Annual financial statements for the year ended 31 December 2017

HomeChoice International PLC

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Directors' approval

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

The directors are required in terms of the Maltese Companies Act (Cap 386 of the laws of Malta) 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 are prepared in accordance with International Financial Reporting Standards as adopted by the European Union and International Financial Reporting Standards as issued by the IASB which give a true and fair view of the state of affairs of the group and the parent 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 preparing the financial statements the directors are also responsible for selecting and applying consistently suitable accounting policies; making accounting judgements and estimates that are reasonable in the circumstances; and ensuring that the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business as a going concern.

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 as issued by the IASB as adopted by the European Union and International Financial Reporting Standards and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

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

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

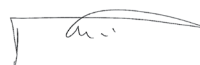
The directors are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the financial statements. However, any system of internal financial control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

The financial statements of HomeChoice International PLC for the year ended 31 December 2017 are included in the Annual Financial Statements Report 2017, which is published in hard copy printed form and may be made available on the company's website. The directors are responsible for the maintenance and integrity of the Annual Financial Statements Report on the website in view of their responsibility for the controls over, and the security of, the website. Access to information published on the company's website is available in other countries and jurisdictions, where legislation governing the preparation and dissemination of financial statements may differ from requirements or practice in Malta.

The directors confirm that, to the best of their knowledge:

- the financial statements give a true and fair view of the financial position of the group and the parent company as at 31 December 2017, and of the financial performance and the cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and International Financial Reporting Standards as issued by the IASB;
- the annual report includes a fair review of the development and performance of the business; and
- the position of the group and the parent company, together with a description of the principal risks and uncertainties that the group and the parent company face.

The financial statements set out on pages 12 to 80 which have been prepared on the going concern basis, were approved by the directors on 7 March 2018 and are signed on their behalf by:



S Portelli
Chairman

P Burnett
Finance Director

Audit and risk committee report

The audit and risk committee is pleased to present its report for the financial year ended 31 December 2017 to the shareholders of HomeChoice International PLC.

Role of the committee

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

- reviewing the annual financial statements and any other financial information presented to shareholders, ensuring compliance with International Financial Reporting Standards;
- overseeing integrated reporting and considering factors and risks that could impact on the integrity of the integrated report;
- nominating the external auditors for appointment, monitoring and reporting on their independence, approving the terms of engagement and scope of the audit, and fees paid;
- overseeing the group's risk management processes, identifying and reviewing the group's exposure to significant risks and its risk mitigation strategy;
- providing assurance on the adequacy and effectiveness of the group's systems of internal financial and operational control, and compliance with laws and procedures;
- monitoring and supervising the effective functioning and performance of internal audit, ensuring that it operates independently of management and approving the annual audit plan; and
- considering the appropriateness of the expertise and experience of the finance director and group's finance function.

Committee composition and meetings

The committee comprises three independent non-executive directors, namely Charles Rapa (chairman), Amanda Chorn and Stanley Portelli. Meetings are also attended by invitees including the finance director and heads of internal and external audit.

The board has approved the application of the governance principles contained in the King IV Report on Corporate Governance.

King IV recommends that the chairman of the board should not be a member of the audit committee to manage any undue concentration and balance of power being placed in the chairman of the board. The JSE previously provided dispensation to allow the board chairman to be a member of the audit committee. Given the current size and composition of the board (six non-executive directors of whom four are independent) the board believes that the balance of power is currently not compromised by the board chairman being a member of the audit and risk committee. The board will reconsider application to the King IV recommendation as part of the biennial review process to be carried out in 2018.

The committee typically meets four times during the year and has established an annual meeting plan agenda. The chairman of the committee reports to the board after each committee meeting and also attends the annual general meeting of shareholders to answer any questions that may arise concerning the activities of the committee. The effectiveness of the committee is assessed as part of the biennial board and committee self-evaluation process.

Committee attendance	Number	Percentage
Charles Rapa	4	100%
Stanley Portelli	4	100%
Amanda Chorn	4	100%

Activities of the committee

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

Annual financial statements

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

Integrated annual report

The committee has reviewed the disclosures in the integrated annual report and is satisfied that it is reliable and does not conflict with the annual financial statements. The committee also gave due consideration to the need for assurance of the report and decided not to obtain independent assurance at this time.

External audit

The committee nominated for appointment the external auditor, reviewed the audit plan, the terms of engagement and the audit fee budget. The committee has appraised the independence, expertise and objectivity of PricewaterhouseCoopers as external auditor, as well as approved the terms of engagement and the fees paid. The committee is satisfied that both the external auditor and the engagement partner are independent of the group and management, and are able to express an independent opinion on the group's annual financial statements. The committee determined the nature and extent of any non-audit services and is satisfied that appropriate safeguards have been adopted to maintain the independence of the external auditor when providing non-audit services.

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

The committee also met with the external auditor separately without management being present. The committee concludes that the skills, independence, audit plan, reporting and overall performance of the external auditor are acceptable and hereby recommends for approval by the shareholders the reappointment of PricewaterhouseCoopers as external auditor, and Joseph Camilleri as the engagement partner for 2018.

Internal control and risk management

The committee has assisted the board in assessing the adequacy of the risk management process and has an oversight role regarding the management of risk. Having considered, analysed, reviewed and debated information provided by management and internal audit, the committee is satisfied that the internal controls of the group have been effective in all material aspects throughout the year under review.

Compliance with laws and regulations

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

Internal audit

The internal audit function provides assurance to the board on the adequacy and effectiveness of the group's internal control and risk management processes.
The committee has ensured that the internal audit department has functioned independently and has the authority to enable it to fulfil its duties. The committee has approved the internal audit plan and has reviewed the activities and findings of the internal audit function.
The committee has reviewed reports on the controls regarding security, financial and accounting systems and reporting, and satisfied itself that management maintains an effective control environment and identifies and manages critical risk areas.

Expertise of the finance director and finance function

The committee has considered the appropriateness of the expertise and experience of Paul Burnett, the finance director. The committee believes that he possesses the appropriate expertise and experience to meet his responsibilities.
The committee has also considered the collective expertise, resources and experience of the group's finance function and concluded that it is appropriate.

Significant financial reporting matters

The significant financial reporting matters the committee considered in the year are trade and loan receivables and inventory.

The major risk relating to this asset is credit risk. Trade and loan receivables have been highlighted as an area where judgement is needed in note 1.32 of the annual financial statements. The executive team is responsible for assessing credit extended through a process of multiple-level risk filtering. Management applies strict affordability criteria and in-house developed scorecards based on credit bureau data and fraud databases, as well as risk-based variable credit limits. The committee has assessed that these processes are adequate.

Based on the books' ageing and management's judgement of the receivables' collectibility, a provision for doubtful debts is raised.
The committee considers the carrying value of trade and loan receivables to be fairly stated. Refer to note 9 of the consolidated annual financial statements.

The major risks relating to inventory are the verification and valuation thereof. The retail business counts inventory on a regular basis and processes any discrepancies to the accounting records. There were no material adjustments during the year. Inventory is valued at the lower of cost or net realisable value. Impairments have been raised using a consistent group methodology applied by management quarterly that considers stock ageing, condition and saleability.
The committee considers the carrying value of inventory to be fairly stated. Refer to note 8 in the consolidated annual financial statements for the amounts.

Proactive monitoring

The committee confirms that it has considered the findings contained in the Johannesburg Stock Exchange's 2017 Proactive Monitoring report when preparing the annual financial statements for the year ended 31 December 2017 and will also consider the same for the upcoming interim results for the six months ending 30 June 2018. In addition, the committee did in the past financial years consider the contents of the previous Proactive Monitoring reports.

Going concern

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

Election of committee members

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

- Charles Rapa
- Stanley Portelli
- Amanda Chorn

Approval of the audit and risk committee report

The committee confirms that it has functioned in accordance with its terms of reference and that its report to shareholders has been approved by the board.

C Rapa
Chairman of the audit and risk committee

Qormi, Republic of Malta
7 March 2018

Report of the directors

for the year ended 31 December 2017

Nature of business

HomeChoice International PLC (HIL) is an investment holding company incorporated in Malta and listed in the General Retailers sector on the JSE Limited. The group has operated for more than 30 years in southern Africa and has developed considerable expertise in both retail and credit management targeted at the mass market LSM 4 – 8 consumers. As an omni-channel retailer, we provide the customer with the convenience to engage with our group through their preferred channel. Retail engagement is through digital platforms, call centres, sales agents' networks, catalogues and showrooms. Engagement with our Financial Services business is via digital platforms with the call centre providing additional support.

The Retail product offering is mainly driven by homeware textiles and related products with a strongly increasing contribution of branded electronics, home appliances, apparel and footwear. Personal loans and insurance products comprise the Financial Services offering.

Regulatory and supervisory structure

The Financial Services Board (FSB) is responsible for supervising the company's listing and regulates its ongoing compliance with JSE Listings Requirements. During the year under review the company complied with all its rules, Listings Requirements and procedures in a manner that warrants its continued listing and there were no conflicts of interest that were required to be referred to the FSB.

Audit and risk committee

The audit and risk committee is governed by a board-approved charter that guides the committee in terms of its authority and objectives. The directors confirm that the audit and risk committee has addressed the specific responsibilities required in terms of this charter. Further details are contained within the audit and risk committee report on pages 2 to 3.

Directors

The following directors held office during the year:

- Gregoire Lartigue – Chief Executive Officer
- Paul Burnett – Finance Director
- Shirley Maltz – Executive Director
- Stanley Portelli – Independent Non-executive Director (Chairman)
- Amanda Chorn – Independent Non-executive Director
- Richard Garratt – Non-executive Director
- Eduardo Gutierrez-Garcia – Non-executive Director
- Robert Hain – Independent Non-executive Director
- Charles Rapa – Independent Non-executive Director

Appointment of alternate director

The board approved the appointment of Adefolarin Ogunsanya as an alternate non-executive director to Eduardo Gutierrez-Garcia with effect from 7 March 2018.

Rotation of directors

Eduardo Gutierrez-Garcia and Robert Hain, who retire in terms of the company's articles of association, have made themselves available for re-election as directors at the annual general meeting of shareholders on 9 April 2018.

Company secretary

The company secretary is George Said. His business and postal addresses appear on the inside back cover of this report.

Subsidiary companies

Details of the company's investments in subsidiaries are set out in note 1 to the company annual financial statements. The interest of the company in the aggregate profits before taxation of the subsidiary companies is R670.4 million (2016: R604.2 million).

Trading and financial performance

Group revenue increased by 12.7% to R3.0 billion, bolstered by above market growth in Retail sales of 16.8%, as well as a strong contribution from Financial Services.

More than 20 000 new customers per month were acquired during the year, contributing to 7.0% growth of the group's active customer base to 796 000. New customers are primarily acquired by the Retail business, attracted to our curated homewares range. Analytics on the customer base, including payment performances, enable us to drive effective marketing campaigns and to develop risk and response scorecards to manage credit risk. Applying this knowledge, Financial Services products are offered to selected qualifying customers.

The group continues to be negatively impacted by the affordability assessment regulations introduced by the National Credit Regulator (NCR). The requirement for customers to provide documentary proof of income has adversely impacted revenue, increased operating costs and required investment in systems.

Group finance charges and initiation fees of R943.1 million were flat with 2016, negatively impacted by the annualisation of the lower interest-earning Retail credit facility product and the reduction of the NCR's maximum prescribed interest rates in May 2016.

The group's strategy to diversify its income streams beyond interest income has gained positive traction in the period. Fees from ancillary services, which comprises insurance and service fees, increased by 37.6% to R311.0 million.

Group earnings before interest, tax, depreciation and amortisation (EBITDA) increased by 14.1% to R800.6 million, benefiting from an improvement in gross margins as well as efficiencies in trading expenses which increased by 14.7%. Improvements in collections, credit management and new fraud

processes have resulted in group debtor costs increases being contained relative to the prior year at 5.3%.

Operating profit increased by 16.0% to R751.9 million with an improvement in operating margin from 24.3% to 25.0%.

Cash generated from operations increased by 29.5% to R358.7 million, driven by good cash collections, a reduction in the loan terms and actively managing cash requirements in working capital. The cash conversion rate (cash generated from operations expressed as a percentage of EBITDA) increased from 39.5% to 44.8%.

The group has renegotiated its funding facilities and has entered into an R800 million long-term funding facility replacing a R350 million facility and R160 million shareholder loan. As at 31 December 2017 the group has drawn down R550 million. The net debt to equity ratio has decreased from 28.7% at December 2016 to 28.1%, comfortably below the board's upper limit of 40.0%.

Headline earnings for the period of R527.6 million, with HEPS up 22.9% to 509.4 cents.

Excellent progress was achieved in digital transformation of the group. Credit extended via digital channels across the group has increased to R1.2 billion, primarily driven by the strong digital Retail sales growth of 48.2% and 44.9% growth in digital loan disbursements. Credit extended from digital now accounts for 32.4% (2016: 27.4%) of total group credit.

Capital and financial risk management

The capital management strategy of the group continues to be focused on investing in organic growth through innovative Retail and Financial Services offers to our customers, expanding the group's customer base and identifying opportunities in new markets to optimise returns to shareholders.

The financial risk management of the group is disclosed in note 3.2 to the group annual financial statements.

Distributions to shareholders

Interim

The directors declared an interim dividend of 82.0 (2016: 71.0) cents per share, which was paid on Tuesday, 26 September 2017, to shareholders recorded in the books of the company at the close of business on Friday, 22 September 2017.

Final

The directors declared a final dividend of 109.0 (2016: 87.0) cents per share, which will be paid on Monday, 9 April 2018, to shareholders recorded in the books of the company at the close of business on Friday, 6 April 2018.

Stated and share capital

The unissued shares are under the control of the directors until the next annual general meeting. Details of the authorised and issued share capital are contained in note 11 to the group annual financial statements.

Treasury shares and share buy-back transactions

The company has 600 000 treasury shares which are held by the HomeChoice Development Trust. Further details are contained in note 12 to the group annual financial statements. The percentage of called up share capital held as treasury shares is 0.6%.

Share incentive schemes

The group has established a share option and a share forfeiture incentive scheme.

The share option scheme grants options to employees of the group to acquire shares in HomeChoice International PLC. All options are conditional on the participant remaining in service with the group. The group has no legal or constructive obligation to repurchase or settle the options in cash.

The share forfeiture scheme awards shares to senior employees of the group for no consideration. Shares are forfeitable should the employee leave the group within a four-year period.

Further details are reflected in note 13 to the group annual financial statements.

Borrowing powers

The borrowing powers of the group are not limited in terms of the memorandum and articles of incorporation of the company.

Going concern

The annual financial statements have been prepared on the going concern basis. The directors have reviewed the group's cash flow forecast for the 12 months to 31 December 2018 and, in the light of this review and the current financial position, they are satisfied that the group has, or has access to, adequate resources to continue in operational existence for the foreseeable future.

Events subsequent to the reporting date

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

Auditors

The auditors, PricewaterhouseCoopers, have indicated their willingness to continue in office and a resolution for their reappointment will be proposed at the annual general meeting.

By order of the board

G Lartigue
Chief Executive Officer

P Burnett
Finance Director

7 March 2018

Independent auditor's report

to the shareholders of HomeChoice International PLC

Report on the audit of the financial statements

Our opinion

In our opinion:

- The consolidated and separate financial statements (the "financial statements") of HomeChoice International PLC (the company) give a true and fair view of the group's and the company's financial position as at 31 December 2017, and of the group's and the company's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and with IFRSs as issued by the International Accounting Standards Board; and
- The financial statements have been prepared in accordance with the requirements of the Maltese Companies Act (Cap 386).

