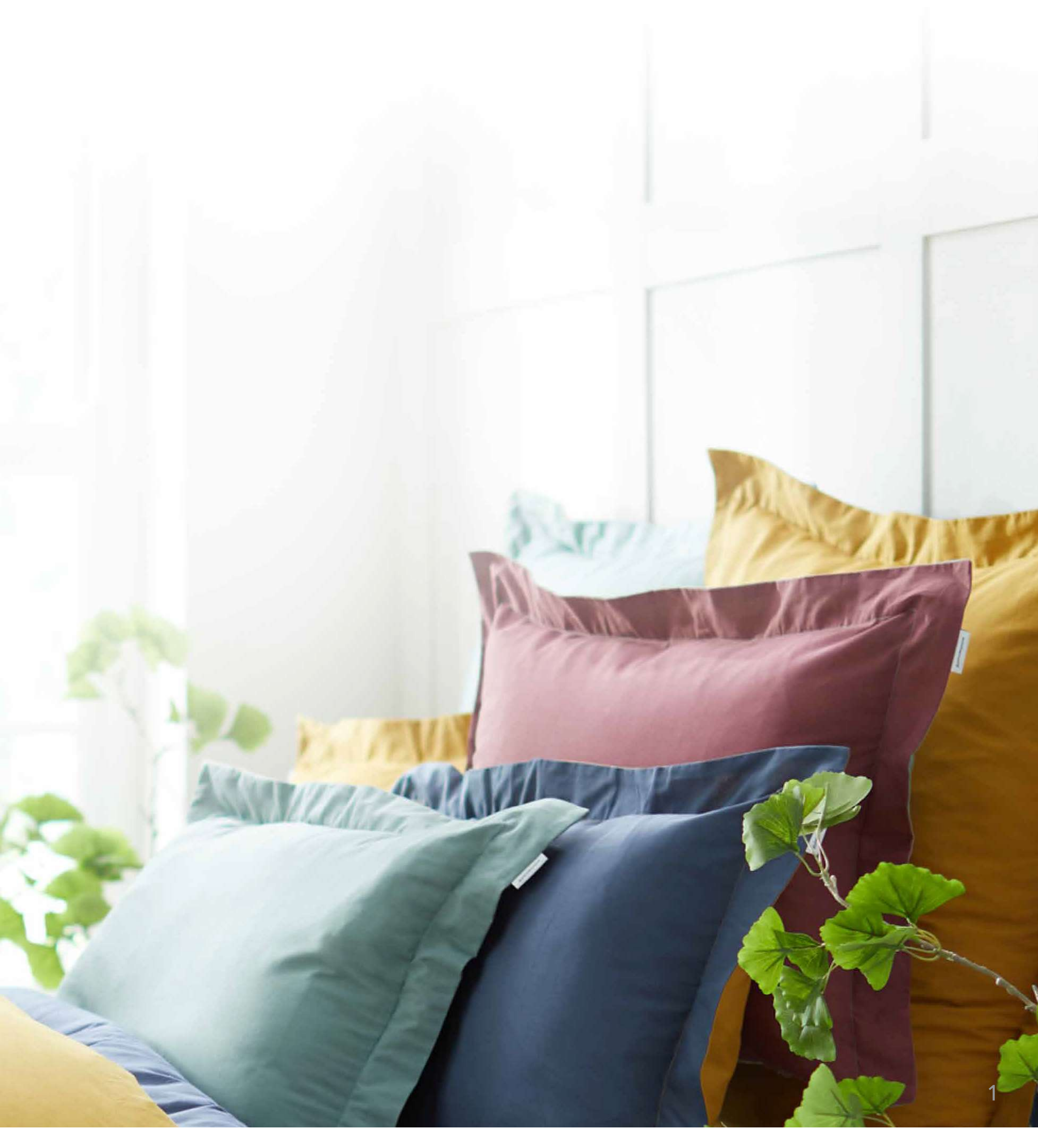
HOMECHOICE
INTERNATIONAL PLC

ANNUAL FINANCIAL STATEMENTS 2020



DIRECTORS' APPROVAL

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

The directors are required in terms of the Mauritian Companies Act 2001 to maintain adequate accounting records and are responsible for the content and integrity of the consolidated and separate 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 (IFRS) as issued by the International Accounting Standards Board (IASB) which give a true and fair view of the state of affairs of the group and the company as at the end of the financial 12 months and the results of its operations and cash flows for the period then ended. In 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 company will continue in business as a going concern.

The external auditors are engaged to express an independent opinion on the consolidated and separate financial statements.

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 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 2020 are included in the Annual Financial Statements Report 2020, which is made available on the company's website at: www.homechoiceinternational.com. 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 Mauritius.

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

- the consolidated and separate financial statements give a true and fair view of the financial position of the group and the company as at 31 December 2020, and of the financial performance and the cash flows for the year then ended in accordance with IFRS;
- the annual report includes a fair review of the development and performance of the business, the position of the group and the company, together with a description of the principal risks and uncertainties that the group and the company face;
- the group and the company have adequate resources to continue in operation for the foreseeable future and will therefore continue to prepare the annual financial statements on the going concern basis; and
- no event, material to the understanding of this report, has occurred between the financial year-end and the date of this report.

The external auditors are responsible for independently auditing and reporting on the company's annual financial statements. The annual financial statements have been examined by the company's external auditors and their report is presented on pages 10 to 15.

The financial statements set out on pages 16 to 79 which have been prepared on the going concern basis, were approved by the directors on 24 March 2021 and are signed on their behalf by:

S Maltz
Executive Chair

P Burnett
Finance Director

CEO'S AND FD'S RESPONSIBILITY STATEMENT

The CEO and the FD hereby confirm that:

- the annual financial statements set out on pages 16 to 79, fairly present in all material respects the financial position, financial performance and cash flows of HomeChoice International plc in terms of IFRS;
- no facts have been omitted or untrue statements made that would make the annual financial statements false or misleading;
- internal financial controls have been put in place to ensure that material information relating to the issuer and its consolidated subsidiaries have been provided to effectively prepare the consolidated and separate financial statements of the issuer; and
- the internal financial controls are adequate and effective and can be relied upon in compiling the annual financial statements, having fulfilled our role and function within the combined assurance model pursuant to principle 15 of the King Code. Where we are not satisfied, we have disclosed to the audit committee and the auditors the deficiencies in design and operational effectiveness of the internal financial controls and any fraud that involves directors and have taken the necessary remedial action.

G Lartigue
Chief Executive Officer

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 2020 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:

- considering the Key Audit Matters arising from the auditor's report;
- reviewing and recommending to the board the group structure and confirming it has had access to all financial information of the group;
- reviewing the annual financial statements and any other financial information presented to shareholders, ensuring compliance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and in accordance with the requirements of the Mauritius Companies Act, 2001;
- to consider the JSE's report on the proactive monitoring of financial statements for compliance with IFRS and to ensure that appropriate action is taken if required;
- reviewed the interim reports and preliminary results announcements and recommended them to the board for approval;
- 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;
- considering the appropriateness of the expertise and experience of the finance director and the group's finance function;
- reviewing updates with laws and regulations and ensuring the effectiveness of compliance therewith; and
- reviewing any material litigation in the group and the impact it may have on the external reports.

Committee composition and meetings

Composition of committee to 31 May 2020:

- Charles Rapa (chairman);
- Amanda Chorn; and
- Pierre Joubert.

Composition of committee from 1 June 2020 to 31 December 2020:

- Pierre Joubert (chairman);
- Amanda Chorn; and
- Robert Hain.

Meetings are also attended by invitees including the finance director, head of internal audit and the external auditors.

The board has approved the application of the governance principles contained in the King IV Report on Corporate Governance for South Africa 2016 (King IV™).

The board has recommended the appointment of the following directors as members of the audit and risk committee, subject to their appointment and/or reappointment as directors (as may be applicable) at the annual general meeting:

- Marlisa Harris;
- Amanda Chorn; and
- Pierre Joubert.

The members have made themselves available for election and re-election to the committee.

(A detailed profile on the directors can be found in the notice of the annual general meeting.)

