregate amount of R31 160 831,40; and
(ii) the company use this consideration pay to members an amount equal to 30 (thirty) cents per ordinary share in the capital of the company held by its members; and
(iii) payment is expected to be made by 31 May 2011, subject to any required lodgement and registration of the resolution and any related notices.

The company is authorised to reduce its share premium and make payments to its members in accordance with the provisions of article 74 of the company's articles of association.

Rationale

As disclosed in the report of the chairman in the company's latest published financial statements for the year ended 31 December 2010, the company has adopted a distribution cover policy of approximately 3. It is the opinion of the board that a distribution out of the company's share premium is currently the most efficient distribution mechanism to members.

Distribution of payments to members

Subject to the provisions regulating exchange control in South Africa, as briefly discussed below, it is anticipated that payments in respect of the distribution will be made to members by the end of May 2011, and will be effected by way of cheque. All monies so payable by cheques shall be sent by ordinary post, at the risk of the member, to the address of the member in question set forth in the register. Payment of a cheque as aforesaid shall be a complete discharge by the company of its relevant payment obligations in terms of the distribution.

If several persons are entered in the register as joint members, then payment to any one of them of any monies payable on or in respect of 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 or claim or any other person to or in any HomeChoice share or interest therein.

Exchange Control Regulations

The following guideline is a summary of South African Exchange Control regulations. It is not a comprehensive statement and members who have any doubt as to the action they must take should consult with their professional adviser. Brokers are required to comply with the South African Exchange Control Regulations as set out herein.

On or prior to 20 May 2011, each member 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 authorised dealer, such information to include the name of their authorised dealer, address and account number. Should such detail not be provided, monies owing will be held in trust by the company. No interest will be paid on any such amounts held in trust.

1. Emigrants from the common monetary area

1.1 Payments arising as a result of the distribution to members are not freely transferable from South Africa and must be dealt with in terms of the Exchange Control Regulations of South Africa. Cheques issued as a result of the distribution will be forwarded at the risk of the member to the member's authorised dealer in foreign exchange in South Africa, who controls the emigrant's blocked assets.

1.2 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

1.1 Distributions from the share premium 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:

1.1.1 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 an auditor's certificate confirming that the payment constitutes a payment from the share premium of the company (which the company will procure from their auditors), 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 27 May 2011 or as soon as possible after the date of registration of this special resolution by the Registrar of Companies) 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.

A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend, speak and vote thereat in his/her/its stead. A proxy need not be a member of the company.

Members who wish to appoint proxies are required to complete and return the enclosed form of proxy to reach the registered office of the company at least 24 hours before the appointed time of the meeting.

All ordinary shareholders must be supported by more than 50% of the voting rights exercised on the resolution and all special resolutions must be supported by at least 75% of the voting rights exercised on the resolution.

By order of the board

BJ Bastard
Company secretary

18 March 2011
Cape Town

form of proxy

HomeChoice

Registration number: 1991/005430/06

Annual general meeting on Friday, 6 May 2011

I/We ____

of ____

being a member of HomeChoice Holdings Limited hereby appoint

____

of ____

or failing him/her ____

of ____

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 6 May 2011 and at any adjournment thereof as follows*:

	Number of shares		
	For	Against	Abstain
1. Resolution to receive and adopt annual financial statements			
2.1 Resolution to re-elect Mr RE Garratt, an executive director			
2.2 Resolution to re-elect Ms A Kirsten, an executive director			
2.3 Resolution to re-elect Mr P Joubert, a non-executive director			
3. Resolution to place unissued shares under the control of the directors			
4. Resolution to approve the remuneration of the directors			
5. Resolution to reappoint PricewaterhouseCoopers as external auditors			
6.1 Resolution to re-elect Mr J Bester as a member of the audit and risk committee			
6.2 Resolution to re-elect Mr W Jungschläger as a member of the audit and risk committee			
6.3 Resolution to re-elect Mr P Joubert as a member of the audit and risk committee			
7. Special resolution to reduce the share premium of the company			

* Members are advised to review the Notes to the Form of Proxy overleaf.

Signed by me at ____________________ on this ________________ day of ____________________ 2011.

Signature ____

notes to the form of proxy

1. A member entitled to attend and vote at the abovementioned meeting is entitled to appoint one or more proxies (who need not be a shareholder of the company) to attend, speak and vote thereat in his/her/its stead.

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, 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 member'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. 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.

11. Where there are joint holders of shares:

    11.1 any holder may sign the form of proxy;

    11.2 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).

12. 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
BJ Bastard

Registered office
78 Main Road
Wynberg 7800

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 2010
Annual general meeting	6 May 2011
Distributions to shareholders	May and November

Reports and profit statements:

Publication of annual report	Approximately 31 March 2011
Interim report	Approximately 22 August 2011

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www.homechoiceholdings.co.za

annual report 2010