What we have audited

HomeChoice International PLC's consolidated and separate financial statements, set out on pages 12 to 61 and 63 to 80, comprise:

- the group and company statements of financial position as at 31 December 2017;
- the group and company statements of comprehensive income for the year then ended;
- the group and company statements of changes in equity for the year then ended;
- the group and company statements of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

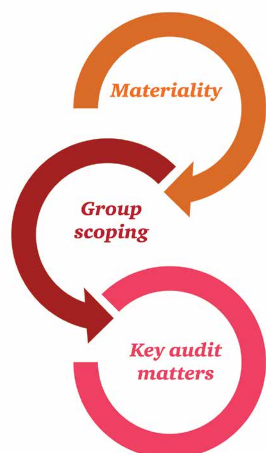
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the group and the company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements of the Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act (Cap 281) that are relevant to our audit of the financial statements in Malta. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Our audit approach

Overview



Overall group materiality R33 340 000, which represents 5% of profit before tax.
Group audit scope The components in the group consists of the retail, two financial services components and the property holding company. We performed full scope audits at three components and an audit of property-related balances and transactions at another component. For the remaining business operations, we performed analytical procedures.
Key audit matter Impairment provisioning of the retail and financial services loan books.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated and separate financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall group materiality	R33 340 000 (2016: R28 500 000)
How we determined it	5% of profit before tax
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the group is most commonly measured by users, and is a generally accepted benchmark. We chose 5% which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector.

We agreed with the audit committee that we would report to them misstatements identified during our audit above R1 660 000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Independent auditor's report

to the shareholders of HomeChoice International PLC (continued)

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the following key audit matter in respect of the consolidated financial statements. No key audit matters were identified in respect of the parent company's financial statements.

Key audit matter	How our audit addressed the key audit matter
Impairment provisioning of the Retail and Financial Services loan books of the group The group has recognised trade and other receivables on the statement of financial position to the amount of R2 660 million, see note 1.32 within the accounting policies as well as note 3.3 and note 9 to the consolidated financial statements. Included in this balance is a provision for impairment to the amount of R513 million which relates to the Retail and Financial Services loan books. For both Retail and Financial Services loan books, the impairment is calculated on a modelled basis (using delinquency roll rate models) for portfolios of receivables and loans. Statistical techniques are used to determine the inputs into the discounted cash flow models, in order to calculate impairment allowances based on historical default and recovery rates. The estimation of the provision for impairment was considered a matter of most significance to our current year audit as it is subject to various estimates that require significant management judgement regarding the interpretation of historical data.	We have obtained an understanding of and tested the relevant controls which included the process over customer approval and the controls over the review of the models and model parameters. We utilised our actuarial expertise in testing the models for accuracy as well as ensuring the logic applied is sound in terms of IFRSs and internally consistent. We also tested the assumptions through use of sensitivities, comparing the model used to what was utilised in the past for consistency and benchmarking against industry knowledge, in particular for the roll rates, recovery curves and discount rates which are key to the outcome of the impairment test. No material exceptions were identified in the accuracy of the model and the estimates were found to be within an acceptable range. In relation to testing the basis and operation of those models, data and assumptions used by management to determine the provisions, our work included amongst other the following: • The roll rates and recovery curves (principal assumptions) used in management's models were estimated from historical payment history. We compared the principal assumptions made by management with those we would have used given the client's data and our expert judgement, independently generated benchmarks and based on experience. The discount rates were compared to market information obtained independently. The assumptions and discount rates used by management were within a reasonable range compared to our independent expectation. • We tested the basis and operation of the models used by management to calculate the impairment by rebuilding those models independently and comparing the results with those of management, without exception. • For a sample of transaction data we agreed the information to supporting evidence, such as summaries of customer transaction data including bank records of amounts collected and invoice data for sales transactions and other charges. • We also focused on how impairment events that have not yet resulted in a payment default are identified and measured (i.e. incurred but not reported provisions) utilising actual transaction data from prior year balance.

How we tailored our group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the group operates.

The Group has three principal business operations, being Retail, Financial Services and Property. The group sells its products and provides financial services predominantly in South Africa, with the Financial Services operations comprising two components.

We performed an audit on the complete financial information of three components, being the Retail and the two Financial Services components. An audit of the property-related balances and transactions were performed at the property holding company. In addition we performed analytical procedures over the remaining business operations. This together with additional procedures performed at the group level, including testing of consolidation journals and intercompany eliminations, gave us the evidence we needed for our opinion on the consolidated financial statements as a whole.

In establishing the overall audit approach to the group audit, we determined the type of work that needed to be performed by us, as the group engagement team, or by component auditors from other PwC network firms operating under our instruction. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those reporting components to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the consolidated financial statements as a whole.

Other information

The directors are responsible for the other information. The other information comprises the report of the directors and the audit and risk committee's report, the directors' approval and the shareholder analysis as per note 36, which we obtained prior to the date of this auditor's report and the integrated annual report, which is expected to be made available to us after that date. Other information does not include the consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information, including the directors' report.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the directors' report, we also considered whether the directors' report includes the disclosures required by Article 177 of the Maltese Companies Act (Cap 386).

Based on the work we have performed, in our opinion:

- the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the directors' report has been prepared in accordance with the Maltese Companies Act (Cap 386).

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the directors' report and other information that we obtained prior to the date of this auditor's report. We have nothing to report in this regard.

When we read the integrated annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance in accordance with International Standards on Auditing.

Responsibilities of the directors and those charged with governance for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with IFRSs as adopted by the EU, with IFRSs as issued by the International Accounting Standards Board and the requirements of the Maltese Companies Act (Cap 386), and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group and/or the company or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the group's and company's financial reporting process.

Independent auditor's report

to the shareholders of HomeChoice International PLC (continued)

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 group's and company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's and company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group and the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Other matters on which we are required to report by exception
We also have responsibilities under the Maltese Companies Act (Cap 386) to report to you if, in our opinion:

- Adequate accounting records have not been kept, or that returns adequate for our audit have not been received from branches not visited by us.
- The financial statements are not in agreement with the accounting records and returns.
- We have not received all the information and explanations we require for our audit.
- Certain disclosures of directors' remuneration specified by law are not made in the financial statements, giving the required particulars in our report.

We have nothing to report to you in respect of these responsibilities.

PricewaterhouseCoopers
78 Mill Street
Qormi
Malta

Joseph Camilleri
Partner

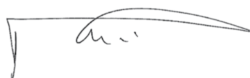
7 March 2018

Group statement of financial position

at 31 December 2017

	Notes	2017 Rm	2016 Rm
Assets			
Non-current assets			
Property, plant and equipment	4	**428.6**	425.9
Intangible assets	5	**85.6**	89.7
Investment in associates and other	6	**43.7**	24.3
Deferred taxation	7	**0.4**	38.2
		558.3	578.1
Current assets			
Inventories	8	**256.8**	213.8
Taxation receivable		**4.2**	4.7
Trade and other receivables	9	**2 660.2**	2 214.7
Trade receivables – Retail		**1 482.4**	1 221.7
Loans receivable – Financial Services		**1 162.8**	969.5
Other receivables		**15.0**	23.5
Cash and cash equivalents	10	**130.3**	187.2
		3 051.5	2 620.4
Total assets		**3 609.8**	3 198.5
Equity and liabilities			
Equity attributable to equity holders of the parent			
Stated and share capital	11.1	**1.0**	1.0
Share premium	11.2	**3 002.7**	2 998.4
Reorganisation reserve	11.3	**(2 960.6)**	(2 960.6)
		43.1	38.8
Treasury shares	12	**(2.7)**	(2.7)
Other reserves	14	**13.9**	6.4
Retained earnings		**2 332.2**	1 987.6
Total equity		**2 386.5**	2 030.1
Non-current liabilities			
Interest-bearing liabilities	15	**616.0**	579.1
Deferred taxation	7	**124.6**	134.8
Other payables	16	**5.6**	4.9
		746.2	718.8
Current liabilities			
Interest-bearing liabilities	15	**165.6**	31.5
Taxation payable		**8.4**	11.8
Trade and other payables	17	**241.2**	214.5
Provisions	18	**38.0**	31.7
Derivative financial instruments	19	**5.1**	–
Bank overdraft	10	**18.8**	–
Shareholder loan	20	**–**	160.1
		477.1	449.6
Total liabilities		**1 223.3**	1 168.4
Total equity and liabilities		**3 609.8**	3 198.5
Additional information			
Rand/Euro exchange rate at 31 December		**0.0674**	0.0689

These financial statements were approved by the board of directors, authorised for issue on 7 March 2018 and signed on its behalf by:



S Portelli
Chairman

P Burnett
Finance Director

Group statement of comprehensive income

for the year ended 31 December 2017

	Notes	2017 Rm	2016 Rm
Revenue		**3 003.2**	2 664.2
Retail sales		**1 749.1**	1 497.6
Finance charges and initiation fees earned		**943.1**	940.6
Finance charges earned		**647.2**	672.1
Initiation fees earned		**295.9**	268.5
Fees from ancillary services	21	**311.0**	226.0
Cost of Retail sales		**(853.6)**	(759.3)
Debtor costs	22	**(503.6)**	(478.1)
Other trading expenses	22	**(906.1)**	(789.7)
Other net gains and losses	23	**0.8**	7.5
Other income	24	**11.2**	3.5
Operating profit		**751.9**	648.1
Interest received		**6.5**	3.4
Interest paid		**(82.8)**	(64.8)
Share of loss of associates		**(8.8)**	(1.6)
Profit before taxation		**666.8**	585.1
Taxation	26	**(147.1)**	(160.3)
Profit and total comprehensive income for the year		**519.7**	424.8
Earnings per share (cents)			
Basic	32	**501.9**	414.8
Diluted	32	**496.7**	410.5
Additional information (%)			
Retail gross profit margin		**51.2**	49.3

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

Group statement of changes in equity

for the year ended 31 December 2017

	Stated and share capital Rm	Share premium Rm	Treasury shares Rm	Reorgan-isation reserve Rm	Other reserves Rm	Retained earnings Rm	Equity attributable to owners of the parent Rm
Balance at 1 January 2016	1.0	2 987.6	(2.7)	(2 960.6)	4.5	1 721.6	1 751.4
Changes in equity							
Profit and total comprehensive income for the year	–	–	–	–	–	424.8	424.8
Shares issued	–	10.8	–	–	–	–	10.8
Dividends paid	–	–	–	–	–	(158.8)	(158.8)
Share incentive schemes	–	–	–	–	1.9	–	1.9
Total changes	–	10.8	–	–	1.9	266.0	278.7
Balance at 1 January 2017	**1.0**	**2 998.4**	**(2.7)**	**(2 960.6)**	**6.4**	**1 987.6**	**2 030.1**
Changes in equity							
Profit and total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**519.7**	**519.7**
Shares issued	**–**	**4.3**	**–**	**–**	**–**	**–**	**4.3**
Dividends paid	**–**	**–**	**–**	**–**	**–**	**(175.1)**	**(175.1)**
Share incentive schemes	**–**	**–**	**–**	**–**	**7.5**	**–**	**7.5**
Total changes	**–**	**4.3**	**–**	**–**	**7.5**	**344.6**	**356.4**
Balance at 31 December 2017	**1.0**	**3 002.7**	**(2.7)**	**(2 960.6)**	**13.9**	**2 332.2**	**2 386.5**

Group statement of cash flows

for the year ended 31 December 2017

	Notes	2017 Rm	2016 Rm
Cash flows from operating activities			
Operating cash flows before working capital changes	28	**813.5**	698.8
Movements in working capital	28	**(454.8)**	(421.8)
Cash generated from operations	28	**358.7**	277.0
Interest received		**6.5**	3.4
Interest paid	25	**(78.0)**	(60.5)
Taxation paid	29	**(122.4)**	(140.6)
Net cash inflow from operating activities		**164.8**	79.3
Cash flows from investing activities			
Purchase of property, plant and equipment	4	**(28.3)**	(26.3)
Proceeds on disposal of property, plant and equipment		**0.3**	0.4
Purchase of intangible assets	5	**(28.0)**	(20.1)
Loans repaid by employees		**–**	0.2
Investment in associates and other		**(19.8)**	(6.8)
Net cash outflow from investing activities		**(75.8)**	(52.6)
Cash flows from financing activities			
Proceeds from the issuance of shares		**4.3**	10.8
Proceeds from interest-bearing liabilities		**714.5**	369.6
Repayments of interest-bearing liabilities		**(699.5)**	(140.4)
Finance-raising costs paid		**(8.9)**	(7.2)
Dividends paid		**(175.1)**	(158.8)
Net cash (outflow)/inflow from financing activities		**(164.7)**	74.0
Net (decrease)/increase in cash and cash equivalents and bank overdrafts		**(75.7)**	100.7
Cash, cash equivalents and bank overdrafts at the beginning of the year		**187.2**	86.5
Cash, cash equivalents and bank overdrafts at the end of the year	10	**111.5**	187.2

Group segmental information

for the year ended 31 December 2017

		2017					
		Total Rm	Retail Rm	Financial Services Rm	Property Rm	Other Rm	Intragroup Rm
Segmental revenue		3 058.7	2 337.5	665.7	55.5	–	–
Retail sales		1 749.2	1 749.2	–	–	–	–
Finance charges and initiation fees earned		943.1	459.1	484.0	–	–	–
Fees from ancillary services		366.4	129.2	181.7	55.5	–	–
Intersegment revenue		(55.5)	–	–	(55.5)	–	–
Revenue from external customers		3 003.2	2 337.5	665.7	–	–	–
Total trading expenses (refer to note 22)		1 409.7	1 062.5	360.6	24.0	7.1	(44.5)
EBITDA		800.6	474.7	313.8	32.9	(20.8)	–
Depreciation and amortisation		(57.5)	(53.5)	(2.7)	(1.3)	–	–
Interest received		3.6	–	2.9	–	61.3	(60.6)
Interest paid		(54.2)	–	(57.2)	–	(57.6)	60.6
Segmental operating profit*		692.5	421.2	256.8	31.6	(17.1)	–
Interest received		2.9	2.9	–	–	–	–
Interest paid		(28.6)	(4.0)	–	(24.6)	–	–
Profit before taxation		666.8	420.1	256.8	7.0	(17.1)	–
Taxation		(147.1)	(101.0)	(46.4)	1.0	(0.7)	–
Profit after taxation		519.7	319.1	210.4	8.0	(17.8)	–
Segmental assets		3 609.8	2 154.5	1 387.3	341.1	1 014.7	(1 287.8)
Segmental liabilities		1 223.3	505.6	1 065.9	283.0	658.1	(1 289.3)
Operating cash flows before working capital changes		813.5	478.1	309.4	32.9	(6.9)	–
Movements in working capital		(454.8)	(270.4)	(179.6)	(3.5)	(1.2)	(0.1)
Cash generated/(utilised) by operations		358.7	207.7	129.8	29.4	(8.1)	(0.1)
Capital expenditure							
Property, plant and equipment		28.3	25.9	0.4	2.0	–	–
Intangible assets		28.0	20.2	7.8	–	–	–
Change in Retail sales	(%)	16.8	16.8				
Change in EBITDA	(%)	14.1	13.0	20.4	5.1	94.4	
Change in debtor costs	(%)	5.3	10.9	(5.4)			
Change in other trading expenses	(%)	14.7	11.7	27.3	7.7	(26.2)	
Gross profit margin	(%)	51.2	51.2				
Segmental results margin	(%)	22.6	18.0	38.6	57.0		

* *Refer to note 1.31 for further details on segments and segmental results.*

	2016					
	Total Rm	Retail Rm	Financial Services Rm	Property Rm	Other Rm	Intragroup Rm
	2 716.5	2 082.7	581.5	52.3	–	–
	1 497.6	1 497.6	–	–	–	–
	940.6	491.7	448.9	–	–	–
	278.3	93.4	132.6	52.3	–	–
	(52.3)	–	–	(52.3)	–	–
	2 664.2	2 082.7	581.5	–	–	–
	1 267.8	953.5	325.1	22.3	9.6	(42.7)
	701.4	420.2	260.7	31.3	(10.7)	(0.1)
	(54.8)	(49.5)	(3.6)	(1.3)	(0.4)	–
	1.5	–	0.6	–	36.1	(35.2)
	(31.5)	–	(31.7)	–	(34.2)	34.4
	616.5	370.7	226.0	30.0	(9.3)	(0.9)
	1.9	1.9		–		
	(33.3)	(7.5)	–	(25.8)	–	–
	585.1	365.1	226.0	4.2	(9.3)	(0.9)
	(160.3)	(97.5)	(54.1)	(4.2)	(4.5)	–
	424.8	267.6	171.9	–	(13.8)	(0.9)
	3 198.5	1 761.9	1 095.5	340.1	589.8	(588.8)
	1 168.4	572.3	389.7	279.5	514.7	(587.8)
	698.8	421.5	255.8	31.3	(9.2)	(0.6)
	(421.8)	(265.1)	(161.4)	2.5	1.7	0.5
	277.0	156.4	94.4	33.8	(7.5)	(0.1)
	26.3	21.8	0.8	4.4	0.1	(0.8)
	20.1	15.0	0.3	–	4.9	(0.1)
	25.1	25.1				
	11.0	11.3	11.7	3.5	(10.7)	
	20.3	23.9	14.0			
	18.4	11.2	57.9	>100.0	(39.4)	
	49.3	49.3				
	22.7	17.8	38.9	57.4		

Notes to the group annual financial statements

for the year ended 31 December 2017

1. Accounting policies

1.1 Presentation of annual financial statements

The significant accounting policies applied in the preparation of the separate and consolidated financial statements are set out below. The consolidated financial statements of HomeChoice International PLC and its subsidiaries and the separate financial statements have been prepared in accordance with the International Financial Reporting Standards as adopted by the European Union (EU) and International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), interpretations by the International Financial Reporting Interpretations Committee (IFRIC) and the requirements of the Maltese Companies Act.