The committee met three 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

Member	Number of meetings	Percentage of attendance
Pierre Joubert	3	100%
Amanda Chorn	3	100%
Robert Hain	2	100%
Charles Rapa	1	100%

Activities of the committee

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

Annual financial statements

The committee confirms it has had unrestricted access to all financial information available within the group. The committee reviewed the group's interim and 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 IFRS 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 agreed not to obtain independent assurance at this time.

JSE Listings Requirements on attestation

The committee is satisfied that the company has established appropriate financial reporting procedures and that those procedures are operating, which include consideration of all the entities included in the consolidated group IFRS financial statements. It is also satisfied that it has had access to all the financial information of the group to enable the group to effectively prepare and report on the financial statements of the company and the group.

External audit

PricewaterhouseCoopers Mauritius was appointed as the auditors for the statutory audit of HomeChoice International plc at the annual general meeting held in 2020. The committee reviewed the proposed audit plan, terms of engagement and the audit fee. It 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 and approved the nature and extent of any non-audit services. The committee is satisfied that the external auditor and the engagement partner are independent of the group and company and management, and are able to express an independent and objective opinion on the group's annual financial statements and have appropriate safeguards to maintain its independence when providing non-audit services. The committee ensured that the appointment process complied with all relevant requirements, including the provisions of the JSE Listings Requirements paragraph 3.84(g)(iii) and the information required in terms of paragraph 22.15(h). Therefore, the committee nominates their reappointment for the approval of the shareholders at the annual general meeting.

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. The committee reviewed the significant risks and is satisfied that they are the material issues facing the group. 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 reviews the law, regulations and amendments thereto applicable to the business. With the redomiciliaton of the company from Malta to Mauritius, a new Memorandum of Incorporation (MOI) was adopted in compliance with the Mauritian Companies Act 2001 and compliance therewith is monitored accordingly.

In the year under review the committee monitored the implementation of privacy laws across South Africa and Mauritius. Good progress has been made with the implementation of the Protection of Personal Information Act and the Data Protection Act (Mauritius). The committee also monitors the implementation of systems to assist the business in collections in accordance with the newly introduced DebiCheck regime, which will replace the current Naedo regime.

Material litigation

The committee reviews material litigation within the group and confirms there are none to report on during the financial 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 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 information technology, 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. He is adequately supported by the collective expertise, resources and experience of the group's finance function.

Significant financial reporting matters

The significant financial reporting matters the committee considered in the year are trade and loan receivables, inventory and the effect of Covid-19 on the financial statements. The major risk relating to trade and loan receivables is credit risk. Trade and loan receivables have been highlighted as an area where judgement is needed in note 10 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 appropriate.

Based on the books' ageing and management's judgement of the receivables' collectibility, allowances for expected credit losses are raised. The committee considers the carrying value of trade and loan receivables to be fairly stated. Refer to note 10 of the consolidated annual financial statements for the amounts concerned.

The major risks relating to inventory are the verification and valuation thereof. The retail business counts inventory on a regular cyclical 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 that considers stock ageing, condition and saleability. The committee considers the carrying value of inventory to be fairly stated. Refer to note 9 in the consolidated annual financial statements for the amounts concerned.

Covid-19 has had the most significant impact on financial statement line items which are subject to management judgements and assumptions. The committee has assessed that these assumptions are appropriate. Refer to note 35 for details of the impact of Covid-19 on the financial statements.

Committee evaluation

The process of evaluating the committee was concluded for the 2020 financial year with the results from the questionnaire indicating the operations of the committee as strong.

Key audit findings and matters

JSE thematic review and proactive monitoring

The group was selected as part of the JSE's proactive monitoring review process regarding the specific accounting standards and industry issues that are relevant at the time. Following constructive engagement with the JSE's reviewers, the group has expanded certain disclosures in the annual financial statements for the year ended 31 December 2020.

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.

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.

Pierre Joubert
Chairman of the audit and risk committee

Mauritius

24 March 2021

REPORT OF THE DIRECTORS

for the year ended 31 December 2020

Nature of business

HomeChoice International plc (HIL) is an investment holding company incorporated in Mauritius 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, contact centres, sales agents' networks and showrooms. Engagement with our Financial Services business is via digital platforms with the contact 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 Sector Conduct Authority (FSCA) 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 FSCA.

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 4 to 6.

Directors

The following directors held office during the year:

- Shirley Maltz – Executive Chair (from 1 June 2020)
- Gregoire Lartigue – Chief Executive Officer
- Paul Burnett – Finance Director
- Amanda Chorn – Independent Non-executive Director
- Robert Hain – Independent Non-executive Director
- Pierre Joubert – Independent Non-executive Director
- Eduardo Gutierrez-Garcia – Non-executive Director
- Adefolarin Ogunsanya – Alternate Non-executive Director
- Stanley Portelli – Independent Non-executive Director (resigned 31 May 2020)
- Charles Rapa – Independent Non-executive Director (resigned 31 May 2020)

Redomicilation

The company changed its domicile from Malta to Mauritius effective 9 April 2020.

Changes to the board composition during the year

As a result of the redomiciliation, the composition of the board was reviewed. In conjunction with the nominations committee, the board accepted the resignation of the chairman of the board, Stanley Portelli, and the chairman of the audit and risk committee, Charles Rapa, effective 31 May 2020.

Shirley Maltz, previously an executive director, was appointed as executive chair effective 1 June 2020. Shirley retains her executive duties within the group and cannot be classified as an independent non-executive director. The JSE Listings Requirements and King IV™ require that the chairman of the board should be an independent non-executive director and failing that a lead independent director must be appointed. Pierre Joubert was appointed the lead independent director effective 1 June 2020.

Rotation of directors

Pierre Joubert and Robert Hain, who retire in terms of article 34.4.1.3 of the constitution, have made themselves available for re-election as directors at the annual general meeting.

Company secretary

As a result of the redomiciliation of the company, George Said resigned as company secretary effective 20 May 2020 and Sanlam Trustees International Limited, based in Mauritius, was appointed on the same day.

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 R187 million (2019: R577 million).

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 and final

Due to the impact of Covid-19 and the economic and risks landscapes having changed significantly, the board believed that it was in the best interests of the group and its stakeholders to preserve cash reserves during the period of uncertainty. Against this background, no dividends were declared.

Stated 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 12 to the group annual financial statements.

Treasury shares and share buy-back transactions

The group has 1 555 706 treasury shares, 600 000 held by the HomeChoice Development Trust and 955 706 held by HomeChoice Nominees (Pty) Limited. 617 070 shares were purchased during the year in settlement of the group's share forfeiture scheme and 36 364 shares were awarded during the year upon vesting. Further details are contained in note 13 to the group annual financial statements.The percentage of called up share capital held as treasury shares is 1.5%.

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. 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. With effect from 2018, both share incentive schemes are required to achieve agreed performance conditions in order for them to vest. Further details are reflected in note 14 to the group annual financial statements.

Borrowing powers

The borrowing powers of the group are not limited in terms of the company's constitution.

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 2021 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

HomeChoice International plc acquired an 85% interest in a financial services company for consideration of R45 million on 1 March 2021.

Auditors

As a consequence of the redomiciliation, the group had a change in their external auditors. PricewaterhouseCoopers Inc. Malta resigned by mutual agreement effective 20 August 2020 and was replaced by PricewaterhouseCoopers Inc. Mauritius.

The external auditors of the group are PricewaterhouseCoopers Inc. Mauritius, with Mr Oliver Rey as the designated audit partner.

PricewaterhouseCoopers Inc. Mauritius have indicated their willingness to continue in office and a resolution for their reappointment will be proposed at the annual general meeting to be held in May 2021.

By order of the board

G Lartigue
Chief Executive Officer

P Burnett
Finance Director

24 March 2021

COMPANY SECRETARY'S REPORT

HomeChoice International plc

Under section 166(d) of the Companies Act 2001

We certify that, based on our records and information made available to us by the directors and shareholders of the company, the company has filed with the Registrar of Companies, for the reporting period ended 31 December 2020, all such returns as are required of the company under the Mauritian Companies Act 2001.

Sanlam Trustees International Limited
Labourdonnais Village
Mapou
Republic of Mauritius
Company Secretary

24 March 2021

Independent Auditor's Report

To the Shareholders of
HomeChoice International p.l.c

Report on the Audit of the Consolidated and Separate Financial Statements

Our Opinion

In our opinion, the consolidated and separate financial statements give a true and fair view of the financial position of HomeChoice International p.l.c (the "Company") and its subsidiaries (together the "Group") and of the Company standing alone as at 31 December 2020, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards and in compliance with the Mauritian Companies Act 2001.

What we have audited

HomeChoice International p.l.c's accompanying consolidated and separate financial statements comprise:

- the group statement of financial position as at 31 December 2020;
- the company statement of financial position as at 31 December 2020;
- the group statement of comprehensive income for the year then ended;
- the company statement of comprehensive income for the year then ended;
- the group statement of changes in equity for the year then ended;
- the company statement of changes in equity for the year then ended;
- the group statement of cash flows for the year then ended;
- the company statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

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 Consolidated and Separate 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.

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Tel: +230 404 5000, Fax:+230 404 5088, www.pwc.com/mu
Business Registration Number: F07000530

Independent Auditor's Report

To the Shareholders of HomeChoice International p.l.c (Continued)

Report on the Audit of the Consolidated and Separate Financial Statements (Continued)

Basis for Opinion (Continued)

Independence

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (the "IESBA Code"). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate 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.

Key audit matter - Group	How our audit addressed the key audit matter
Expected credit losses (ECL) on trade and loans receivables Refer to note 1.17 (Impairment of financial assets), note 1.28 (Significant accounting judgements, estimates and assumptions), note 1.29 (Change in accounting estimate), note 3.3 (Credit risk management), note 21 (Credit impairment losses) and note 10 (Trade and other receivables) to the consolidated financial statements. The Group has recognised gross trade receivables amounting to R 1.92 billion and gross loan receivables amounting to R 1.76 billion at reporting date. Included in the trade and loans receivables balances are provisions for impairment amounting to R 675 million.	Making use of our actuarial expertise, our audit procedures addressed the key areas of significant judgement and estimation in determining the ECL on trade and loans receivable as follows: **Understanding of the relevant controls** We obtained an understanding of and tested the relevant controls relating to the origination and approval of credit facilities, and subsequent monitoring and evaluation of credit risk.

Independent Auditor's Report

To the Shareholders of
HomeChoice International p.l.c (Continued)

Report on the Audit of the Consolidated and Separate Financial Statements (Continued)

Key Audit Matters (Continued)

Key audit matter - Group	How our audit addressed the key audit matter
In calculating the ECL on trade and loans receivables, which is calculated in terms of International Financial Reporting Standards 9 - Financial Instruments (IFRS 9), the key areas of significant management judgement and estimation included: ● Determining whether there has been a significant increase in credit risk (SICR) since initial recognition of the financial instrument; ● The accuracy of the inputs, assumptions and estimation techniques within the IFRS 9 expected credit loss (ECL) models; ● Determining the impact of forward-looking information; ● Determining the write-off point; and In determining the ECLs on trade and loans receivables, the following has been considered by management: **Significant increase in credit risk (SICR)** The impairment methodology applied depends on whether there has been a SICR since the time of initial recognition of the financial instrument.	**SICR** Our approach involved the following procedures: ● We tested the accuracy of the model inputs used, such as the type of product and the client credit status used in determining whether there has been a SICR, by comparing the inputs to underlying documentation or the relevant criteria to assess status, and found the inputs to be consistent. ● We tested the staging of the raw data against the most recent customer payment data, and noted no material inconsistencies. ● We reperformed the application of the SICR criteria, compared it to the actual exposures where SICR was triggered, and found no material variances. ● We assessed the reasonability of the SICR criteria by comparing the volume of accounts for which SICR was triggered to historical trends, and noted that the volume of accounts triggered for SICR purposes was materially aligned to the historical risk of each portfolio tested.

Independent Auditor's Report

To the Shareholders of HomeChoice International p.l.c (Continued)

Report on the Audit of the Consolidated and Separate Financial Statements (Continued)

Key Audit Matters (Continued)

Key audit matter - Group	How our audit addressed the key audit matter
SICR is assessed on a monthly basis for all customers. A financial instrument is considered to have experienced SICR since initial recognition when one or more of the following quantitative, qualitative or backstop criteria have been met: ● the customer has not met his or her minimum contractual obligations for at least one month; ● the customer applies for or enters into debt review, the customer is allocated a higher risk score category based on the Group's various behaviour scorecards, or where the customer has demonstrated a SICR on other group credit products; and ● the borrower is more than 30 days past due on their contractual payments acting as a backstop measure. Where a SICR has been identified, the ECL is measured at an amount equal to the lifetime ECL of the receivable. Where there is no SICR the ECL is measured at an amount equal to a 12-month ECL of the receivable. **The accuracy of the inputs, assumptions and estimation techniques within the IFRS 9 ECL models** The IFRS 9 ECL model is based on the loss rate approach, where the loss rate statistics are developed on the basis of the exposure written off over the life of the financial assets rather than using the separate probability of default and loss given default statistics.	**The accuracy of the inputs, assumptions and estimation techniques within the IFRS 9 ECL models** We inspected and assessed the methodology applied by management in their IFRS 9 model documentation which forms the basis of the ECL calculation. We made use of our actuarial expertise to assess whether the model methodology is consistent with the requirements of IFRS 9. We independently recalculated management's impairment estimates based on the historic account level data. No material differences were noted in the independent recalculation. We assessed the principles underlying the ECL calculation through independent recalculation, the practical implementation of these principles as well as consistency with current industry best practices, regulatory expectations and the requirements of IFRS 9. We independently extracted the data from the system and compared it to the data used by management, noting no inconsistencies. We selected a sample of accounts with various key input fields, such as customer transaction data, that included recoveries and sales transactions and other fees or charges. We compared these to relevant underlying documentation and the data used in the model. No material exceptions were noted.

Independent Auditor's Report

To the Shareholders of HomeChoice International p.l.c (Continued)

Report on the Audit of the Consolidated and Separate Financial Statements (Continued)

Key Audit Matters (Continued)

Key audit matter - Group	How our audit addressed the key audit matter
The estimated exposure at write-off ("EAW") is discounted back to the reporting date to calculate the ECL. The projection of the EAW is based on a transition matrix and estimated separately for accounts in Stage 1, 2 or 3 at the reporting date. For all trade and loans receivable, the most recent 12 months of data are used to construct the transition matrices. Risk states in the transition matrix provides the probability of accounts moving into various risk states in the next period. The matrices are multiplied out over a 240-month period, post the reporting date, to estimate the EAW. The discount rate is calculated to ensure that the discounted write-off values are equivalent to the difference between the gross carrying amount and the present value of recovery cash flows at the original effective interest rate ("EIR"). **Forward-looking information** In the current year, the Group could not identify reliable statistical relationships between macroeconomic variables and credit losses due to the severity and uniqueness of current economic conditions. The forecasted impact of future events and economic conditions in determining ECL include the impact of the COVID-19 pandemic and expected regulatory changes on ECL.	We independently recalculated the EAW, and no material differences were noted. **Forward-looking information** We evaluated the impact of economic stresses and the effect of COVID-19 on the Retail and Financial Services divisions by creating an independent ECL model that adjusted historical data (specifically loss rates) for the impact of COVID-19, based on industry benchmarks. We compared the impact of the above to management's ECL model, and found no material deviations. We assessed the reasonableness of the separate event driven ECL overlays raised by management, based on our understanding of the entity and industry, emerging risks and regulatory changes. We reperformed the overlay calculations performed by management. Furthermore, based on our wider reperformance of the ECL models, we considered effects already taken into account by the ECL models to assess whether the impact of the overlays were double counted. We evaluated whether these separate event driven ECL overlays were subject to an appropriate governance process.