All IFRS issued by the IASB and effective at the beginning of the financial period covered by these consolidated and separate financial statements have been adopted by the EU through the endorsement procedures established by the European Commission. The standards and amendments endorsed by the EU have a different implementation date to that of the IASB.

The standards and amendments endorsed by the EU which have a different implementation date to that of the IASB have no impact on the consolidated and separate financial statements and therefore these statements comply with both International Financial Reporting Standards as adopted by the EU and the International Financial Reporting Standards issued by the IASB.

Note 2.2 sets out standards and interpretations that are not yet effective in terms of IFRS issued by the IASB but relevant to the group. IFRS 9, IFRS 15 and IFRS 16 have been endorsed for use in the EU and IFRS 17 has not yet been endorsed.

1.2 Basis of consolidation

The consolidated annual financial statements include those of the company and its subsidiaries, including any special purpose entities such as the employee share trust. The capital reorganisation of HomeChoice Holdings Limited to HomeChoice International PLC has been accounted for in accordance with the principles of reorganisation accounting as applicable to group reorganisations. The consolidated financial statements are therefore presented as if HomeChoice International PLC had been the parent company of the Group throughout the periods presented.

1.3 Basis of preparation

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

1.4 Investment in subsidiaries

Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases. The group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. The results of subsidiaries are included in the consolidated annual financial statements from the effective date of acquisition to the effective date of disposal. All intergroup transactions, balances, income and expenses are eliminated on consolidation. In the company's financial statements, investments in subsidiaries are carried at cost less any impairment.

1.5 Investment in associate

An associate is an entity over which the group has significant influence and which is neither a subsidiary nor a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. Investments

in associates are accounted for using the equity method of accounting and are initially recognised at cost. The group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss. Refer to note 1.9 for the impairment of non-financial assets, including goodwill. The group's share of its associates' post-acquisition profits or losses is recognised in profit and loss, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. Unrealised gains on transactions between the group and its associates are eliminated to the extent of the group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. When the group reduces its level of significant influence or loses significant influence, the group proportionately reclassifies the related items which were previously accumulated in equity through other comprehensive income to profit or loss as a reclassification adjustment. In such cases, if an investment remains, that investment is measured to fair value, with the fair value adjustment being recognised in profit or loss as part of the gain or loss on disposal. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the group.

1.6 Cell captive insurance contracts

The group has entered into an insurance cell arrangement with Guardrisk, a licensed insurance company. The company purchased shares in insurance cells within South Africa and Mauritius. These "cells" issue contracts that transfer insurance risk. The risks and rewards associated with these contracts are transferred to the Company through a cell agreement.

Mauritian insurance cell
The group entered into a shareholders' agreement for an insurance cell domiciled in Mauritius. The insurance cell meets the definition of a "deemed separate entity" per IFRS 10 and considered that control has been established. The group will consolidate the insurance cell as per accounting policy 1.4, Investment in subsidiaries.

South African insurance cell
The group has an economic interest in an insurance cell domiciled in South Africa. The group accounts for the insurance cell as an investment in insurance contract. The net profit or loss after tax from the cells is accounted for by the Group in "Fees from ancillary services" in the income statement. The net investment in the cells is shown under "Investment in associates and other" in the statement of financial position.

In determining the profit from the cell captive contracts the following insurance accounting policies are applied:

- Insurance contracts are those contracts that transfer significant insurance risk. Such contract may also transfer financial risk. As a general guideline, the cell defines as significant insurance risk the possibility of having to pay benefits on the occurrence of an insured event that are more than the benefits payable if the insured event did not occur. Insurance business is transacted in respect of credit life, funeral and product protection.
- The net result from insurance cell operations is the net insurance result of the investment in insurance contracts. The net result takes into account insurance premium revenue, insurance claims, salvage and recoveries, acquisition costs, reinsurance and taxes as accounted for by the insurance cell. The amounts are payable to the group in terms of the contract subject to certain liquidity and solvency requirements of the insurance cell.

1.7 Property, plant and equipment

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

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

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

Buildings*	10.0%
Furniture and fittings	4.0% – 33.3%
Office equipment	7.7% – 33.3%
Computer equipment	11.1% – 50.0%
Motor vehicles	14.3% – 25.0%
Plant and machinery	14.3% – 33.3%

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

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

1.8 Intangible assets

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

Licences	10.0% – 33.3%
Computer software	10.0% – 33.3%

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

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

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

1.9 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, being the higher of its fair value less costs of disposal and its value in use. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount, with the impairment loss being recognised in profit and loss. An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since

the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised for the asset in prior years. Such a reversal is recognised in profit and loss.

1.10 Inventory

Inventory is valued at the lower of cost, determined on the first-in-first-out basis, and net realisable value. Cost consists of all costs of purchase and other costs incurred in bringing the inventories to their present location and condition, net of insurance; freight; and customs duties attributable to inventories. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and cost necessary to make the sale.

1.11 Leases

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

1.12 Financial instruments

Financial instruments recognised on the statement of financial position include trade and other receivables, cash and cash equivalents, trade and other payables and interest-bearing borrowings and derivative financial instruments. 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 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.

1.13 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.

1.14 Cash and cash equivalents and bank overdrafts

Cash and cash equivalents, consisting of cash on hand, cash in banks, short-term deposits and bank overdrafts, are subsequently measured at amortised cost. Bank overdrafts are disclosed separately on the face of the statement of financial position.

1.15 Financial guarantee contracts

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

1.16 Trade and other payables

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

1.17 Interest-bearing borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the drawdown occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Notes to the group annual financial statements

for the year ended 31 December 2017 (continued)

1.18 Derivative financial instruments

All derivative financial instruments are classified as financial assets or financial liabilities at fair value through profit or loss unless they are designated as a hedging instrument in an effective hedge.

1.19 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

The group assesses at the end of each reporting period whether there is objective evidence that a financial asset, or group of financial assets, is impaired. A financial asset, or a group of financial assets, is impaired and a provision for impairment of receivables is established and impairment losses incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset, or group of financial assets, that can be reliably estimated. A default or delinquency in payment is regarded as the primary objective evidence that a receivable might be impaired. Other objective evidence includes historical loss experience of groups of financial assets with similar repayment terms, or data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group. The latter would include adverse changes in the payment status of borrowers in the group, or national or local economic conditions that correlate with defaults on the assets in the group. For trade and loans receivable 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. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. Trade and loans receivable are written off and, if previously impaired, the doubtful debt allowance utilised when there is no realistic prospect of future recovery and all collateral (where applicable) has been realised or transferred to the group. 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 reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

1.20 Share capital and equity

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

Stated and share capital

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

Share premium

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

Treasury shares

Shares in the company held by a share trust are classified as treasury shares. Treasury shares are treated as a deduction from equity and the cost price of these shares is deducted in arriving at group equity. No gain or loss is recognised in profit and loss on the purchase, sale, issue or cancellation of the group's own equity instruments. The sales consideration from any subsequent resale of the shares, net of any directly attributable transaction costs, are credited to retained earnings.

1.21 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.

1.22 Share-based payments

The group operates equity-settled share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments of the group. The fair value of the employee services received in exchange for the grant of the equity instruments is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the equity instruments 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 equity instruments 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 equity instruments that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in profit and loss, with a corresponding adjustment to equity. When the equity instruments are exercised the company issues new shares or settles through releasing existing treasury shares. If issuing new shares the proceeds received net of any directly attributable transaction costs are credited to stated capital when the options are exercised. If settling through the release of existing treasury shares the proceeds received net of any directly attributable transaction costs are credited to retained earnings, with the resulting decrease in treasury shares being debited to same. The grant by the company of equity instruments over its equity instruments to the employees of subsidiary undertakings in the group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent stand-alone accounts.

1.23 Provisions and contingencies

Provisions are recognised when the group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Where discounting is used the increase in the provision due to the passage of time is recognised as a borrowing cost. For further details on the nature of provisions raised within the group refer to note 18. A contingent liability is a present obligation that arises from past events but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or the amount of the obligation cannot be measured with sufficient reliability. Contingent liabilities are not recognised.

1.24 Revenue recognition

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

Retail sales

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

Finance charges earned and initiation fees earned

Finance charges earned includes finance charges and delinquent interest earned on trade and other receivable balances. Finance charges and delinquent interest are recognised on the time-proportionate basis using the effective interest rate implicit in the instrument. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate the group estimates cash flows and includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Initiation fees are charged upfront and are capitalised on initiation of a loan or credit sale. In accordance with IAS 18,

Revenue these initiation 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.

Fees from ancillary services
Fees from ancillary services include revenue earned for administration of transactions with customers, as well as insurance profits received on our credit life products and group schemes. Monthly administration fees are recognised in profit and loss as they are charged to the customer. Insurance premiums and income from insurance contracts are recognised as income when the right to receive payment is established.

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

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

1.26 Debtor costs
Debtor costs relate to all trade and loan receivables owed to the group that have been written off, less all amounts previously written off and which are recovered during the period, plus the movement in the provision for impairment of trade and loan receivables. These costs are recognised in profit or loss when it is probable that the outflow of economic benefits associated with a transaction will occur and that outflow can be measured reliably.

1.27 Borrowing costs
General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

1.28 Employee benefits
Retirement obligations
The group operates a defined contribution retirement provident fund scheme which is funded through payments to insurance companies, determined by periodic actuarial calculations.

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

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

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

Current taxation
Management periodically evaluates positions taken in tax returns with respect to situations in which tax regulation is subject to interpretation. Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The

tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

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

Withholding tax on dividends
Dividends tax withheld by the company on dividends paid to its shareholders (who do not qualify for an exemption from dividends tax) and payable at the reporting date to the South African Revenue Service (where applicable) is included in trade and other payables in the statement of financial position.

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

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

- **Retail:** The Retail segment reflects the results of HomeChoice and FoneChoice. HomeChoice is an omni-channel home-shopping retailer providing a range of homewares and selected apparels and footwear products whilst FoneChoice retails technology-related products to HomeChoice customers.
- **Financial Services:** The Financial Services segment reflects the results of FinChoice. FinChoice provides personal loans and insurance products.
- **Property:** This segment holds land and buildings which are primarily used by Retail and Financial Services.
- **Other:** Aggregated under Other is the holding company's results and the results of the group's associates.

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

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

The chief operating decision-maker monitors the results of the business segments separately for the purposes of making decisions about resources to be allocated and of assessing performance.

They assess the performance of the Retail and Property segments based upon a measure of operating profit and Financial Services and Other segments based on a measure of operating profit after interest received and interest paid. Intersegment pricing is determined on an arm's length basis in a manner similar to transactions with third parties, with the exception of certain intergroup loans, as disclosed in notes 2 and 3 to the company annual financial statements.

1.32 Significant accounting judgements, estimates and assumptions

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

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

Trade and loan receivables

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

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current period

In the current year the group has adopted the following standards and interpretations issued by the IASB that are effective for the current financial year and that are relevant to its operations:

IAS 7, Statement of Cash Flows

An amendment has been made introducing an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment responds to requests from investors for information that helps them better understand changes in an entity's debt. The amendment will affect every entity preparing IFRS financial statements. The impact of this amendment does not have a material impact on the group.

The IASB has issued the following new standards, amendments or interpretations to existing standards. These are effective during the year, but are not relevant to the group's operations:

Standard/interpretation (effective years beginning on or after 1 January 2017)

- Amendments to IAS 12 – Clarification of accounting for deferred tax where asset measures at fair value.
- Annual improvements 2012 – 14 cycle

The above new standards and amendments have an implementation date of 1 January 2017 as per EU endorsement.

2.2 Standards and interpretations not yet effective but relevant

The group has chosen not to early adopt the following standards and interpretations, which have been published and are mandatory for the group's accounting periods beginning on or after 1 January 2018 or later periods:

New standard	Nature of the change	Impact
IFRS 2, Classification and measurement of share-based payment transactions	An amendment has been made addressing three classification and measurement issues. The amendment addresses the accounting for cash-settled, share-based payments and equity-settled awards that include a "net settlement" feature in respect of withholding taxes. The amendment clarifies the measurement basis for cash-settled, share-based payments and the accounting for modifications that change an award from cash settled to equity settled. It also introduces an exception to the principles in IFRS 2 that will require an award to be treated as if it was wholly equity settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority.	The group has assessed the impact of the amendment to IFRS 2, which is effective from 1 January 2018, and expects that the standard will have no significant effect, when applied on the consolidated financial statements and separate financial statements of HomeChoice International PLC.
Applying *IFRS 9, Financial Instruments* with *IFRS 4, Insurance Contracts – Amendments to IFRS 4*	The amendments to IFRS 4 address the concerns of insurance companies about the different effective dates of *IFRS 9, Financial Instruments* and the new insurance contracts standard. The amendment provides two different solutions for insurance companies: a temporary exemption from IFRS 9 for entities that meet specific requirements (applied at the reporting entity level), and the "overlay approach". Both approaches are optional.	HomeChoice International PLC is not eligible to apply the temporary exemption and will adopt IFRS 9 from 1 January 2018. HomeChoice International PLC will not apply the overlay approach when it firsts applies IFRS 9.

Notes to the group annual financial statements

for the year ended 31 December 2017 (continued)

New standard	Nature of the change	Impact
IFRS 9, Financial Instruments: Classification and Measurement	IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.	The group has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on 1 January 2018: **Financial assets** All of the group's financial assets which are currently classified as loans and receivables will satisfy the conditions for classification as at amortised cost and hence there will be no change to the accounting for these assets. **Financial liabilities** There will be no impact on the group's accounting for financial liabilities as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the group does not have any such liabilities. The derecognition rules have been transferred from *IAS 39, Financial Instruments: Recognition and Measurement* and have not been changed. **Hedging** The new hedge accounting rules will align the accounting for hedging instruments more closely with the group's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach. The group does not currently apply hedge accounting and will continue to account for its forward exchange contracts at fair value through profit and loss. **Impairment model** The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at fair value of other comprehensive income (FVOCI), contract assets under *IFRS 15, Revenue from Contracts with Customers*, lease receivables, loan commitments and certain financial guarantee contracts. Management has documented policies and procedures in line with the new standard. A new impairment model has been built and management is in the process of testing the model. Based on the assessments undertaken to date the group will be adopting the general impairment approach as the accounting policy for trade and loan receivables. **Transition** IFRS 9 must be applied for financial years commencing on or after 1 January 2018. The group will apply the new rules retrospectively from 1 January 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated.

<table>
<tr><th>New standard</th><th>Nature of the change</th><th>Impact</th></tr>
<tr><td>IFRS 15, Revenue from Contracts with Customers</td><td>The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

The standard permits either a full retrospective or a modified retrospective approach for the adoption.</td><td>Management is currently assessing the effects of applying the new standard on the group's financial statements and has identified the following areas that are likely to be affected:
• Service fees: The assessment of the nature and substance of service fees is being concluded as this will impact on the identification of the separate performance obligations as required by IFRS 15.
• Rights of return: IFRS 15 requires separate presentation on the statement of financial position of the right to recover the goods from the customer and the refund obligation.
• Finance income is not in scope for IFRS 15.

The group is currently concluding its assessment of the impact of IFRS 15.

Transition
IFRS 15 is mandatory for financial years commencing on or after 1 January 2018. The group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.</td></tr>
<tr><td>IFRS 16, Leases</td><td>IFRS 16 will result in almost all leases being recognised on the statement of financial position, as the distinction between operating and finance leases is removed. Under the new standard an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.</td><td>The group is currently assessing the impact of IFRS 16 and expects that the standard will have no significant effect when applied on the consolidated financial statements and separate financial statements of HomeChoice International PLC. Existing operating lease commitments are set out in note 27.

Transition
IFRS 16 is mandatory for financial years commencing on or after 1 January 2018. At this stage the group does not intend to adopt the standard before its effective date.</td></tr>
</table>

Notes to the group annual financial statements

for the year ended 31 December 2017 (continued)

New standard	Nature of the change	Impact
IFRS 17, Insurance Contracts	IFRS 17 was issued as replacement for *IFRS 4, Insurance Contracts.* IFRS 17 requires a current measurement model where estimates are remeasured each reporting period. Contracts are measured using the building blocks of: • discounted probability-weighted cash flows; • an explicit risk adjustment; and • a contractual service margin (CSM) representing the unearned profit of the contract which is recognised as revenue over the coverage period. The standard allows a choice between recognising changes in discount rates either in the income statement or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under IFRS 9. An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts.	The group is currently assessing the impact of IFRS 17. **Transition** IFRS 17 is mandatory for financial years commencing on or after 1 January 2021, subject to being adopted by the EU. At this stage the group does not intend to adopt the standard before its effective date.

2.3 Standards and interpretations not yet effective or relevant

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

- Amendments to *IAS 40, Transfers of Investment Property*
- *IFRIC 22, Foreign Currency Transactions and Advance Consideration*
- *IFRIC 23, Uncertainty Over Income Tax Treatments*

3. Risk management and financial instrument disclosure

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

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

3.1 Capital risk management

The group's objectives in managing capital is to sustain its ability to continue as a going concern while enhancing returns to shareholders. The group primarily makes use of equity for capital management purposes. Equity consists of ordinary share capital and reserves as disclosed in the statement of changes in equity. The capital structure of the group also consists of debt, which includes the borrowings disclosed in note 15, and cash and cash equivalents disclosed in note 10.

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 its capital requirements. The directors also consider the cost of capital and the risks associated with each class of capital. The board monitors the return on equity and seeks to maintain a balance between the higher returns that may be possible with higher levels of borrowings and the security and other benefits afforded by a sound capital position. The directors have determined a medium-term target of 25% to 30%. This target will be reviewed at the next strategy cycle with regard to the increased dividend cover and interest expense for group funding requirements.

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

There were no changes in the group's approach to capital maintenance during the year. During the current and prior years there were no defaults or breaches of any of the group's agreements with its lenders.

Notes to the group annual financial statements

for the year ended 31 December 2017 (continued)

3. Risk management and financial instrument disclosure (continued)

3.2 Financial risk management

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

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

	Notes	Loans and receivables Rm	Non-financial assets Rm	Total Rm
Assets				
2017				
Current assets				
Trade receivables – Retail	9	**1 482.4**	**–**	**1 482.4**
Loans receivable – Financial Services	9	**1 162.8**	**–**	**1 162.8**
Other receivables	9	**8.8**	**6.2**	**15.0**
Cash at bank	10	**130.3**	**–**	**130.3**
Total		**2 784.3**	**6.2**	**2 790.5**
Guarantees		**–**		
Maximum exposure to credit risk		**2 784.3**		
2016				
Current assets				
Trade receivables – Retail	9	1 221.7	–	1 221.7
Loans receivable – Financial Services	9	969.5	–	969.5
Other receivables	9	17.1	6.4	23.5
Cash at bank	10	187.3	–	187.3
Total		2 395.6	6.4	2 402.0
Guarantees		15.0		
Maximum exposure to credit risk		2 410.6		

3. Risk management and financial instrument disclosure (continued)

3.2 Financial risk management (continued)

	Notes	At amortised cost Rm	Non-financial liabilities Rm	At fair value through profit and loss Rm	Total Rm
Liabilities					
2017					
Non-current liabilities					
Mortgage bonds	15	**123.5**	**–**	**–**	**123.5**
Suspensive sale agreements	15	**13.0**	**–**	**–**	**13.0**
Commercial term loan facilities	15	**479.5**	**–**	**–**	**479.5**
Non-current other payables	16	**5.6**	**–**	**–**	**5.6**
Current liabilities					
Trade payables	17	**204.1**	**–**	**–**	**204.1**
Other payables	17	**35.6**	**1.5**	**–**	**37.1**
Mortgage bonds	15	**87.1**	**–**	**–**	**87.1**
Suspensive sale agreements	15	**13.6**	**–**	**–**	**13.6**
Commercial term loan facilities	15	**64.9**	**–**	**–**	**64.9**
Bank overdraft	10	**18.8**	**–**	**–**	**18.8**
Derivative financial intruments	19	**–**	**–**	**5.1**	**5.1**
Total		**1 045.7**	**1.5**	**5.1**	**1 052.3**
2016					
Non-current liabilities					
Mortgage bonds	15	209.9	–	–	209.9
Suspensive sale agreements	15	23.1	–	–	23.1
Commercial term loan facilities	15	346.1	–	–	346.1
Non-current other payables	16	4.9	–	–	4.9
Current liabilities					
Trade payables	17	165.0	–	–	165.0
Other payables	17	44.9	4.6	–	49.5
Listed bonds	15	–	–	–	–
Mortgage bonds	15	18.8	–	–	18.8
Suspensive sale agreements	15	12.7	–	–	12.7
Shareholder loan	20	160.1	–	–	160.1
Total		985.5	4.6	–	990.1

Notes to the group annual financial statements

for the year ended 31 December 2017 (continued)

3. Risk management and financial instrument disclosure (continued)

3.3 Credit risk management

The group uses credit to facilitate merchandise sales which enables customers in the mass middle-income market to purchase higher-value products on credit. Credit is offered for HomeChoice purchases in South Africa, Botswana, Namibia, Lesotho and Swaziland, while FinChoice loans are currently only available to customers in South Africa.

Credit risk refers to the risk that a counterparty will default on its contractual obligations, resulting in financial loss to the group. The group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The average group customer is female and falls within LSM groups 4 to 8. There is no further concentration of credit risk as the group has a large, widespread customer base. Credit risk consists 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.

Credit risk is managed through a process of continued multiple-level risk filtering. New customers are acquired through Retail and the group customer base has a strong female bias. Females, particularly those buying homeware products, have proven better credit risk than their male counterparts.

In assessing applications for credit, strict affordability criteria are applied together with in-house developed scorecards based on credit bureau data. Industry-wide fraud detection tools are used to identify potentially fraudulent applications. Customer acquisition takes into account the risk level, repurchase propensity and profitability of new customers. New customers are granted a low credit exposure relative to their affordability. This allows the group to monitor payment behaviour with low exposure risk. As a customer demonstrates good payment performance and the behaviour scorecards identify her as a better risk, the purchase limit is raised closer to the maximum affordability level.

Behaviour scorecards are used to determine credit extension to good-paying customers, to drive repurchase rates and repeat loans, and reduce average bad debt. These scorecards are regularly reviewed and upgraded to ensure the group's credit policy remains in line with an acceptable level of risk for repeat business. As a direct marketer the group has the ability to manage credit risk by restricting potential customers to receive marketing offers.

Financial Services' initial loans are primarily only granted to Retail customers who have demonstrated good payment behaviour. This ensures that Financial Services' offers are marketed to relatively low-risk prospects. The selection criteria have enabled the business to select a profitable group of loan customers, with a stable and acceptable risk of bad debt.

All group data is taken into account when a customer is considered for credit extension. In this way a customer in arrears with any group product will not be granted further credit for Retail or Financial Services. The quality of the customer base is closely monitored and early default models are maintained to detect any signs of early customer default.

The group operates dedicated collections call centres with predictive dialling technology to optimise customer contact. Customers with overdue accounts are contacted and "promise to pay" arrangements agreed and diarised for follow-up. External collection agents are used to supplement collections activities to recover outstanding balances. The group does not hold any collateral against receivable balances.

A provision for impairment is raised when there is objective evidence that the business will not be able to collect all amounts due according to the original terms of the receivable. A default or delinquency in payment is regarded as objective evidence that a receivable might be impaired. Accordingly a percentage of all trade and loans receivable is provided for. The group establishes an allowance for impairment that represents its estimate of incurred losses using delinquency roll rate models.The estimation of credit losses makes use of detailed models that are used to determine credit impairments. These are complex data-driven models based on account performance over a period of time. A committee consisting of credit risk, finance and company directors review the output of the models to ensure that a consistent and rigorous approach is followed. The model uses roll rates as a primary indicator in determining the future impaired population from the latest balances. These balances are split by contractual delinquency that each carry a future impairment percentage, based on historical default and recovery rates. In order to ensure that the model is robust and accurate, the data is divided into several segments based on customer type, term, month on books and product. The provision model does not assess each account on an individual basis, but rather at a portfolio level. Debt restructuring and debt review portfolios are provided for independently and then incorporated into the overall provision number.

In preparation that IFRS 9 will replace IAS 39 in 2018, the group has invested in new models following the IFRS 9 approach. These models were developed in 2017 and are currently being tracked against the IAS 39 models.

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

3. Risk management and financial instrument disclosure (continued)

3.3 Credit risk management (continued)

Trade receivables

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

The group manages the ageing of trade receivables on a contractual basis. Trade receivables classified as "satisfactory paid" includes current receivables and amounts past due less than 30 days. Past experience has shown that a significant portion of amounts past due less than 30 days carry credit risk similar to that of current receivables and accordingly these balances are reviewed together. The ageing of customers, as presented below, are expressed as a percentage of the value of outstanding balances, based on both the gross trade receivables book before provisions and the net trade receivables book after provisions.

	% of gross trade receivables		% of net trade receivables	
	2017	2016	**2017**	2016
Contractual				
Retail				
Satisfactory paid	**71.3**	69.9	**78.3**	77.0
Current	**53.5**	49.8	**60.7**	57.1
Past due less than 30 days	**17.8**	20.1	**17.6**	19.9
Past due 31 – 60 days	**9.1**	9.6	**7.7**	8.3
Past due 61 – 90 days	**5.5**	5.9	**3.9**	4.3
Past due more than 91 days	**14.1**	14.6	**10.1**	10.4
	100.0	100.0	**100.0**	100.0
Trade receivables gross, net (Rm)	**1 806.1**	1 507.3	**1 482.4**	1 221.7

Loans receivable

The loans receivable book is derived from Retail customers who have demonstrated good payment behaviour. Loans receivable have repayment terms of between one and 36 months. The group manages the ageing of loans receivable on a recency basis. Recency refers to the number of payment cycles that have elapsed since the last qualifying payment was received.

The ageing of customers, as presented below, are expressed as a percentage of the value of outstanding balances, based on both the gross loans receivable book before provisions and the net loans receivable book after provisions.

	% of gross loans receivable		% of net loans receivable	
	2017	2016	**2017**	2016
Recency				
Financial Services				
Current	**88.1**	87.3	**93.6**	93.7
Not paid 1 – 30 days	**6.6**	5.8	**4.6**	4.0
Not paid 31 – 60 days	**2.3**	3.3	**1.1**	1.3
Not paid more than 61 days	**3.0**	3.6	**0.7**	1.0
	100.0	100.0	**100.0**	100.0
Loans receivable gross, net (Rm)	**1 351.7**	1 147.3	**1 162.8**	969.5

Notes to the group annual financial statements

for the year ended 31 December 2017 (continued)

3. Risk management and financial instrument disclosure (continued)

3.3 Credit risk management (continued)

	2017 %	2016 %
Loan product weighting		
Financial Services		
1-month loan	**2.6**	1.3
6-month loan	**7.0**	7.8
12-month loan	**22.4**	21.7
24-month loan	**43.9**	43.2
36-month loan	**10.9**	13.6
Other	**13.2**	12.5
	100.0	100.0

Non-performing trade and loan receivables, being accounts 120 days or more contractually in arrears, as a percentage of the trade and loans receivable books were as follows at the reporting dates:

	2017 %	2016 %
Retail	**9.9**	10.3*
Financial Services	**4.2**	4.7

* *This has been restated from which was incorrectly disclosed in the December 2016 annual financial statements.*

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

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

3. Risk management and financial instrument disclosure (continued)

3.4 Liquidity risk management

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

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

	Weighted average interest rate %	On demand Rm	1 year Rm	2 years Rm	3 years Rm	4 years Rm	Over 4 years Rm	Total Rm	Carrying value Rm
2017									
Non-interest-bearing liabilities									
Non-current other payables	–	–	–	1.1	1.0	0.9	2.6	5.6	5.6
Trade and other payables	–	154.1	87.1	–	–	–	–	241.2	241.2
Derivative financial instruments	–	–	5.1	–	–	–	–	5.1	5.1
Financial guarantees	–	14.2	–	–	–	–	–	14.2	14.2
Interest-bearing liabilities									
Borrowings from the bank	9.59	–	105.9	23.2	23.2	23.2	98.4	273.9	210.6
Suspensive sale agreements	9.23	–	15.5	9.7	3.6	0.6	–	29.4	26.6
Commercial term loan facilities	9.98	–	117.1	108.6	102.4	324.8	–	652.9	544.4
		168.3	330.7	142.6	130.2	349.5	101.0	1 222.3	1 047.7
2016									
Non-interest-bearing liabilities									
Non-current other payables	–	–	–	1.0	0.9	0.8	2.2	4.9	4.9
Trade and other payables	–	90.0	124.4	–	–	–	–	214.4	214.5
Financial guarantees	–	14.2	–	–	–	–	–	14.2	14.2
Interest-bearing liabilities									
Borrowings from the bank	9.83	–	41.7	106.2	23.4	23.4	122.5	317.2	228.7
Suspensive sale agreements	9.46	–	15.2	14.3	8.4	2.4	0.6	40.9	35.8
Shareholder loan	10.50	–	167.7	–	–	–	–	167.7	160.1
Commercial term loan facilities	10.10	–	35.2	91.6	85.6	79.9	188.4	480.7	346.1
		104.2	384.2	213.1	118.3	106.5	313.7	1 240.0	1 004.3

Notes to the group annual financial statements

for the year ended 31 December 2017 (continued)

3. Risk management and financial instrument disclosure (continued)

3.4 Liquidity risk management (continued)

The group has the following borrowing facilities available:

	2017 Rm	2016 Rm
General banking facilities available	**320.3**	216.4
Guarantees	**14.2**	14.2
Suspensive sale agreements facility available	**80.0**	80.0
	414.5	310.6
Amounts drawn against these facilities	**(208.0)**	(140.3)
Unutilised borrowing facilities at 31 December	**206.4**	170.3

3.5 Market risk management

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

Equity price risk management
The group is not exposed to equity price risk.