Independent Auditor’s Report

To the Shareholders of
HomeChoice International p.l.c (Continued)

Report on the Audit of the Consolidated and Separate Financial Statements (Continued)

Key Audit Matters (Continued)

Key audit matter - Group	How our audit addressed the key audit matter
The transition matrices used by the Group to determine ECL use the most recent 12 months of data and therefore the effect of COVID-19 is inherent in the loss rate used in determining the ECL, without including an explicit macroeconomic link. Management has calibrated the ECL model to allow for the distressed macro-economic environment and future customer experience. Management have further determined separate event driven ECL overlays to cater for specific events which are not included in the ECL models such as expected regulatory changes. Management increases the results produced by the modelled output, which are not yet captured by the ECL models. **Write-off point** The Group writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. This is usually the case when the Group’s in-house collection department and external collection companies which supplement the Group’s collection activities are unable to recover outstanding balances. Refer to note 1.28 (e) to the consolidated financial statements for the determination of the write-off point.	**Write-off point** To assess the accuracy of the write-off point, we evaluated management’s assessment of historical post write-off recoveries, to determine the point at which there was no reasonable expectation of further recovery, and adjusted for the current shift in the financial services write-off point outwards by two billing cycles. We compared this to the write-off point applied by management and noted no further aspects requiring consideration. We tested the application of the Group’s write-off policy through recalculation of the write-off point, excluding post write-off recoveries from expected cash flows, and noted no material differences.

Independent Auditor's Report

To the Shareholders of HomeChoice International p.l.c (Continued)

Report on the Audit of the Consolidated and Separate Financial Statements (Continued)

Key Audit Matters (Continued)

Key audit matter - Group	How our audit addressed the key audit matter
The group performs an ongoing assessment of credit losses and recoveries trends in accordance with IFRS 9 in order to reduce any differences between estimates and actual credit loss experience. In the current financial year, management re-estimated the financial services segment's write-off point. The revised estimate shifts the write-off point outwards by two billing cycles as reflected in note 1.29 (Change in accounting estimate) to the consolidated financial statements. We considered the impairment of trade and loans receivables to be a matter of most significance to our current year audit due to the following: ● the degree of judgement and estimation applied by management in determining the impairment; and ● the magnitude of the impairment recognised in the consolidated financial statements.	

Independent Auditor’s Report

To the Shareholders of
HomeChoice International p.l.c (Continued)

Report on the Audit of the Consolidated and Separate Financial Statements (Continued)

Other Information

The directors are responsible for the other information. The other information comprises the information included in the annual report but does not include the consolidated and separate financial statements and our auditor’s report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate 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 consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Consolidated and Separate Financial Statements

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards and in compliance with the Mauritian Companies Act 2001, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

Independent Auditor’s Report

To the Shareholders of HomeChoice International p.l.c (Continued)

Report on the Audit of the Consolidated and Separate Financial Statements (Continued)

Responsibilities of the Directors for the Consolidated and Separate Financial Statements (Continued)

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the Group’s and the 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.

The directors are responsible for overseeing the Group’s and Company’s financial reporting process.

Auditor’s Responsibilities for the Audit of the Consolidated and Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate 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 consolidated and separate 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 consolidated and separate 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.

Independent Auditor’s Report

To the Shareholders of HomeChoice International p.l.c (Continued)

Report on the Audit of the Consolidated and Separate Financial Statements (Continued)

Auditor’s Responsibilities for the Audit of the Consolidated and Separate Financial Statements (Continued)

- 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 consolidated and separate 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/or the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate 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 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 the directors 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 the directors 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, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate 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.

Independent Auditor's Report

To the Shareholders of
HomeChoice International p.l.c (Continued)

Report on Other Legal and Regulatory Requirements

Mauritian Companies Act 2001

The Mauritian Companies Act 2001 requires that in carrying out our audit we consider and report to you on the following matters. We confirm that:

(a) we have no relationship with or interests in the Company or any of its subsidiaries other than in our capacity as auditor and tax advisor of the Company and some of its subsidiaries;
(b) we have obtained all the information and explanations we have required; and
(c) in our opinion, proper accounting records have been kept by the Company as far as appears from our examination of those records.

Other Matter

This report, including the opinion, has been prepared for and only for the Company's shareholders, as a body, in accordance with Section 205 of the Mauritian Companies Act 2001 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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24 March 2021

GROUP STATEMENT OF FINANCIAL POSITION

at 31 December 2020

	Notes	2020 Rm	2019 Rm
Assets			
Non-current assets			
Property, plant and equipment	4	**476**	471
Intangible assets	5	**210**	169
Right-of-use assets	6	**60**	67
Financial assets at fair value through profit or loss	7	**34**	24
Deferred taxation	8	**45**	2
		825	733
Current assets			
Inventories	9	**315**	349
Taxation receivable		**13**	1
Trade and other receivables	10	**3 024**	3 188
Trade receivables – Retail		**1 517**	1 581
Loans receivable – Financial Services		**1 493**	1 583
Other receivables		**14**	24
Cash and cash equivalents	11	**415**	80
		3 767	3 618
Total assets		**4 592**	4 351
Equity and liabilities			
Equity attributable to equity holders of the parent			
Stated and share capital	12.1	**1**	1
Share premium	12.2	**3 014**	3 010
Reorganisation reserve		**(2 961)**	(2 961)
		54	50
Treasury shares	13	**(33)**	(18)
Other reserves	15	**47**	33
Retained earnings		**3 048**	2 881
Total equity		**3 116**	2 946
Non-current liabilities			
Interest-bearing liabilities	16	**933**	537
Lease liabilities	6	**48**	57
Deferred taxation	8	**69**	51
Other payables	17	**4**	4
		1 054	649
Current liabilities			
Interest-bearing liabilities	16	**39**	391
Lease liabilities	6	**22**	18
Taxation payable		**12**	16
Trade and other payables	18	**349**	283
Bank overdraft	11	**–**	48
		422	756
Total liabilities		**1 476**	1 405
Total equity and liabilities		**4 592**	4 351

These financial statements were approved for issue by the board of directors and authorised for issue on 24 March 2021. The directors have the power to amend and reissue the financial statements.

S Maltz
Executive Chair

P Burnett
Finance Director

GROUP STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2020

	Notes	2020 Rm	2019 Rm
Revenue		**3 275**	3 484
Retail sales	19	**1 792**	1 951
Finance income		**1 038**	1 093
Fees from ancillary services	20	**445**	440
Cost of Retail sales		**(987)**	(1 027)
Other operating costs		**(2 020)**	(1 785)
Credit impairment losses	21	**(874)**	(717)
Other trading expenses	22	**(1 146)**	(1 068)
Other net gains and losses	23	**(8)**	(1)
Other income	24	**10**	8
Operating profit		**270**	679
Interest income		**5**	4
Interest expense		**(93)**	(101)
Profit before taxation		**182**	582
Taxation	26	**(15)**	(127)
Profit and total comprehensive income for the year		**167**	455
Earnings per share (cents)			
Basic	27.1	**160.4**	436.0
Diluted	27.2	**158.6**	428.7

GROUP STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2020

	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 2019	1	3 005	(3)	(2 961)	18	2 624	2 684
Change on initial application of IFRS 16						(3)	(3)
Restated equity at the beginning of the year	1	3 005	(3)	(2 961)	18	2 621	2 681
Changes in equity							
Profit and total comprehensive income for the year	–	–	–	–	–	455	455
Shares issued	–	5	–	–	–	–	5
Dividends paid	–	–	–	–	–	(195)	(195)
Share incentive schemes	–	–	–	–	15	–	15
Shares purchased	–	–	(15)	–	–	–	(15)
Total changes	–	5	(15)	–	15	260	265
Balance at 1 January 2020	**1**	**3 010**	**(18)**	**(2 961)**	**33**	**2 881**	**2 946**
Changes in equity							
Profit and total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**167**	**167**
Shares issued	**–**	**4**	**–**	**–**	**–**	**–**	**4**
Share incentive schemes	**–**	**–**	**–**	**–**	**15**	**–**	**15**
Shares purchased	**–**	**–**	**(16)**	**–**	**–**	**–**	**(16)**
Forfeitable shares vested	**–**	**–**	**1**	**–**	**(1)**	**–**	**–**
Total changes	**–**	**4**	**(15)**	**–**	**14**	**167**	**170**
Balance at 31 December 2020	**1**	**3 014**	**(33)**	**(2 961)**	**47**	**3 048**	**3 116**
Notes	12.1	12.2	13		15		