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

The group had foreign liabilities at 31 December 2017 amounting to R17.4 million (2016: R23.2 million). Refer to note 19 on outstanding forward exchange contracts at the reporting date.

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

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

	Effect on profit after taxation	
	2017 Rm	2016 Rm
15% appreciation in ZAR/USD exchange rates	**(1.2)**	2.4
15% depreciation in ZAR/USD exchange rates	**1.2**	(2.4)
15% appreciation in ZAR/EUR exchange rates	**–**	–
15% depreciation in ZAR/EUR exchange rates	**–**	–

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

	2017 Rm	2016 Rm
Cash and cash equivalents	**28.3**	1.4
Trade and other payables	**17.4**	23.2

3. Risk management and financial instrument disclosure (continued)

3.5 Market risk management (continued)

Interest rate risk management

At year-end the group's interest-bearing assets and liabilities comprised trade and loan receivables, cash and cash equivalents, money market investments, listed bonds, 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. Trade and loan receivables are measured at amortised cost and hence does not expose the group to fair value interest rate risk.

The group measures sensitivity to interest rates as the effect of a change in the Reserve Bank repo rate on the profit after taxation based on the group's exposure at 31 December. The group regards a 100 basis point (2016: 100 basis point) change in the Reserve Bank repo rate as being reasonably possible at the reporting dates.

	Movement in basis points	Effect on profit after taxation 2017 Rm	Effect on profit after taxation 2016 Rm
Cash and cash equivalents	+100	**0.9**	1.3
	-100	**(0.9)**	(1.3)
Bank overdraft	+100	**(0.1)**	–
	-100	**0.1**	–
Borrowings from the bank	+100	**(5.4)**	(4.1)
	-100	**5.4**	4.1
Suspensive sale agreement	+100	**(0.2)**	(0.3)
	-100	**0.2**	0.3
Commercial term loan facilities	+100	**(3.9)**	–
	-100	**3.9**	–
Shareholder loan	+100	**–**	(1.2)
	-100	**–**	1.2

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.

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

The determination of what constitutes observable requires significant judgement by the entity. The entity considers observable data to be such market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The fair value of financial assets and liabilities are determined as follows:

- Cash and cash equivalents and bank overdrafts, trade and other payables: The carrying amounts reported in the statement of financial position approximate fair values because of the short-term maturities of these assets and liabilities.
- Borrowings: The carrying amounts reported in the statement of financial position approximate fair values. Fair values of debt instruments issued by the group and other borrowings are estimated using discounted cash flow models based on prevailing market rates for similar types of borrowings, with maturities consistent with those remaining for the debt instruments being valued.
- Trade and loan receivables: The carrying amounts reported in the statement of financial position approximate fair values. Discounted cash flow models are used for trade and loan receivables. The discount yields in these models use calculated rates that reflect the return a market participant would expect to receive on instruments with similar remaining maturities, cash flow patterns, credit risk, collateral and interest rates.

3.7 Insurance risk

Insurance risk is the possibility that the insured event occurs and that benefit payments and expenses exceed the carrying amount of insurance liabilities. The group manages this risk through its arrangement with Guardrisk. The group sells both credit life, funeral and product protection insurance.

Notes to the group annual financial statements

for the year ended 31 December 2017 (continued)

4. Property, plant and equipment

	2017			2016		
	Cost Rm	**Accumulated depreciation Rm**	**Carrying value Rm**	Cost Rm	Accumulated depreciation Rm	Carrying value Rm
Land and buildings	**350.5**	**(10.9)**	**339.6**	348.5	(9.6)	338.9
Motor vehicles	**2.9**	**(2.3)**	**0.6**	3.5	(2.2)	1.3
Computer equipment	**73.0**	**(40.7)**	**32.3**	70.7	(33.3)	37.4
Equipment, furniture, fittings and plant	**94.1**	**(38.0)**	**56.1**	80.0	(31.7)	48.3
Total	**520.5**	**(91.9)**	**428.6**	502.7	(76.8)	425.9

Analysis of movements

	Opening balance Rm	**Additions Rm**	**Disposals Rm**	**Depreciation Rm**	**Reclassification Rm**	**Closing balance Rm**
2017						
Land and buildings	**338.9**	**2.0**	**–**	**(1.3)**	**–**	**339.6**
Motor vehicles	**1.3**	**–**	**(0.2)**	**(0.5)**	**–**	**0.6**
Computer equipment	**37.4**	**7.1**	**–**	**(12.2)**	**–**	**32.3**
Equipment, furniture, fittings and plant	**48.3**	**19.2**	**–**	**(11.4)**	**–**	**56.1**
Total	**425.9**	**28.3**	**(0.2)**	**(25.4)**	**–**	**428.6**
2016						
Land and buildings	336.6	3.6	–	(1.3)	–	338.9
Motor vehicles	1.5	0.3	–	(0.5)	–	1.3
Computer equipment	37.6	10.9	–	(11.0)	(0.1)	37.4
Equipment, furniture, fittings and plant	46.5	11.5	(0.1)	(9.6)	–	48.3
Total	422.2	26.3	(0.1)	(22.4)	(0.1)	425.9

Land and buildings comprise:

- land and buildings, being remainder erf 66592 Cape Town at Wynberg situated in the City of Cape Town, South Africa in extent of 2 858 square metres (acquired in 2007);
- land and buildings, being remainder erf 91380 Cape Town at Wynberg situated in the City of Cape Town, South Africa in extent of 4 936 square metres (acquired in 2011);
- erf 66592 and erf 91380 were consolidated on 6 November 2015 to form erf 160341, Wynberg, City of Cape Town, South Africa; and
- industrial-site land and building, being remainder of portion 240 of the farm Wimbledon 454 situated in the City of Cape Town, South Africa and measuring 33 140 square metres (acquired in 2005).

The carrying value of property, plant and equipment subject to suspensive sale agreements (refer to note 15) as at 31 December 2017 was R42.8 million (2016: R51.0 million).

Included in property, plant and equipment are assets with a cost of R19.9 million (2016: R22.2 million) that are in use but fully depreciated.

Land and buildings include a carrying value of R339.7 million (2016: R338.9 million) currently encumbered as shown in note 15. Included in the 2016 additions are specific borrowing costs of R0.8 million which have been capitalised to the cost of the new call centre building during the year at a capitalisation rate of 9.62%.

The following, which had no further economic value, are included in disposals and have been removed from the register:

- motor vehicles with a cost of Rnil million (2016: R0.1 million) and accumulated depreciation of Rnil million (2016: R0.1 million);
- equipment, furniture and fittings and plant with a cost of R4.2 million (2016: R2.1 million) and accumulated depreciation of R4.2 million (2016: R1.9 million); and
- computer equipment with a cost of R1.6 million (2016: Rnil million) and accumulated depreciation of R1.6 million (2016: Rnil million).

5. Intangible assets

	2017			2016		
	Cost Rm	**Accumulated amortisation Rm**	**Carrying value Rm**	Cost Rm	Accumulated amortisation Rm	Carrying value Rm
Licences	**23.1**	**(19.5)**	**3.6**	35.6	(28.6)	7.0
Computer software	**171.8**	**(89.8)**	**82.0**	149.5	(66.8)	82.7
Total	**194.9**	**(109.3)**	**85.6**	185.1	(95.4)	89.7

Analysis of movements

	Opening balance Rm	Additions Rm	Disposals Rm	Amortisation Rm	Reclassifi-cation Rm	Closing balance Rm
2017						
Licences	**7.0**	**0.6**	**–**	**(4.0)**	**–**	**3.6**
Computer software	**82.7**	**27.4**	**–**	**(28.1)**	**–**	**82.0**
Total	**89.7**	**28.0**	**–**	**(32.1)**	**–**	**85.6**
2016						
Licences	11.0	0.7	–	(4.7)	–	7.0
Computer software	91.0	19.4	–	(27.8)	0.1	82.7
Total	102.0	20.1	–	(32.5)	0.1	89.7

The net carrying value of intangible assets subject to suspensive sale agreements at 31 December 2017 was R1.9 million (2016: R3.5 million). Included in intangibles are internally generated intangible assets with a carrying value of R68.1 million (2016: R69.1 million). Included in intangible assets are assets with a cost of R24.5 million (2016: R33.1 million) that are in use but fully amortised, and development costs of R22.1 million (2016: R10.1 million) incurred on assets which have not yet been brought into use by the group and have not been amortised.

6. Investment in associates and other

	2017 Rm	2016 Rm
Investment in en-commandite partnership	**14.0**	15.4
Cell captive insurance contracts	**29.7**	8.9
Carrying amount of investments	**43.7**	24.3

6.1 En-commandite partnership

The group holds a 25% interest in a partnership that transports passengers by air and accounts for this non-controlling interest as an associate. The principal place of business for the associate is Cape Town, South Africa.

Movements in the carrying value of the associate were as follows:

	2017 Rm	2016 Rm
Opening balance	**15.4**	13.3
Contributions made	**12.3**	3.7
Share of loss of associate	**(8.8)**	(1.6)
Impairment of investment in associate	**(4.9)**	–
Closing balance	**14.0**	15.4

Notes to the group annual financial statements

for the year ended 31 December 2017 (continued)

6. Investment in associates and other (continued)

6.1 En-commandite partnership (continued)

The summarised financial information of the associate is presented below:

	2017 Rm	2016 Rm
Summarised statement of comprehensive income:		
Revenue	**1.8**	4.7
Depreciation	**(1.3)**	(1.4)
Impairment of assets	**(17.7)**	–
Maintenance contract expense	**(6.5)**	(0.5)
Other operating expenses	**(10.9)**	(8.2)
Net interest paid	**–**	(0.2)
Loss for the year	**(34.6)**	(5.6)
Summarised statement of financial position:		
Current		
Trade and receivables	**0.2**	0.1
Cash and cash equivalents	**2.9**	0.5
Total current assets	**3.1**	0.6
Trade and other payables	**(0.3)**	(1.9)
Interest-bearing liabilities	**–**	(0.3)
Total current liabilities	**(0.3)**	(2.2)
Non-current		
Property, plant and equipment	**53.2**	59.3
Total non-current assets	**53.2**	59.3
Net asset value of associate	**56.0**	57.7
Reconciliation of summarised financial information		
Opening net assets, as at 1 January	**57.7**	58.1
Additional owner contributions	**32.9**	5.2
Loss for the year	**(34.6)**	(5.6)
Closing net assets, as at 31 December	**56.0**	57.7
Share of assets	**14.1**	15.0
Share of liabilities	**(0.1)**	(0.8)
Other contributions	**–**	1.2
	14.0	15.4

As at 31 December 2017 the partnership has entered into an agreement to dispose of the majority of its assets. These assets have been impaired to fair value on the basis of the expected proceeds under the terms of the agreement.

6. Investment in associates and other (continued)

6.2 Investment in insurance contract

	2017 Rm	2016 Rm
	29.7	8.9

The group has an economic interest in insurance cells. The interest in the insurance cells is represented by investments in A class ordinary shares in Guardrisk Insurance Company Limited and L class ordinary shares in Guardrisk Life Limited, entitling the group to the profits of the cell.

The group is required to ensure that the insurance cells remain at all times in a financially sound condition and maintains capital adequacy requirements (CAR) as determined by regulatory bodies and Guardrisk. If the group fails to maintain CAR it will be required to subscribe to further shares at such premium sufficient to restore the insurance cell to a financially sound condition. The insurance cells have been valued at its net asset value at the reporting date.

	2017 Rm	2016 Rm
Opening balance	**8.9**	–
Purchased contracts	**7.5**	3.1
Movement in insurance cell assets	**(26.9)**	61.6
Movement in insurance cell liabilities	**40.2**	(55.8)
Closing balance	**29.7**	8.9

7. Deferred taxation

	2017 Rm	2016 Rm
The analysis of deferred tax assets and liabilities is as follows:		
Deferred tax assets	**0.4**	38.2
Deferred tax liabilities	**(124.6)**	(134.8)
Net deferred tax liabilities	**(124.2)**	(96.6)
The gross movements on the deferred income tax account are as follows:		
At 1 January	**(96.6)**	(86.6)
Charged to profit and loss	**(27.6)**	(10.0)
At 31 December	**(124.2)**	(96.6)

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:

	Provisions Rm	Total Rm
Deferred tax assets		
At 1 January 2016	7.9	7.9
Charged to profit and loss	8.6	8.6
At 31 December 2016	16.5	16.5
Charged to profit and loss	**(3.1)**	**(3.1)**
At 31 December 2017	**13.4**	**13.4**

Notes to the group annual financial statements

for the year ended 31 December 2017 (continued)

7. Deferred taxation (continued)

	Accelerated tax wear and tear allowances Rm	Debtors' provisions and allowances Rm	Other allowances Rm	Total Rm
Deferred tax liabilities				
At 1 January 2016	(34.0)	(63.5)	3.1	(94.4)
Charged to profit and loss	(9.0)	(9.9)	0.2	(18.7)
At 31 December 2016	(43.0)	(73.4)	3.3	(113.1)
Charged to profit and loss	**1.0**	**(27.0)**	**1.5**	**(24.5)**
At 31 December 2017	**(42.0)**	**(100.4)**	**4.8**	**(137.6)**

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.

8. Inventories

	2017 Rm	2016 Rm
Merchandise for resale	**212.5**	198.3
Provision for inventory obsolescence	**(18.0)**	(22.3)
Goods in transit	**62.3**	37.8
	256.8	213.8

Inventory sold at less than cost during the current year amounted to R39.4 million (2016: R14.3 million).

9. Trade and other receivables

	2017 Rm	2016 Rm
Trade receivables – Retail	**1 806.1**	1 507.3
Provision for impairment	**(323.7)**	(285.6)
	1 482.4	1 221.7
Loans receivable – Financial Services	**1 351.7**	1 147.3
Provision for impairment	**(188.9)**	(177.8)
	1 162.8	969.5
Other receivables	**15.0**	23.5
Total trade and other receivables	**2 660.2**	2 214.7
Total trade and loan receivables	**3 157.8**	2 654.6
Provision for impairment	**(512.6)**	(463.4)
Other receivables	**15.0**	23.5

A percentage of all trade and loan receivable balances past due has been provided for – refer to note 1.32 and note 3.3 for further details of credit risk management.