GROUP STATEMENT OF CASH FLOWS

for the year ended 31 December 2020

	Notes	**2020 Rm**	2019 Rm
Cash flows from operating activities			
Operating cash flows before working capital changes	28	**315**	718
Movements in working capital	28	**315**	(281)
Cash generated from operations	28	**630**	437
Interest received		**5**	4
Interest paid	25	**(93)**	(93)
Taxation paid	29	**(56)**	(174)
Net cash inflow from operating activities		**486**	174
Cash flows from investing activities			
Additions of property, plant and equipment	4	**(46)**	(44)
Additions of intangible assets	5	**(71)**	(72)
Financial assets at fair value through profit or loss	7	**–**	11
Net cash outflow from investing activities		**(117)**	(105)
Cash flows from financing activities			
Proceeds from the issuance of shares		**4**	5
Purchase of shares to settle forfeiture share scheme obligations		**(16)**	(15)
Proceeds from interest-bearing liabilities	16	**781**	315
Repayments of interest-bearing liabilities	16	**(737)**	(243)
Principal elements of lease payments	30	**(18)**	(12)
Dividends paid		**–**	(195)
Net cash inflow/(outflow) from financing activities		**14**	(145)
Net increase/(decrease) in cash and cash equivalents and bank overdrafts		**383**	(76)
Cash and cash equivalents and bank overdrafts at the beginning of the year		**32**	108
Cash and cash equivalents and bank overdrafts at the end of the year	11	**415**	32

Interest received has been included in cash generated from operations. Refer to note 28 for further details.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2020

Group segmental information

	2020					
	Total Rm	Retail Rm	Financial Services Rm	Property Rm	Other Rm	Intragroup Rm
Segmental revenue	3 275	2 440	835	48	–	(48)
Retail sales	1 792	1 792	–	–	–	–
Finance income	1 038	468	570	–	–	–
Fees from ancillary services	445	180	265	48	–	(48)
EBITDA	356	145	235	22	(30)	(16)
Depreciation and amortisation	(86)	(85)	(8)	–	–	7
Interest income	2	–	8	–	65	(71)
Interest expense	(67)	–	(70)	–	(68)	71
Segmental operating profit/(loss)*	205	60	165	22	(33)	(9)
Interest income	3	3	–	–	–	–
Interest expense	(26)	(21)	–	(12)	–	7
Profit/(loss) before taxation	182	42	165	10	(33)	(2)
Taxation	(15)	7	(26)	(3)	7	–
Profit/(loss) after taxation	167	49	139	7	(26)	(2)
Segmental assets	4 592	2 621	1 850	353	1 515	(1 747)
Segmental liabilities	1 476	1 376	917	269	678	(1 764)
Gross profit margin (%)	44.9	44.9				
Segmental results margin (%)	6.3	2.5	19.8	45.8		
Operating cash flows before working capital changes	315	112	224	22	(27)	(16)
Movements in working capital	315	176	143	(3)	(5)	4
Cash generated/(utilised) by operations	630	288	367	19	(32)	(12)
Capital expenditure						
Property, plant and equipment	46	42	2	2	–	–
Intangible assets	71	50	21	–	–	–

	2019					
	Total Rm	Retail Rm	Financial Services Rm	Property Rm	Other Rm	Intragroup Rm
	3 484	2 613	871	61	–	(61)
	1 951	1 951	–	–	–	–
	1 093	482	611	–	–	–
	440	180	260	61	–	(61)
	751	442	362	36	(34)	(55)
	(73)	(117)	(11)	–	–	55
	3	–	3	–	72	(72)
	(68)	–	(68)	–	(72)	72
	613	325	286	36	(34)	–
	1	1	–	–	–	–
	(32)	(22)	–	(20)	–	10
	582	304	286	16	(34)	10
	(127)	(68)	(55)	(5)	1	–
	455	236	231	11	(33)	10
	4 351	2 359	1 725	340	1 211	(1 284)
	1 405	1 035	840	253	561	(1 284)
	47.4	47.4				
	17.6	12.4	32.8	59.0		–
	718	415	355	36	(33)	(55)
	(281)	(72)	(212)	–	3	–
	437	343	143	36	(30)	(55)
	44	43	1	–	–	–
	72	49	23	–	–	–

1. Accounting policies

1.1 Presentation of annual financial statements

The consolidated and separate annual financial statements have been prepared in accordance with International Financial Reporting Standards and the requirements of the Mauritian Companies Act 2001.

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.

The significant accounting policies applied in the preparation of the separate and consolidated financial statements are set out below:

1.2 Basis of consolidation

The consolidated annual financial statements include those of the company, its subsidiaries and trusts over which the company exerts control. The capital reorganisation of HomeChoice Holdings Limited to HomeChoice International plc in 2014 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 except for financial assets at fair value through profit or loss. The consolidated and separate financial statements are presented in South African Rand and all values are rounded to the nearest million (Rm) except when otherwise indicated. The principal accounting policies applied in the preparation of these annual financial statements have been consistently applied to all the years presented, unless otherwise stated.

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 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 Cell captive insurance contracts

The group has an arrangement with Guardrisk, a licensed insurance company, in insurance cells within South Africa and Mauritius. These "cells" issue certain 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 insurance cells domiciled in Mauritius. On the basis that the Mauritius cells are protected (all assets and liabilities are protected from all other cells and that the promoter's non-cellular assets cannot be used to settle cell liabilities) and the substance of the arrangements in Mauritius, these cells meet the definition of a "deemed separate entity" per IFRS 10 and, as such, the results of the insurance cells are included in the consolidated annual financial statements.

South African insurance cell

The group has an economic interest in insurance cells domiciled in South Africa. The insurance cell captive satisfies the conditions for classification as financial assets at fair value through profit or loss (refer to note 1.11).

The net profit or loss after tax is accounted for in profit or loss. The net profit or loss after tax 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. Dividends are payable to the group in terms of the contract subject to certain liquidity and solvency requirements of the insurance cell.

1.6 Property, plant and equipment

Property, plant and equipment are initially recognised at cost. 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 losses. Freehold land is stated at cost less any accumulated impairment in value and is not depreciated. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably.

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

Property, plant and equipment are depreciated on a straight-line basis over the expected useful lives of the various classes of assets, after taking into account residual values. Useful lives of property, plant and equipment and residual values are reviewed on an annual basis.

The effect of changes to useful lives or residual values will be accounted for prospectively in profit or 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	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 or loss in the year the asset is derecognised.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (refer to note 1.8).

1.7 Intangible assets

Intangible assets are initially recognised at cost. All of the group's intangible assets are assessed as having finite useful lives and are amortised over their 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 are reviewed annually. The amortisation expense is recognised in profit or loss. Intangible assets include licences and computer software (including development costs). The annual amortisation rates applied are as follows:

Licences	10.0% – 33.3%
Computer software	12.5% – 25.0%

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 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 disposal proceeds, if any, and the carrying amount of the asset, and are recognised in profit or loss when the asset is derecognised.

1.8 Impairment of non-financial assets

At each reporting date the group assesses whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the group makes an estimate of the asset's recoverable amount, 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 or loss. An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased.

If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised for the asset in prior years. Such a reversal is recognised in profit or loss.

1.9 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 realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and cost necessary to make the sale.

1.10 Leases – lessee

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the group. Assets and liabilities arising from the lease are initially measured on a present value basis of the contractual lease payments, including any payments to be made under reasonably certain extension options.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset.

Right-of-use assets are depreciated on a straight-line basis over the expected useful lives of the asset. The annual rates applied for depreciation are as follows:

Buildings	20% – 33.33%

The group subsequently measures right-of-use assets at cost, less any accumulated depreciation and any accumulated impairment losses.

The group subsequently measures lease liabilities by:

(a) increasing the carrying amount to reflect interest on the lease liability; and

(b) reducing the carrying amount to reflect the lease payments made.

1.11 Financial instruments

Initial recognition and measurement

Financial instruments recognised on the statement of financial position include trade and other receivables, cash and cash equivalents, financial assets at fair value through profit or loss, trade and other payables and interest-bearing borrowings. Trade receivables are defined as sales made through the retail channel whilst loan receivables are defined as loans granted through the financial services channel. 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 or loss are expensed.

Derecognition

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.

Classification and subsequent measurement

(i) *Financial assets*

The group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value through profit or loss; and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

Amortised cost

These are assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest and are measured at amortised cost. Interest income from these financial assets is included in finance charges earned using the effective interest rate method. This is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for:

(a) purchased or originated credit-impaired financial assets. For these financial assets the group applies the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition; and

(b) financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets. For these financial assets, the group applies the effective interest rate to the amortised cost of the financial asset in subsequent reporting periods.