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

	2017 Rm	2016 Rm
Opening balance	**(285.6)**	(226.6)
Movement in provision	**(38.1)**	(59.0)
Debtor costs charged to profit and loss	**(349.3)**	(315.0)
Debts written off during the year, net of recoveries	**311.2**	256.0
Closing balance	**(323.7)**	(285.6)

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

	2017 Rm	2016 Rm
Opening balance	**(177.8)**	(157.0)
Movement in provision	**(11.1)**	(20.8)
Debtor costs charged to profit and loss	**(154.3)**	(163.1)
Debts written off during the year, net of recoveries	**143.2**	142.3
Closing balance	**(188.9)**	(177.8)

Trade and loan receivables have repayment terms of between one and 36 months and attract interest based on rates as determined by the National Credit Act.

Included in trade and loan receivables are amounts approximating R718.1 million (2016: R644.7 million) that contractually fall due in excess of one year. These amounts are reflected as current as they form part of the normal operating cycle.

Loans receivable – Financial Services are secured under the commercial term loan facilities as described in note 15.

Notes to the group annual financial statements

for the year ended 31 December 2017 (continued)

10. Cash and cash equivalents

	2017 Rm	2016 Rm
Cash at bank	**130.3**	187.2
	130.3	187.2
Bank overdraft	**18.8**	–
Cash at bank earns interest based on daily bank deposit rates.		
Cash and cash equivalents include the following for the purposes of the statement of cash flows:		
Cash and cash equivalents	**130.3**	187.3
Bank overdraft	**(18.8)**	–
	111.5	187.3

The group is not entitled to set off the bank overdraft with cash and cash equivalents.

Group cash and cash equivalents are secured under the commercial term loan facilities as described in note 15.

Included in cash and cash equivalents is restricted cash of R37.3 million (2016: R64.8 million).

11. Stated capital, share capital and share premium

11.1 Stated and share capital

	2017 Rm	2016 Rm
Authorised		
200 000 000 (2016: 200 000 000) ordinary shares at one cent par value	**2.0**	2.0
Issued		
104 762 901 (2016: 103 510 901) ordinary shares at one cent par value	**1.0**	1.0
Total	**1.0**	1.0
Stated and share capital	**1.0**	1.0

11. Stated capital, share capital and share premium (continued)

11.1 Stated and share capital (continued)

	Millions	Millions
Reconciliation of movement in issued shares:		
Number of issued shares at the beginning of the year	**103.5**	102.5
Shares issued	**1.3**	1.0
Sub-total	**104.8**	103.5
Treasury shares held within the group	**(0.6)**	(0.6)
Number of issued shares, net of treasury shares	**104.2**	102.9
Treasury shares as a % of issued shares	**0.6**	0.6

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

11.2 Share premium

	Rm	Rm
Balance at the beginning of the year	**2 998.4**	2 987.6
Share issue	**4.3**	10.8
Balance at the end of the year	**3 002.7**	2 998.4

11.3 Reorganisation reserve

Reorganisation of Homechoice Holdings Limited into Homechoice International PLC during 2014	**(2 960.6)**	(2 960.6)

12. Treasury shares

	2017 Rm	2016 Rm
Reconciliation of movement of treasury shares:		
Balance at the beginning of the year	**(2.7)**	(2.7)
Balance at the end of the year	**(2.7)**	(2.7)

	Millions	Millions
Number of shares:		
Balance at the beginning of the year	**0.6**	0.6
Balance at the end of the year	**0.6**	0.6

Notes to the group annual financial statements

for the year ended 31 December 2017 (continued)

13. Share incentive schemes

13.1 Share option incentive scheme

The group has established a share option incentive scheme in which options to acquire shares in HomeChoice International PLC have been granted to employees of the group. All options are conditional on the participant remaining in service with the group. The group has no legal or constructive obligation to repurchase or settle the options in cash.

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

	2017		2016	
	Average exercise price per share (cents)	**Number of options**	Average exercise price per share (cents)	Number of options
At 1 January	**1 944**	**2 735 700**	1 420	3 140 350
Options granted during the year	**3 500**	**250 500**	2 885	813 950
Options forfeited during the year	**2 955**	**(302 961)**	2 314	(173 800)
Options vested during the year	**1 107**	**(387 000)**	1 039	(1 044 800)
At 31 December	**2 121**	**2 296 239**	1 944	2 735 700

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

	2017		2016	
	Average exercise price per share (cents)	**Number of options**	Average exercise price per share (cents)	Number of options
2016	**1 064**	**247 000**	1 064	427 000
2017	**1 025**	**360 000**	1 069	568 000
2018	**1 450**	**635 000**	1 451	641 000
2019	**3 361**	**314 500**	3 361	318 000
2020	**2 847**	**501 739**	2 888	781 700
2021	**3 500**	**238 000**	–	–
	2 121	**2 296 239**	1 944	2 735 700

13. Share incentive schemes (continued)

13.1 Share option incentive scheme (continued)

Analysis of options outstanding:

Date of offer	Average exercise price per share (cents)	Fair value at grant date (cents)	Number of options 2017	2016
31 March 2012	1 064	82	**22 000**	22 000
29 June 2012	1 064	76	**225 000**	405 000
20 March 2013	1 000	160	**300 000**	400 000
20 March 2013	1 388	121	**10 000**	78 000
27 August 2013	1 100	83	**50 000**	90 000
31 March 2014	1 444	92	**581 000**	585 000
1 June 2014	1 444	90	**5 000**	5 000
30 September 2014	1 528	105	**49 000**	51 000
20 March 2015	3 370	663	**264 500**	268 000
1 June 2015	3 311	668	**50 000**	50 000
1 May 2016	2 800	598	**423 904**	551 700
1 July 2016	3 100	673	**77 835**	230 000
22 March 2017	3 500	789	**238 000**	–
Balance at the end of the year			**2 296 239**	2 735 700

The options were valued using a binomial model and assume an option life of four years. Other valuation assumptions include expected volatility between 25.09% and 32.18%, a dividend yield of between 3.35% and 11.08% and a risk-free interest rate of betwen 5.66% and 8.74%.

13.2 Share forfeiture incentive scheme

The group established a share forfeiture incentive scheme during 2017 whereby shares in HomeChoice International PLC have been awarded to senior employees of the group for no consideration. Shares are forfeitable should the employee leave the group within a four-year period.

	2017		2016	
	Average exercise price per share (cents)	**Number of shares**	Average exercise price per share (cents)	Number of shares
At 1 January				
Forfeitable shares awarded during the year	**–**	**915 000**	–	–
At 31 December	**–**	**915 000**	–	–

Analysis of options outstanding:

Date of offer	Average exercise price per share (cents)	Fair value at grant date (cents)	Number of shares 2017	2016
4 May 2017	–	3 625	**915 000**	–
Balance at the end of the year			**915 000**	–

14. Other reserves

	Share-based payment reserve Rm
Balance at 1 January 2016	4.5
Share-based payment	1.9
Balance at 1 January 2017	**6.4**
Share-based payment	**7.5**
Balance at 31 December 2017	**13.9**

15. Interest-bearing liabilities

	2017 Rm	2016 Rm
Long-term portion		
Mortgage bonds	**123.5**	209.9
Suspensive sale agreements	**13.0**	23.1
Commercial term loan facilities	**479.5**	346.1
Total non-current interest-bearing liabilities	**616.0**	579.1
Short-term portion payable within one year		
Mortgage bonds	**87.1**	18.8
Suspensive sale agreements	**13.6**	12.7
Commercial term loan facilities	**64.9**	–
Total current interest-bearing liabilities	**165.6**	31.5
Total interest-bearing liabilities	**781.6**	610.6

Mortgage bonds

Mortage bonds includes Standard Bank of South Africa Limited facilities, secured by general covering bonds over the remaining extent of erf 66592 and erf 91380 Cape Town, South Africa and a FirstRand Bank facility secured by a general covering bond over portion 240 of the farm Wimbledon Number 454, Cape Town, South Africa.

The Standard Bank of South Africa Limited bond carries interest at prime less 0.75% and has a remaining repayment term of nine years (2016: 10 years). The FirstRand Bank bond carries interest at the one-month Jibar rate plus 2.85% and is repayble in 2018.

Movements in mortgage bonds were as follows:

	2017 Rm	2016 Rm
Opening balance	**228.7**	237.0
Borrowings raised	–	8.5
Interest and administration fees	**21.3**	22.0
Capital payments made	**(18.2)**	(17.8)
Interest payments made	**(21.3)**	(21.2)
Finance-raising costs amortised	**0.1**	0.2
Closing balance	**210.6**	228.7

15. Interest-bearing liabilities (continued)

Suspensive sale agreements

Suspensive sale agreements are instalment sale agreements which the group has entered into in respect of certain property, plant and equipment where the assets purchased are encumbered as security for the outstanding liability until such time that the liability is discharged. The suspensive sale agreements are repayable in monthly instalments of R1.3 million (2016: R1.5 million) including interest and capital.

Interest rates are linked to the prime overdraft rate and varied between 8.20% and 11.00% (2016: 8.95% and 11.00%) during the year. There were no breaches in payments during the current or prior year. The suspensive sale agreements are secured over various items of property, plant and equipment as indicated in note 4, and intangible assets as indicated in note 5.

Movements in suspensive sale agreements were as follows:

	2017 Rm	2016 Rm
Opening balance	**35.8**	47.2
Borrowings raised	**4.5**	11.1
Interest and administration fees	**3.1**	3.9
Capital payments made	**(13.7)**	(22.5)
Interest payments made	**(3.1)**	(3.9)
Closing balance	**26.6**	35.8

Commercial term loan facilities

During the year the group entered into an R800 million commercial term loan facility for the purpose of settling the previous commercial term loan facility and other general corporate purposes. The facilities consist of a revolving credit facility, a bullet loan facility and an amortising loan facility and are secured by a first ranking cession of Financial Services loans receivable, insurances, claims, cash and cash equivalents and subordination of intergroup loans.

(2016: Facilities consisted of a bullet term loan facility and an amortising term loan facility and were secured by the cession of Financial Services loans receivable and group cash and cash equivalents.)

The revolving credit facility carries interest at the three-month Jibar rate plus 2.80% and has a term of three years with quarterly interest payments The bullet term loan facility carries interest at the three-month Jibar rate plus 3.00% and has a term of four years with quarterly interest payments. The amortising term loan facility carries interest at the three-month Jibar rate plus 2.60% and has a term of four years with quarterly instalments of R15.625 million.

(2016: The bullet term loan facility carried interest at the three-month Jibar rate plus 3.10% and had a term of five years with quarterly interest payments. The amortising term loan facility carried interest at the three-month Jibar rate plus 2.80% and had a term of five years with quarterly interest payments.)

Movements in commercial term loan facilities were as follows:

	2017 Rm	2016 Rm
Opening balance	**346.1**	–
Settlement of previous facilities	**(346.1)**	–
Borrowings raised	**710.0**	350.0
Interest and administration fees	**40.9**	3.3
Capital payments made	**(161.5)**	–
Interest payments made	**(40.9)**	(3.3)
Finance-raising costs paid	**(8.9)**	(4.0)
Finance-raising costs amortised	**4.8**	0.1
Closing balance	**544.4**	346.1

Notes to the group annual financial statements

for the year ended 31 December 2017 (continued)

15. Interest-bearing liabilities (continued)

Listed bonds

Listed bonds consisted of domestic medium term notes. The group issued R100 million floating rate notes under a R500 million domestic term note programme approved by the JSE on 16 October 2013. The bonds carried interest at the three-month Jibar rate plus 3.15% and had a term of three years with quarterly interest payments.

The bonds were fully repaid during 2016.

Movements in listed bonds were as follows:

	2017 Rm	2016 Rm
Opening balance	–	101.2
Interest and administration fees	–	8.2
Capital payments made	–	(100.1)
Interest payments made	–	(9.9)
Finance-raising costs amortised	–	0.6
Closing balance	–	–

16. Other payables

	2017 Rm	2016 Rm
Non-current other payables		
Amounts owed to customer prize winners payable in excess of 12 months	**5.6**	4.9

17. Trade and other payables

	2017 Rm	2016 Rm
Trade payables	**204.1**	165.0
Annual leave pay accrual	**7.6**	6.2
Value-added taxation and employee-related accruals	**12.3**	12.5
Other payables	**17.2**	30.8
	241.2	214.5

18. Provisions

	Opening balance Rm	Utilised during the year Rm	Raised Rm	Closing balance Rm
Analysis of movements				
2017				
Bonus	**31.7**	**(30.8)**	**37.1**	**38.0**
	31.7	**(30.8)**	**37.1**	**38.0**
2016				
Bonus	12.4	(12.4)	31.7	31.7
	12.4	(12.4)	31.7	31.7

Provisions relate to amounts payable to employees in accordance with the group's annual incentive scheme. Annual incentives are discretionary and payable after year-end. The bonus provision is based on a financial model that takes into account company and individual staff performance during the year and the remuneration committee's final discretion.

	2017 Rm	2016 Rm

19. Derivative financial instruments

	2017 Rm	2016 Rm
Current liabilities		
Foreign exchange contracts	**5.1**	–

The notional principal amount of the outstanding contracts at year-end amounts to R211.7 million. These contracts are to hedge the foreign currency exposure of anticipated purchase of goods. The related cash flows are expected to occur on the maturity dates of these contracts which are between one and six months. Gains and losses on foreign exchange contracts not hedge-accounted for are recognised directly in profit or loss. Forward contracts are measured at fair value, which is calculated by reference to forward exchange rates for contracts with similar maturity profiles at year-end. The contracts are settled on a gross basis.

20. Shareholder loan

	2017 Rm	2016 Rm
GFM Limited	–	160.1

The company entered into a loan agreement with GFM Limited in May 2015. The loan carried interest at the South African prime interest rate and was fully repaid during the current period.

Movements in the shareholder loan was as follows:

	2017 Rm	2016 Rm
Opening balance	**160.1**	160.7
Interest fees	**10.1**	16.7
Capital payments made	**(160.0)**	–
Interest payments made	**(11.5)**	(16.6)
Finance-raising costs paid	–	(3.2)
Finance-raising costs amortised	**1.3**	2.5
Closing balance	–	160.1

21. Fees from ancillary services

	2017 Rm	2016 Rm
Service fees	**198.1**	151.9
Insurance fees	**108.4**	74.1
Other	**4.5**	–
	311.0	226.0

Notes to the group annual financial statements

for the year ended 31 December 2017 (continued)

22. Total trading expenses

	2017 Rm	2016 Rm
Expenses by nature		
Debtor costs		
Trade receivables – Retail	**349.3**	315.0
Loans receivable – Financial Services	**154.3**	163.1
Total debtor costs	**503.6**	478.1
Auditor's remuneration	**2.8**	2.7
Audit-related services	**2.7**	2.4
Other non-audit services	**0.1**	0.3
Amortisation of intangible assets	**32.1**	32.5
Depreciation of property, plant and equipment	**25.4**	22.4
Operating lease charges for immovable property	**1.4**	1.3
Total operating lease charges	**8.2**	4.0
Less: disclosed under cost of Retail sales	**(6.8)**	(2.7)
Marketing costs	**220.0**	188.9
Staff costs: short-term employee benefits	**394.9**	332.0
Total staff costs	**441.2**	365.9
Less: disclosed under cost of Retail sales	**(27.2)**	(21.7)
Less: staff costs capitalised to intangible assets	**(19.1)**	(12.2)
Other costs	**229.5**	209.9
Total other trading expenses	**906.1**	789.7
	1 409.7	1 267.8
Average number of employees during the year	**1 578**	1 526
Salaries	**412.6**	334.4
Unemployment insurance fund contributions	**3.6**	3.3
Provident fund and disability insurance contributions	**25.0**	28.2
Total staff costs	**441.2**	365.9

23. Other net gains and losses

	2017 Rm	2016 Rm
Foreign exchange gains	**5.6**	7.3
Gain on disposal of property, plant and equipment and intangible assets	**0.1**	0.3
Impairment of property, plant and equipment	**–**	(0.1)
Impairment of investment in associate	**(4.9)**	–
	0.8	7.5

24. Other income

	2017 Rm	2016 Rm
Prescription of trade and loans receivables	**9.8**	3.2
Other	**1.4**	0.3
	11.2	3.5

25. Interest paid

	2017 Rm	2016 Rm
Bank borrowings	**1.2**	6.4
Listed bonds	**–**	9.9
Mortgage bonds	**21.3**	21.2
Shareholder loan	**11.5**	16.6
Suspensive sale agreements	**3.1**	3.9
Commercial term loan facilities	**40.9**	3.3
Total interest paid	**78.0**	61.3
Less: amounts capitalised on qualifying assets	**–**	(0.8)
	78.0	60.5

Notes to the group annual financial statements

for the year ended 31 December 2017 (continued)

26. Taxation

	2017 Rm	2016 Rm
Income taxation		
Current year	**(126.4)**	(142.9)
Prior year over/(under) provision	**7.1**	(7.4)
Deferred taxation		
Current year	**(26.6)**	(10.0)
Prior year over provision	**(1.2)**	–
	(147.1)	(160.3)

	%	%
Reconciliation of effective taxation rate:		
Standard taxation rate	**28.0**	28.0
Non-deductible expenditure	**0.8**	1.2
Effect of deferred tax assets not recognised	**(0.1)**	0.5
Withholding tax	**0.7**	0.3
Effect of foreign income tax rates	**(6.4)**	(3.9)
Prior year adjustment	**(0.9)**	1.3
Effective taxation rate	**22.1**	27.4

27. Commitments

Leases are contracted for periods not exceeding five years and contain escalation clauses of between 8% and 9% and renewal options. The lease expenditure charged to profit and loss during the year is disclosed in note 22.