Initiation fees which are considered to be an integral part of the effective interest rate 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.

Any gain or loss arising on derecognition is recognised directly in profit or loss.

Fair value through profit or loss

These are assets that do not meet the criteria for amortised cost or fair value through other comprehensive income and are measured at fair value through profit or loss.

(ii) *Financial liabilities*

Financial liabilities are classified as subsequently measured at amortised cost.

1.12 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.

1.13 Cash and cash equivalents

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

1.14 Trade and other payables

Liabilities for trade and other payables are classified as financial liabilities and are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when liabilities are derecognised, and the interest through the amortisation process. The group has no obligation to fulfil warranties for products sold to customers.

1.15 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 profit or loss 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.

1.16 Derivative financial instruments

All derivative financial instruments are classified as financial assets or financial liabilities at fair value through profit or loss.

1.17 Impairment of financial assets

The group assesses, on a forward-looking basis, the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. The group applies the general impairment approach as trade and loan receivables contain a significant financing component with terms of business varying from 1 to 36 months. The group assesses at the end of each reporting period whether the credit risk on a financial instrument has increased significantly since initial recognition.

Where there has been a significant increase in credit risk since initial recognition the group measures the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses. Where there has not been a significant increase in credit risk since initial recognition the group measures the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses. The group recognises in profit or loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the end of the reporting period.

Note 1.28 provides more detail of how the group determines a significant increase in credit risk and how the expected credit loss allowance is measured.

1.18 Share capital and equity

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

Stated and share capital

Share capital represents 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 are shown in equity as a deduction from share premium, net of any taxation effect.

Reorganisation reserve

On 28 November 2014 a new entity, HomeChoice International plc, was placed on top of the existing group, HomeChoice Holdings Limited, by issuing shares to the existing group shareholders. This transaction was not a business combination and has been accounted for as a reorganisation of an existing group that has not changed the substance of the reporting entity. No capital was raised as part of the reorganisation. At the time of the reorganisation the shareholders of HomeChoice Holdings became the new shareholders in HomeChoice International plc. At the time of the reorganisation the consolidated financial statements of the new entity, HomeChoice International plc, were presented using the values from the consolidated financial statements of the previous group holding company. The equity structure – that is, the issued share capital, share premium and treasury shares – reflected that of the new company, with other amounts in equity (such as retained earnings and other reserves) being those from the consolidated financial statements of the previous group holding company. The resulting difference that arose was recognised as a component of equity, called reorganisation reserve.

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, is credited to retained earnings.

1.19 Dividend distribution

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

1.20 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 excluding the impact of any service and non-market performance vesting conditions (for example, profitability growth targets and remaining an employee of the entity over a specified time period).

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 or 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 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.

1.21 Provisions and contingencies

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

1.22 Revenue recognition

The group earns revenue from the following revenue streams:

- Retail sales (in the scope of IFRS 15)
- Finance income (in the scope of IFRS 9)
- Service fees (in the scope of IFRS 15)
- Insurance fees (in the scope of IFRS 4)
- Dividends (in the scope of IFRS 9)

Revenue is recognised at the amount of the transaction price that is allocated to that performance obligation excluding amounts collected on behalf of third parties. Revenue is recognised when (or as) the entity satisfies a performance obligation by transferring a promised good or service (i.e. an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset. Contract liabilities are not recognised as the group does not have an unconditional right to receive consideration for orders (in advance of performance) at year-end.

The transaction price of contracts with customers is the selling price of merchandise disclosed via our catalogue or digital channels. The only variable consideration is the refund liability which has been separately accounted for under note 1.28.

The following specific criteria must be met before revenue is recognised:

Retail sales

Retail sales comprise revenue from the sale and delivery of merchandise and are recognised when control of the merchandise has transferred, usually on delivery of the merchandise to the customer. Customers have a right to return goods within 14 days and the group records a liability for estimated returns. The group does not operate any loyalty programmes.

Finance income

Finance income includes finance charges and delinquent interest earned on trade receivables for all credit sales made and on loans receivable for all loans disbursed to customers. 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 *IFRS 9, Financial Instruments* 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.

Fees from ancillary services

Fees from ancillary services include revenue earned for administration of transactions with customers, as well as insurance profits received on credit life products and group schemes. These fees are recognised in revenue in the accounting period in which the services are rendered.

Dividends received

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

1.23 Cost of Retail sales

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

1.24 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.

1.25 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 or 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. Management considers uncertain tax positions and tax-related contingencies in accordance with IFRIC 23. 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 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 tax is provided on temporary differences arising on investments in subsidiaries, 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.

1.26 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 or loss.

1.27 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. The group is primarily a retailer of household goods and provider of loans and other financial services. The group has the following operating segments which are also deemed the group's reportable segments:

- **Retail:** HomeChoice is an omni-channel home-shopping retailer providing a range of homewares and selected apparels and footwear products (under the HomeChoice brand) and technology-related products (under the FoneChoice brand).
- **Financial Services:** The Financial Services segment reflects the results of personal loans and insurance products (under the FinChoice brand).
- **Property:** This segment holds land and buildings which are used by Retail and Financial Services.

- **Other:** Aggregated under Other is the holding company's results.

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 operating 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 income and interest expense. 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.

1.28 Significant accounting judgements, estimates and assumptions

The preparation of the group's annual financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying value of the asset or liability affected in the future. The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Estimation of liability for merchandise returns

Retail customers have the right to return merchandise within 14 days. The group records a refund liability for expected returns using a six-month rolling historical return rate for each major product category. The rates used to estimate the underlying the refund liability are reassessed at each reporting date. There has not been a significant change in the return rate over the reporting period. The refund liability has been included in trade and loans receivable as the group expects to settle on a net basis. Refer to note 10 for the liability for expected returns at year-end.

Measurement of expected credit loss (ECL) allowance

The measurement of the ECL allowance is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour. Refer to note 3.3 for detailed movements in the loss allowance for the year. Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed below.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- determining criteria for significant increase in credit risk;
- choosing appropriate models and assumptions for the measurement of ECL;
- establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- establishing groups of similar financial assets for the purposes of measuring ECL.

The key judgements and assumptions adopted by the group in addressing the accounting requirements of the standard for ECL measurement are discussed below:

(a) Significant increase in credit risk (SICR)

The group considers a financial instrument to have experienced a SICR since the time of initial recognition when one or more of the following quantitative, qualitative or backstop criteria has been met.

Quantitative criteria

- Where a customer has not met his or her minimum contractual obligations for at least one month

Qualitative criteria

- Where a customer applies for or enters into debt review; where a customer is allocated a higher risk score category based on the group's various behaviour scorecards; or where the customer has demonstrated a significant increase in credit risk on other group credit products

Backstop

- A backstop is applied if the borrower is more than 30 days past due on its contractual payments

The assessment of SICR happens on a monthly basis at a portfolio level for both Retail and Financial Services. The criteria used to identify SICR are monitored and reviewed periodically for appropriateness by the credit risk team.

Management actively managed the risk scorecard and customer payments and therefore the criteria used to assess SICR was not amended for Covid-19. Customers experiencing negative impacts resulting from Covid-19 were permitted to apply for payment relief. No blanket payment holidays were offered.

(b) Definition of default and credit-impaired assets

The group defines a financial instrument as in default, which is fully aligned with the definition of credit impaired, when it meets one or more of the following criteria:

Retail

- Where a customer has not met his or her minimum contractual obligations for a period of three months

Financial Services

- Where a customer has not met his or her minimum contractual obligations for three consecutive months

(c) *Measuring ECL - Explanation of inputs, assumptions and estimation techniques*

The ECL is measured on either a 12-month or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit impaired. The ECL model is based on the loss rate approach, where the loss rate statistics are developed on the basis of the exposure written off over the life of the financial assets rather than using the separate probability of default (PD) and loss given default (LGD) statistics. The estimated exposure at write-off (EAW) is discounted back to the reporting date to calculate the ECL. The projection of the EAW is based on transition matrices and estimated separately for accounts in Stage 1, 2 or 3 at the reporting date.