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

	2017 Rm	2016 Rm
Properties		
Payable within one year	**7.7**	3.5
Payable between two and five years	**31.3**	18.0
	39.0	21.5
Suspensive sale agreements		
Payable within one year	**15.5**	15.2
Payable between two and five years	**13.9**	25.7
	29.4	40.9
Future finance charges on suspensive sale agreements	**(2.8)**	(5.1)
	26.6	35.8
The present value of suspensive sale agreement payments is as follows:		
Payable within one year	**13.6**	12.7
Payable between two and five years	**13.0**	23.1
	26.6	35.8
Capital commitments for property, plant and equipment and intangible assets:		
Approved by the directors	**13.5**	47.2
	13.5	47.2

Notes to the group annual financial statements

for the year ended 31 December 2017 (continued)

28. Reconciliation of cash generated from operations

	2017 Rm	2016 Rm
Profit before taxation	**666.8**	585.1
Share of loss of associate	**8.8**	1.6
Profit from insurance cells	**(13.3)**	(5.8)
Gain on disposal of property, plant and equipment and intangible assets	**(0.1)**	(0.3)
Impairment of property, plant and equipment	**–**	0.1
Impairment of investment in associate	**4.9**	–
Depreciation and amortisation	**57.5**	54.8
Share-based employee service expense	**7.5**	1.9
Exchange losses on foreign exchange contracts	**5.1**	–
Interest paid	**76.6**	61.4
Interest received	**(6.5)**	(3.4)
Capitalised bond costs – amortised cost adjustment	**6.2**	3.4
Operating cash flows before working capital changes	**813.5**	698.8
Movements in working capital	**(454.8)**	(421.8)
Increase in inventories	**(43.0)**	(43.4)
Increase in trade receivables – Retail	**(260.7)**	(239.7)
Increase in loans receivable – Financial Service	**(193.3)**	(179.0)
Decrease/(increase) in other receivables	**8.5**	(8.8)
Increase in trade and other payables	**27.4**	29.7
Increase in provisions	**6.3**	19.4
	358.7	277.0

29. Taxation paid

	2017 Rm	2016 Rm
Amounts owing at the beginning of the year	**(7.1)**	4.2
Amounts charged to profit and loss	**(147.1)**	(160.3)
Income taxation	**(119.3)**	(150.3)
Deferred taxation	**(27.8)**	(10.0)
Deferred taxation movement	**27.6**	10.0
Amounts owing at the end of the year	**4.2**	7.1
Other	**–**	(1.6)
	(122.4)	(140.6)

30. Events after the reporting date

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

31. Related party transactions

Holding company

At the reporting date the group's ultimate controlling party is the Maynard Trust. Further details regarding significant shareholders are set out in the shareholder analysis in note 36. Refer to note 20 for details regarding the loan from shareholder, GFM Limited.

Subsidiaries, associates and related trusts

In the ordinary course of business certain companies within the group entered into certain intragroup transactions which have been eliminated on consolidation. For a list of the group's subsidiaries, associates and related trusts, refer to note 1 to the company annual financial statements.

Other related parties

The HomeChoice Provident Fund

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

Associate

Details regarding the group's associate are set out in note 6.1. Transactions with the associate are entered into at the prevailing partnership rates.

	2017 Rm	2016 Rm
Contributions to the provident fund	**25.0**	28.2
Fees paid to associates for transportation services	**5.4**	4.0
Contributions to associates	**12.3**	6.8

Remuneration

Details regarding executive and non-executive directors' remuneration are disclosed in note 37.

Interest of directors in contracts

As disclosed in note 6.1, the group holds a 25% interest in an en-commandite partnership formed for the transportation of passengers by air for fare. Mr Garratt, a director, has a controlling interest in another entity with significant influence in the partnership.

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.

Share-based incentives

Share-based incentives have been granted to certain executive directors of HomeChoice International PLC and employees of its subsidiaries (refer to note 36).

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. Key management of the company's main subsidiaries, HomeChoice Proprietary Limited and FinChoice Proprietary Limited, have been classified as key management personnel. Emoluments paid are summarised below:

	2017 Rm	2016 Rm
Remuneration	**36.7**	34.9
Bonuses	**15.3**	13.3
Share-based payment cost	**6.3**	3.2
Retirement	**2.5**	2.8
	60.8	54.2

Notes to the group annual financial statements

for the year ended 31 December 2017 (continued)

32. Earnings per share

32.1 Basic and headline earnings per share

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

	2017 Rm	2016 Rm
Profit for the year	**519.7**	424.8
Adjusted for the after-tax effect of:		
Gain on disposal of property, plant and equipment and intangible assets	**(0.1)**	(0.2)
Impairment of property, plant and equipment	**–**	0.1
Impairment of investment in associate and other	**3.5**	–
Share of impairment of property, plant and equipment of associate	**4.4**	–
Headline earnings	**527.5**	424.7
Weighted average number of ordinary shares in issue (million)	**103.6**	102.4
Earnings per share (cents)		
Basic	**501.9**	414.8
Headline	**509.4**	414.6

32.2 Diluted and diluted headline earnings per share

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

	2017 Rm	2016 Rm
Weighted average number of ordinary shares in issue (million)	**103.6**	102.4
Number of shares issuable under the share option scheme for no consideration	**1.0**	1.1
Diluted weighted average number of ordinary shares in issue	**104.6**	103.5
Earnings per share (cents)		
Diluted	**496.7**	410.5
Diluted headline	**504.1**	410.3

33. Distributions per share

	Cents per share	
	2017	2016
Distributions proposed/paid	**191.0**	158.0
Interim	**82.0**	71.0
Final	**109.0**	87.0
Nature of distributions	**191.0**	158.0
Dividend proposed/paid	**191.0**	158.0

34. Net asset value per share

The calculation of net asset value per share is based upon net assets divided by the total number of shares in issue, net of treasury shares (refer to note 11).

	2017 Cents	2016 Cents
Net asset value per share	**2 291**	1 973
Net tangible asset value per share	**2 209**	1 886

35. Contingent liability

The group is currently involved in a dispute with SARS with regards to the quantum of a deduction that has been claimed in prior years. The group's position is supported by tax specialists and they have concluded that the likelihood of an outflow of economic benefits to settle the obligation is not probable. The contingent tax liability, which includes interest and penalties, is estimated to be less than R10.0 million at the reporting date.

Notes to the group annual financial statements

for the year ended 31 December 2017 (continued)

36. Shareholder analysis

	Shareholders		Shares held	
	Number	%	Number	%
Range of shareholding				
1 – 500	79	35.3	10 178	–
501 – 5 000	60	26.8	140 019	0.1
5 001 – 50 000	51	22.8	1 093 114	0.7
50 001 – 500 000	30	13.4	5 338 103	3.1
Over 500 000	4	1.7	97 581 487	96.1
	224	100.0	104 162 901	100.0
Development trust	1		600 000	
	225		104 762 901	
Public and non-public shareholding				
Non-public				
GFM Limited	1	0.4	73 449 531	70.1
ADP II Holdings 3 Limited	1	0.4	23 031 927	22.0
HomeChoice Development Trust (Treasury shares)	1	0.4	600 000	0.6
Directors of HomeChoice International PLC	3	1.3	491 044	0.5
Directors of subsidiaries	3	1.3	813 005	0.8
Related parties	2	0.9	277 027	0.3
Public	214	95.3	6 100 367	5.7
	225	100.0	104 762 901	100.0

Disclosed non-public shareholding includes the aggregate of the direct and indirect beneficial interest of the directors.

Individual shareholders holding 5% or more of shares in issue (net of treasury shares)

	Number	%
2017		
GFM Limited	73 449 531	70.1
ADP II Holdings 3 Limited	23 031 927	22.0
	96 481 458	92.1
2016		
GFM Limited	73 449 531	71.0
ADP II Holdings 3 Limited	21 775 927	21.0
	95 225 458	92.0

Directors' interest in the share capital of the company

GFM Limited is an associate (as contemplated in the Listings Requirements) of Rick Garratt (a non-executive director of HIL) and Shirley Maltz (an executive director of HIL), because each of them is a potential discretionary beneficiary of the Maynard Trust, which is the indirect holder of 100% of the shares in GFM Limited.

Shirley Maltz, an executive director of HIL, has a direct beneficial interest in 381 044 shares (including 150 000 forfeitable shares), (2016: 51 044 shares).

Paul Burnett, an executive director of HIL, has a direct beneficial interest in 60 000 shares (including 20 000 forfeitable shares).

Amanda Chorn, an independent non-executive director of HIL, has an indirect beneficial interest in 50 000 shares (2016: 50 000 shares).

There have been no changes to the above since the end of the financial year and the date of approval of the annual financial statements.

37. Remuneration

The total remuneration, benefits and fees paid to each of the directors, for the company and its subsidiaries, in respect of the periods ended 31 December are as follows:

	Notes	Directors' fees R'000	Fees earned from subsidiary companies R'000	Short-term remuneration – Guaranteed pay – Salary R'000	Short-term remuneration – Guaranteed pay – Benefits[1] R'000	Short-term remuneration – Variable – Performance bonus R'000	Remuneration R'000	Long-term remuneration – Variable – Value of equity-settled share-based incentives granted[2] R'000	Long-term remuneration – Variable – Gains realised on share options vesting R'000
2017									
Executive directors									
Gregoire Lartigue		–	–	**161**	–	–	**161**	–	–
Shirley Maltz		–	–	**3 325**	**338**	**3 528**	**7 191**	**1 097**	**3 843**
Paul Burnett		–	–	**1 490**	**679**	**579**	**2 748**	**167**	**840**
		–	–	**4 976**	**1 017**	**4 107**	**10 100**	**1 264**	**4 683**
Non-executive directors									
Stanley Portelli		**161**	–	–	–	–	**161**	–	–
Amanda Chorn	3	**106**	**174**	–	–	–	**280**	–	–
Richard Garratt	3	–	**10 000**	–	–	–	**10 000**	–	–
Eduardo Gutierrez-Garcia	4	–	–	–	–	–	–	–	–
Robert Hain		**106**	–	–	–	–	**106**	–	–
Charles Rapa		**129**	–	–	–	–	**129**	–	–
		502	**10 174**	–	–	–	**10 676**	–	–
Total remuneration		**502**	**10 174**	**4 976**	**1 017**	**4 107**	**20 776**	**1 264**	**4 683**
2016									
Executive directors									
Gregoire Lartigue		–	–	162	–	–	162	–	–
Shirley Maltz		–	–	3 050	366	3 059	6 474	311	1 936
Paul Burnett		–	–	1 485	664	518	2 668	72	–
		–	–	4 697	1 030	3 577	9 304	383	1 936
Non-executive directors									
Stanley Portelli		162	–	–	–	–	162	–	–
Amanda Chorn	3	117	179	–	–	–	296	–	–
Richard Garratt	3	–	8 146	–	–	–	8 146	–	–
Eduardo Gutierrez-Garcia	4	–	–	–	–	–	–	–	–
Robert Hain		117	–	–	–	–	117	–	–
Charles Rapa		130	–	–	–	–	130	–	–
		526	8 325	–	–	–	8 851	–	–
Total remuneration		526	8 325	4 697	1 030	3 577	18 155	383	1 936

Notes

1. *Benefits include retirement fund contributions and benefits appropriate to expatriate staff employed in Mauritius operations.*
2. *The value of equity-settled share options granted is the annual expense determined in accordance with IFRS 2, Share-based Payment and is presented for information purposes only as it is not regarded as constituting remuneration, given that the value was neither received nor accrued to the directors during the year. Gains made on the exercise of such share options are disclosed in the year when vesting occurs.*
3. *Amanda Chorn earns non-executive directors' fees from a South African subsidiary. Richard Garratt has a consultancy agreement with a South African subsidiary from which he earns consultancy fees and other related benefits.*
4. *Eduardo Gutierrez, as a representative of ADP II Holdings 3 Limited on the HIL board, does not earn any directors' fees.*

Notes to the group annual financial statements

for the year ended 31 December 2017 (continued)

37. Remuneration (continued)

Share-based incentives outstanding as at 31 December 2017 have the following vesting date and exercise prices:

Director	Award date	Vesting date	Number of share options awarded	Number of forfeiture shares awarded	Strike price (Rand)	Exercised during the year	Unvested and/or unexercised options at the end of the year
Shirley Maltz	23 June 2012	23 June 2016	375 000	–	10.64	180 000	195 000
	27 August 2013	27 August 2017	50 000	–	11.00	–	50 000
	31 March 2014	31 March 2018	100 000	–	14.44	–	100 000
	20 March 2015	20 March 2019	40 500	–	33.70	–	40 500
	1 May 2016	1 May 2020	52 000	–	28.00	–	52 000
	4 May 2017	4 May 2021	–	150 000	–	–	150 000
			617 500	150 000		180 000	587 500
Paul Burnett	27 August 2013	27 August 2017	40 000	–	11.00	40 000	–
	20 March 2015	20 March 2019	12 000	–	33.70	–	12 000
	1 May 2016	1 May 2020	12 000	–	28.00	–	12 000
	4 May 2017	4 May 2021	–	20 000	–	–	20 000
			64 000	20 000	–	40 000	44 000

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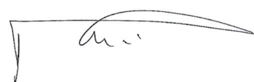
Company statement of financial position

at 31 December 2017

	Notes	2017 Rm	2016 Rm
Assets			
Non-current assets			
Investment in subsidiaries	1	**157.2**	143.3
		157.2	143.3
Current assets			
Intercompany loans	2	**144.2**	28.4
Loan to HomeChoice Mauritius PCC	3	**–**	160.1
Other receivables		**0.3**	0.3
Cash and cash equivalents	4	**0.8**	2.0
		145.3	190.8
Total assets		**302.5**	334.1
Equity and liabilities			
Share capital	5.1	**1.0**	1.0
Share premium	5.2	**3 002.7**	2 998.4
Reorganisation reserve	5.3	**(2 837.3)**	(2 837.3)
Other reserves	6	**13.9**	–
Retained earnings		**120.6**	10.4
Total equity		**300.9**	172.5
Current liabilities			
Shareholder loan	7	**–**	160.1
Other payables	8	**1.6**	1.5
Total liabilities		**1.6**	161.6
Total equity and liabilities		**302.5**	334.1
Additional information			
Rand/Euro exchange rate		**0.0674**	0.0689