For each division, the most recent 12 months of data is used to construct the transition matrices. Risk states in the transition matrix provides the probability of accounts moving into various risk states in the next period. The matrices are multiplied out over a 240-month period, post the reporting date, to estimate the EAW.

The group assesses on a forward-looking basis the ECLs associated with debt instruments carried at amortised cost. ECLs are calculated as the present value of predicted future write-off values. The discount rate is calculated to ensure that the discounted write-off values are equivalent to the difference between the gross carrying amount and the present value of recovery cash flows at the original EIR.

The lifetime PD is developed by applying a behavioural matrix against the current accounts. The behavioural matrix looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the contracts. The behavioural matrix is based on historically observed data and is assumed to be the same across all assets within a portfolio and credit band. This is supported by historical analysis.

(d) *Forward-looking information incorporated in the ECL models*

It is one of the fundamental principles of IFRS 9 that the ECL impairment provision for potential future losses takes into account changes in the economic environment in the future.

Because the current economic stress is so severe, the impact of historical macroeconomic relationships on the group's trade and loan receivables is not expected to be linear. For example, higher inflation and higher interest rates equated to higher impairments pre-Covid-19. During 2020 the SARB dropped interest rates by 3.0% but this cannot lead to a drop in the aggregate ECL even though it may reduce the severity of the increase in the ECL. Management therefore tested this statistical relevance and concluded that a statistical model based on macroeconomic variables cannot be used to determine the impact of forward-looking information based on the ECL model.

The group expects similar customer challenges in 2021 to the 2020 financial year because of the likely time required to roll out the vaccine and achieve herd immunity. In order to allow for a distressed macroeconomic environment similar to 2020, the model was calibrated using 2020 data. The model estimates are set based on 2020 data and therefore represent the stress experienced in 2020.

(e) *Event-driven management credit estimates*

The Credit Amendment Bill will allow a customer who earns less than R7 500 per month and has total unsecured debt outstanding less than R50 000 to apply for debt relief through administration channels not yet fully clarified by the bill. This will impact the group's collection of cash flows from clients who meet these criteria. The expected implementation date for the Credit Amendment Bill is currently uncertain. The group's ECL for this event is R21.4 million. Management's areas of judgement include assumptions for eligible customers, manner in which relief is granted to customers, take-up rate and the legislation implementation date.

The impact of any sensitivities has been assessed as immaterial.

(f) *Write-off policy*

The group writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. This is usually the case when the group's in-house collection department and external collection companies which supplement the group's collection activities have been unable to recover outstanding balances. Accounts written off remain under outsourced enforcement activity until they prescribe. The group's write-off policy by segment is as follows:

Retail

- Where the customer has not met his or her minimum contractual obligations for eight months and has not made any payment at all within the last 90 days; or

Financial Services

- Where the debtor has not met his or her minimum contractual obligations for at least six months and has not made any payment at all within the last six months. The group adjusted the write-off point during the current year. Refer to note 1.29 for further details.

Leases
When the entity has the option to extend a lease, management uses its judgement to determine whether or not an option would be reasonably certain to be exercised. Management considers all facts and circumstances including their past practice and any cost that will be incurred to change the asset if an option to extend is not taken, to help them determine the lease term.

Subsequent to the commencement date of lease agreements, lease terms are reassessed when there is a significant event or change in circumstances that is within the group's control and affects its ability to exercise or not to exercise the option to renew or to terminate.

Refer to note 6 for movements in the right-of-use assets and lease liabilities for the year.

Significant judgements and estimates impacted by the Covid-19 pandemic
Refer to note 35.

1.29 Change in accounting estimate – IFRS 9 Write-off point adjustment (WOPA)

The group assesses the methods and assumptions used for estimating the expected credit losses (ECLs) on a regular basis in order to reduce any differences between estimates and actual credit loss experience. As part of the group's ongoing assessment of credit losses and recoveries trends and in accordance with IFRS 9, the Financial Services segment has moved its write-off point (at which there is no reasonable expectation of future recovery) out by two billing cycles during the current year. A similar assessment performed by the Retail segment did not result in any changes to the write-off point.

This change in estimate has resulted in an increase in the size of the non-performing loans in proportion to total loans as loans which would historically have been written off are held on book for a longer period. There has been a corresponding increase in the provision for impairment against the non-performing loans.

The effect of the change in estimate on the current year is as follows:

	2020 Rm
Decrease in credit impairment losses	31
Increase in taxation expense	(3)
Increase in profit after tax	**28**
Increase in gross loans receivable	71
Increase in provision for impairment	(40)
Increase in taxation payable	(5)
Increase in deferred tax asset	2
Increase in retained earnings	**28**

Management is unable to estimate the effect of the WOPA on future periods because the amount of debt and the related provision for impairment for future periods cannot be reliably estimated.

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:

New standard	Nature of the change	Impact
Amendments to references to the Conceptual Framework in IFRS Standards	The IASB has issued a revised Conceptual Framework which will be used in standard-setting decisions with immediate effect. Key changes include: • increasing the prominence of stewardship in the objective of financial reporting; • reinstating prudence as a component of neutrality; • defining a reporting entity, which may be a legal entity, or a portion of an entity; • revising the definitions of an asset and a liability; • removing the probability threshold for recognition and adding guidance on derecognition; • adding guidance on different measurement basis; and • stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements. No changes will be made to any of the current accounting standards. However, entities that rely on the Framework in determining their accounting policies for transactions, events or conditions that are not otherwise dealt with under the accounting standards will need to apply the revised Framework from 1 January 2020. These entities will need to consider whether their accounting policies are still appropriate under the revised Framework.	The adoption has not had any impact on the disclosures or on the amounts reported in these annual financial statements.
Amendments to IFRS 3 – definition of a business	This amendment revises the definition of a business. The amendments are applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after 1 January 2020. The amendments increase the likelihood that acquisitions are accounted for as asset acquisitions.	The adoption has not had any impact on the disclosures or on the amounts reported in these annual financial statements.
Amendments to IAS 1 and IAS 8 – definition of material	The threshold for materiality influencing users has been changed from "could influence" to "could reasonably be expected to influence". The definition of material in IAS 8 and other standards has been replaced by a reference to the definition of material in IAS 1.	The adoption has not had any impact on the disclosures or on the amounts reported in these annual financial statements.

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:

• Amendments to IFRS 9, IAS 39 and IFRS 7 – Impact of the initial application of interest rate benchmark reform

2. New standards and interpretations (continued)

2.2 Standards and interpretations not yet effective but relevant

The group has chosen 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 June 2020 or later periods:

New standard	Nature of the change	Impact
Amendments to IFRS 16 – Covid-19-related rent concessions	IFRS 16 was amended to provide a practical expedient for lessees' accounting for rent concessions that arise as a direct consequence of the Covid-19 pandemic and satisfy the following criteria: (a) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (b) the reduction in lease payments affects only payments originally due on or before 30 June 2021; and (c) there is no substantive change to other terms and conditions of the lease. Lessees can elect to account for such rent concessions in the same way as they would if they were not lease modifications. In most cases, this results in the concessions being treated as variable lease payments in the period in which they are granted.	The group applied the practical expedient to all Covid-19 rent concessions and therefore was not required to assess whether the rent concessions were lease modifications. This resulted in the group accounting for the concessions as variable lease payments. Decreases in lease liabilities during the current year which resulted from Covid-19-related rent concessions amount to R0.3 million and are included in profit or loss. The principle elements of lease payments in the statement of cash flows have decreased by the same amount.

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 2021 or later periods:

New standard	Nature of the change	Impact
IFRS 17, Insurance Contracts	The IASB issued *IFRS 17, Insurance Contracts*, and thereby started a new epoch of accounting for insurers. Whereas the current standard, IFRS 4, allows insurers to use their local GAAP, IFRS 17 defines clear and consistent rules that will significantly increase the comparability of financial statements. For insurers, the transition to IFRS 17 will have an impact on financial statements and on key performance indicators. Under IFRS 17 the general model requires entities to measure an insurance contract at initial recognition at the total of the fulfilment cash flows (comprising the estimated future cash flows, an adjustment to reflect the time value of money and an explicit risk adjustment for non-financial risk) and the contractual service margin. The fulfilment cash flows are remeasured on a current basis each reporting period. The unearned profit (contractual service margin) is recognised over the coverage period. Aside from this general model, the standard provides, as a simplification, the premium allocation approach. This simplified approach is applicable for certain types of contract, including those with a coverage period of one year or less. In response to some of the concerns and challenges raised, the board developed targeted amendments and several proposed clarifications intended to ease implementation of IFRS 17, simplify some requirements of the standard and ease transition. The amendments are not intended to change the fundamental principles of the standard or unduly disrupt implementation already under way.	The group is currently assessing the impact of IFRS 17. Transition is expected on 1 January 2023.