These financial statements were approved by the board of directors, authorised for issue on 7 March 2018 and signed on its behalf by:



S Portelli
Chairman

P Burnett
Finance Director

Company statement of comprehensive income

for the year ended 31 December 2017

	Notes	**2017 Rm**	2016 Rm
Dividends received		**289.0**	170.0
Operating expenses	9	**(4.4)**	(7.1)
Interest paid		**(10.1)**	(16.7)
Other income		**1.3**	2.5
Interest received		**10.4**	16.8
Profit before taxation		**286.2**	165.5
Taxation	10	**–**	–
Total comprehensive income for the year		**286.2**	165.5

Company statement of changes in equity

for the year ended 31 December 2017

	Share capital Rm	Share premium Rm	Reorganisation reserve Rm	Other reserves Rm	Retained earnings Rm	Total equity Rm
Balance at 1 January 2016	1.0	2 987.6	(2 837.3)	–	4.4	155.7
Changes in equity	–	10.8	–	–	6.0	16.8
Issue of shares	–	10.8	–	–	–	10.8
Dividend paid	–	–	–	–	(159.5)	(159.5)
Profit for the year	–	–	–	–	165.5	165.5
Balance as at 31 December 2016	1.0	2 998.4	(2 837.3)	–	10.4	172.5
Balance at 1 January 2017	**1.0**	**2 998.4**	**(2 837.3)**	**–**	**10.4**	**172.5**
Changes in equity	**–**	**4.3**	**–**	**13.9**	**110.2**	**128.4**
Issue of shares	**–**	**4.3**	**–**	**–**	**–**	**4.3**
Dividend paid	**–**	**–**	**–**	**–**	**(176.0)**	**(176.0)**
Share incentive schemes	**–**	**–**	**–**	**13.9**	**–**	**13.9**
Profit for the year	**–**	**–**	**–**	**–**	**286.2**	**286.2**
Balance as at 31 December 2017	**1.0**	**3 002.7**	**(2 837.3)**	**13.9**	**120.6**	**300.9**

Company statement of cash flows

for the year ended 31 December 2017

	Notes	2017 Rm	2016 Rm
Cash flows from operating activities			
Operating cash flows before working capital changes	16	**(3.1)**	(4.6)
Increase in other receivables		**–**	(0.3)
Increase/(Decrease) in other payables		**0.1**	(0.9)
Cash flow from operations		**(3.0)**	(5.8)
Interest paid		**(10.1)**	(16.7)
Interest received		**10.4**	16.8
Dividends received		**289.0**	170.0
Net cash inflow from operating activities		**286.3**	164.3
Cash flows from investing activities			
Loans to related parties repaid		**160.1**	0.6
Intercompany loans advanced		**(115.8)**	(21.3)
Net cash inflow/(outflow) from investing activities		**44.3**	(20.7)
Cash flows from financing activities			
Proceeds from the issuance of shares		**4.3**	10.8
Shareholder loan repaid		**(160.1)**	(0.6)
Dividends paid		**(176.0)**	(159.5)
Net cash outflow from financing activities		**(331.8)**	(149.3)
Decrease in cash and cash equivalents		**(1.2)**	(5.7)
Cash and cash equivalents at the beginning of the year		**2.0**	7.7
Cash and cash equivalents at the end of the year	4	**0.8**	2.0

Notes to the company annual financial statements

for the year ended 31 December 2017

1. Investment in subsidiaries

	2017 Rm	2016 Rm
Wholly-owned subsidiaries' shares at cost		
HomeChoice South Africa Limited (incorporated in Malta)	**143.3**	143.3
HomeChoice Mauritius PCC (incorporated in Mauritius)	**–**	–
Share incentives issued in subsidiary companies	**13.9**	–
	157.2	143.3

The company has measured the cost of its investment in the original parent at the carrying amount of its share of the equity items shown in the separate financial statements of the original parent at the date of the reorganisation.

	% interest held	Number of company shares issued and held	
		2017	2016
HomeChoice South Africa Limited operating subsidiary companies			
HomeChoice Holdings Limited	100%	**1**	1
HomeChoice (Pty) Limited	100%	**100**	1
HomeChoice Property Company (Pty) Limited	100%	**61**	61
FinChoice (Pty) Limited	100%	**1 700**	1 700
HSA Debt Solutions (Pty) Limited	100%	**120**	120
Related entities			
The HomeChoice Share Trust	100%	**–**	–
The HomeChoice Development Trust	100%	**–**	–
HomeChoice South Africa Limited dormant companies			
Odvest 189 (Pty) Limited	100%	**120**	120
HC Direct (Pty) Limited	100%	**60**	60
HomeChoice Nominees (Pty) Limited	100%	**120**	120
FoneChoice (Pty) Limited	100%	**60**	60
Matyana van der Merwe (Pty) Limited	100%	**1 700**	1 700
HomeChoice (Pty) Limited (incorporated in Namibia)	100%	**1**	1
HomeChoice (Pty) Limited (incorporated in Botswana)	100%	**100**	100
In terms of the investment in HomeChoice South Africa Limited, unless otherwise specified, all companies have been incorporated in South Africa.			
HomeChoice Mauritius PCC operating subsidiary companies			
Finchoice Africa Limited (incorporated in Mauritius)	100%	**100**	100
FinChoice (Pty) Limited (incorporated in Botswana)	100%	**100**	–
FinChoice Personal Finance (Pty) Limited (incorporated in Namibia)	100%	**100**	–

2. Intercompany loans

	2017 Rm	2016 Rm
Wholly-owned subsidiaries' loans		
HomeChoice Holdings (Pty) Limited	**23.2**	2.3
HomeChoice Mauritius PCC (incorporated in Mauritius)	**69.0**	25.9
HomeChoice South Africa Limited (incorporated in Malta)	**–**	0.2
FinChoice Africa Limited	**52.0**	–
Intercompany loans receivable	**144.2**	28.4

The loans are unsecured, interest-free and repayable on demand and secured under the group's commercial term loan facilities (refer to note 15 of the group annual financial statements).

3. Loan to HomeChoice Mauritius PCC

	2017 Rm	2016 Rm
HomeChoice Mauritius PCC	**–**	160.1
Movements in the subsidiary loan was as follows:		
Opening balance	**160.1**	–
Loan advanced	**–**	160.7
Interest earned	**10.1**	16.7
Capital payments received	**(161.4)**	–
Interest payments received	**(10.1)**	(16.7)
Financed-raising costs received	**–**	(3.2)
Financed-raising costs amortised	**1.3**	2.6
Closing balance	**–**	160.1

4. Cash and cash equivalents

	2017 Rm	2016 Rm
Cash at bank	**0.8**	2.0

Notes to the company annual financial statements

for the year ended 31 December 2017 (continued)

5. Stated capital, share capital, share premium and reorganisation reserve

		2017 Rm	2016 Rm
5.1	**Stated and share capital**		
	Authorised		
	200 000 000 (2016: 200 000 000) ordinary shares at one cent par value	**2.0**	2.0
	Issued		
	104 762 901 (2016: 103 510 901) ordinary shares at one cent par value	**1.0**	1.0
	Reconciliation of movement in issued shares:		
	Number of issued shares at the beginning of the year	**103.5**	102.5
	Shares issued	**1.3**	1.0
	Total	**104.8**	103.5
5.2	**Share premium**		
	Balance at the beginning of the year	**2 998.4**	2 987.6
	Share issue	**4.3**	10.8
	Balance at the end of the year	**3 002.7**	2 998.4
5.3	**Reorganisation reserve**		
	Reorganisation of HomeChoice Holdings Limited into HomeChoice International PLC during 2014	**(2 837.3)**	(2 837.3)

6. Other reserves

	2017 Rm	2016 Rm
Share incentive schemes	**13.9**	–

The group has established a share option and a share forfeiture incentive scheme.

The share option scheme grants options to employees of the group to acquire shares in HomeChoice International PLC. All options are conditional on the participant remaining in service with the group. The group has no legal or constructive obligation to repurchase or settle the options in cash.

The share forfeiture scheme awards shares to senior employees of the group for no consideration. Shares are forfeitable should the employee leave the group within a four-year period.

	2017 Rm	2016 Rm

7. Shareholder loan

	2017 Rm	2016 Rm
GFM Limited	–	160.1

The company entered into a loan agreement with GFM Limited in May 2015. The loan value was R160 million, it carried interest at the South African prime interest rate and was fully repaid during the current period.

Movements in the shareholder loan was as follows:		
Opening balance	**160.1**	160.7
Interest fees	**10.1**	16.7
Capital payments made	**(160.0)**	–
Interest payments made	**(11.5)**	(16.6)
Finance-raising costs paid	**–**	(3.2)
Finance-raising costs amortised	**1.3**	2.5
Closing balance	**–**	160.1

8. Other payables

	2017 Rm	2016 Rm
Other payables	**1.6**	1.5

Amounts owed to shareholders are unsecured, interest-free and repayable on demand.

9. Operating expenses

	2017 Rm	2016 Rm
Directors' emoluments	**0.4**	0.7
Auditor's remuneration	**0.1**	0.4
Audit-related services	**0.1**	0.2
Other non-audit services	**–**	0.2
Other operating expenses	**3.9**	6.0
	4.4	7.1

10. Taxation

	2017 Rm	2016 Rm
Current tax expense	**–**	–

The tax on the company's profit before tax differs from the theoretical amount that would arise using the basic tax rate applicable as follows:

	2017 Rm	2016 Rm
Profit before tax	**286.2**	165.5
Tax at 35%	**100.2**	57.9
Tax effect of:		
Income not subject to tax	**(101.2)**	(59.5)
Expenses not deductible for tax purposes	**1.0**	1.6
Tax charge	**–**	–

Notes to the company annual financial statements

for the year ended 31 December 2017 (continued)

11. Risk management and financial instrument disclosure

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

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

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

11.1 Capital risk management

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

In order to maintain or adjust the capital structure the company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or increase or reduce debt. From time to time the company repurchases its own shares. The timing of these repurchases depend on the availability of shares to be repurchased and available funding. The decision to repurchase shares is made on a specific transaction basis. The company does not have a defined share buy-back plan.

There were no changes in the company's approach to capital management during the year. During the current year there were no defaults or breaches of any of the company's agreements with its lenders.

11.2 Financial risk management

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

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

	2017 Rm	2016 Rm
	Loans and receivables	
Assets		
Current assets		
Loans to subsidiaries	**144.2**	28.4
Other receivables	**0.3**	0.3
Loan to HomeChoice Mauritius PCC	–	160.1
Cash and cash equivalents	**0.8**	2.0
	145.3	190.8
	At amortised cost	
Liabilities		
Current liabilities		
Other payables	**1.6**	1.5
Shareholder loan	–	160.1
	1.6	161.6

11. Risk management and financial instrument disclosure (continued)

11.3 Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the company. Potential concentrations of credit risk consist principally of loans to subsidiaries, cash and cash equivalents and credit guarantees.

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

Intercompany loans
These related party loans are unsecured and repayable on demand.

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

11.4 Liquidity risk management

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

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

11.5 Market risk management

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

Equity price risk management
The company is not exposed to equity price risk.

Foreign currency risk management
The company undertakes transactions in foreign currencies and has bank accounts holding foreign currencies, hence exposure to exchange rate fluctuations arise.

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

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

Notes to the company annual financial statements

for the year ended 31 December 2017 (continued)

11. Risk management and financial instrument disclosure (continued)

11.5 Market risk management (continued)

	Effect on profit after taxation	
	2017 Rm	2016 Rm
15% appreciation in ZAR/USD exchange rates	–	–
15% depreciation in ZAR/USD exchange rates	–	–
15% appreciation in ZAR/EUR exchange rates	–	–
15% depreciation in ZAR/EUR exchange rates	–	–
The following line item on the company's statement of financial position includes balances denominated in US Dollar:		
Cash and cash equivalents	–	0.1
The following line item on the company's statement of financial position includes balances denominated in EUR:		
Cash and cash equivalents	–	–

Interest rate risk management

The company measures sensitivity in interest rates as the effect of a change in the Reserve Bank repo rate on the profit after taxation based on the company's exposure at the reporting date. The company regards a 100 basis point (2016: 100 basis point) change in the Reserve Bank repo rate as being reasonably possible at the reporting dates.

		Effect on profit after taxation	
	Movement in basis points	**2017 Rm**	2016 Rm
Cash and cash equivalents	+100	–	–
	-100	–	–

12. Related parties

At the reporting date the group's ultimate controlling party is the Maynard Trust. Transactions with this company would typically include loan funding, interest and management charges.

The following significant operating transactions have a material effect on the operating results and financial position of the company:

	2017 Rm	2016 Rm
Directors' emoluments		
Executive director's fees		
Gregoire Lartigue	**0.2**	0.2
Non-executive directors' fees		
Stanley Portelli	**0.2**	0.2
Amanda Chorn	**0.1**	0.1
Richard Garratt	**–**	–
Eduardo Gutierrez-Garcia	**–**	–
Robert Hain	**0.1**	0.1
Charles Rapa	**0.1**	0.1
Dividends received		
Dividend received from HomeChoice South Africa Limited	**289.0**	170.0

Intercompany loans
Refer to note 2 for details of intercompany loans.

Shareholder loan
The company entered into a loan agreement with GFM Limited in May 2015. The loan value was R160 million, it carried interest at the South African prime interest rate and and it was fully repaid during the current period. The company on-lent the shareholder loan funds to its subsidiary, HomeChoice Mauritius PCC, on the same terms as the shareholder loan. The subsidiary loan for R160 million was also repaid during the current period.

13. Distributions per share

	2017 Cents	2016 Cents
Distributions proposed/paid (per share)	**191**	158
Interim	**82**	71
Final	**109**	87
Nature of distributions (per share)	**191**	158
Dividend proposed/paid	**191**	158

Notes to the company annual financial statements

for the year ended 31 December 2017 (continued)

14. Net asset value per share

The calculation of net asset value per share is based upon net assets divided by the total number of shares in issue.

	2017 Cents	2016 Cents
Net asset value per share	**274**	167
Net tangible asset value per share	**274**	167

15. Events after the reporting period

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

16. Operating cash flows before working capital changes

	2017 Rm	2016 Rm
Profit before taxation	**286.2**	165.5
Interest received	**(10.4)**	(16.8)
Interest paid	**10.1**	16.7
Dividends received	**(289.0)**	(170.0)
	(3.1)	(4.6)

Administration

Country of incorporation
Republic of Malta

Date of incorporation
22 July 2014

Company registration number
C66099

Company secretary
George Said
gsaid@maltatransportlaw.com

Registered office
93 Mill Street
Qormi
QRM3012
Republic of Malta

Auditors
PricewaterhouseCoopers
Republic of Malta

Corporate bank
Deutsche Bank International Limited
Channel Islands

JSE listing details
Share code: HIL
ISIN: MT0000850108

Sponsor
Rand Merchant Bank, a division of FirstRand Bank Limited

Transfer secretaries
Computershare Investor Services Proprietary Limited

Shareholders' diary

Financial year-end
31 December

Annual general meeting
11 April 2018

Distributions to shareholders
April and September

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

REGISTERED OFFICE
93 Mill Street, Qormi
QRM3012
Republic of Malta

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