2. New standards and interpretations (continued)

2.2 Standards and interpretations not yet effective but relevant

New standard	Nature of the change	Impact
Amendments to IAS 1 – classification of liabilities as current or non-current	The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period and specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability.	The amendments are not expected to have a material impact on future financial statements. Transition is expected on 1 January 2023.
Annual Improvements to IFRS Standards 2018 – 2020	These amendments include minor changes to: • *IFRS 1, First-time Adoption of IFRS* has been amended for a subsidiary that becomes a first-time adopter after its parent. The subsidiary may elect to measure cumulative translation differences for foreign operations using the amounts reported by the parent at the date of the parent's transition to IFRS. • *IFRS 9, Financial Instruments* has been amended to include only those costs or fees paid between the borrower and the lender in the calculation of "the 10% test" for derecognition of a financial liability. Fees paid to third parties are excluded from this calculation. • *IFRS 16, Leases*, amendment to the Illustrative Example 13 that accompanies IFRS 16 to remove the illustration of payments from the lessor relating to leasehold improvements. The amendment intends to remove any potential confusion about the treatment of lease incentives.	The amendments are not expected to have a material impact on future financial statements. Transition is expected on 1 January 2022.
Amendments to IFRS 3 – reference to the Conceptual Framework	The amendments include: • an update to IFRS 3 so that it refers to the 2018 Conceptual Framework; • a requirement that, for obligations within the scope of IAS 37, an acquirer applies IAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events; and • an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.	The amendments are not expected to have a material impact on future financial statements. Transition is expected on 1 January 2022.
Amendments to IAS 16 – property, plant and equipment: proceeds before intended use	The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced before that asset is available for use. The amendments also clarify the meaning of "testing whether an asset is functioning properly".	The amendments are not expected to have a material impact on future financial statements. Transition is expected on 1 January 2022.
Amendments to IAS 37 – onerous contracts: cost of fulfilling a contract	The amendments specify that the "cost of fulfilling" a contract comprises the "costs that relate directly to the contract". This includes incremental costs of fulfilling that contract (example: direct labour) and an allocation of other costs that relate directly to fulfilling contracts (example: depreciation allocation).	The amendments are not expected to have a material impact on future financial statements. Transition is expected on 1 January 2022.

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 IFRS 10 and IAS 28 – sale or contribution of assets between an investor and its associate or joint venture
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – interest rate benchmark reform: IBOR "phase 2"

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.

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 16 and cash and cash equivalents disclosed in note 11.

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 group's medium-term target is for net debt to remain below 40% of total equity.

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. 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.

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	At fair value through profit or loss Rm	At amortised cost Rm	Non-financial assets Rm	Total Rm
Assets					
2020					
Current assets					
Trade receivables – Retail	10	**–**	**1 517**	**–**	**1 517**
Loans receivable – Financial Services	10	**–**	**1 493**	**–**	**1 493**
Other receivables	10	**–**	**–**	**14**	**14**
Financial assets at fair value through profit or loss	7	**34**	**–**	**–**	**34**
Cash at bank	11	**–**	**415**	**–**	**415**
Total		**34**	**3 425**	**14**	**3 473**
Maximum exposure to credit risk		**34**	**3 425**		
2019					
Current assets					
Trade receivables – Retail	10	–	1 581	–	1 581
Loans receivable – Financial Services	10	–	1 598	–	1 598
Other receivables	10	–	–	49	49
Financial assets at fair value through profit or loss	7	24	–	–	24
Cash at bank	11	–	80	–	80
Total		24	3 259	49	3 332
Maximum exposure to credit risk		24	3 259		

3. Risk management and financial instrument disclosure (continued)

3.2 Financial risk management (continued)

	Notes	At amortised cost Rm	Non-financial liabilities Rm	Total Rm
Liabilities				
2020				
Non-current liabilities				
Mortgage bonds	16	**201**	**–**	**201**
Suspensive sale agreements	16	**37**	**–**	**37**
Commercial term loan facilities	16	**695**	**–**	**695**
Non-current other payables	17	**4**	**–**	**4**
Current liabilities				
Trade payables	18	**226**	**–**	**226**
Other payables	18	**123**	**–**	**123**
Mortgage bonds	16	**24**	**–**	**24**
Suspensive sale agreements	16	**15**	**–**	**15**
Commercial term loan facilities	16	**–**	**–**	**–**
Bank overdraft	11	**–**	**–**	**–**
Total		**1 325**	**–**	**1 325**
2019				
Non-current liabilities				
Mortgage bonds	16	187	–	187
Suspensive sale agreements	16	37	–	37
Commercial term loan facilities	16	313	–	313
Non-current trade and other payables	17	4	–	4
Current liabilities				
Trade payables	18	216	–	216
Other payables	18	65	2	67
Mortgage bonds	16	18	–	18
Suspensive sale agreements	16	14	–	14
Commercial term loan facilities	16	359	–	359
Bank overdraft	11	48	–	48
Total		1 261	2	1 263

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 Retail purchases in South Africa, Botswana, Namibia, Lesotho and the Kingdom of eSwatini, while Financial Services loans are available to customers in South Africa and Botswana.

Credit risk refers to the risk that a counterparty will default on its contractual obligations, resulting in financial loss to the group. There is no 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. 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, affordability criteria are applied together with in-house developed scorecards based on credit bureau data. Fraud detection tools are used to identify potentially fraudulent applications. 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.

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. External collection agents are used to supplement collections activities to recover outstanding balances. The group does not hold any collateral against receivable balances. Refer to note 35 for management's response to managing the credit risk during Covid-19.

The group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. The group applies the general impairment approach. The group assesses at the end of each reporting period whether the credit risk on a financial instrument has increased significantly since initial recognition.

Where there has been a significant increase in credit risk since initial recognition the group measures the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses. Where there has not been a significant increase in credit risk since initial recognition the group measures the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses. The group recognises in profit or loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the end of the reporting period.

Note 1.28 provides more detail of how the group determines a significant increase in credit risk and how the expected credit loss allowance is measured and the impact of Covid-19 on the ECL model.

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.

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)

Company internal credit rating	Expected credit loss rate	Basis for recognition of expected credit loss provision (lifetime vs 12 months)	Estimated gross carrying amount at default Rm	Gross carrying amount at 31 Dec Rm	Net carrying amount at 31 Dec	Basis for calculation of interest revenue
2020						
Retail						
Performing	**6.5%**	12-month expected credit loss	**194**	**1 203**	**1 125**	Gross carrying amount
Underperforming	**35.8%**	Lifetime expected credit loss	**188**	**359**	**230**	Gross carrying amount
Non-performing	**55.1%**	Lifetime expected credit loss	**478**	**361**	**162**	Net carrying amount
Totals			**860**	**1 923**	**1 517**	
Financial Services						
Performing	**5.5%**	12-month expected credit loss	**89**	**1 385**	**1 309**	Gross carrying amount
Underperforming	**36.5%**	Lifetime expected credit loss	**80**	**181**	**115**	Gross carrying amount
Non-performing	**64.8%**	Lifetime expected credit loss	**137**	**196**	**69**	Net carrying amount
Totals			**306**	**1 762**	**1 493**	
2019						
Retail						
Performing	8.5%	12-month expected credit loss	163	1 218	1 115	Gross carrying amount
Underperforming	28.1%	Lifetime expected credit loss	187	417	300	Gross carrying amount
Non-performing	46.8%	Lifetime expected credit loss	411	312	166	Net carrying amount
Totals			761	1 947	1 581	
Financial Services						
Performing	4.7%	12-month expected credit loss	77	1 396	1 331	Gross carrying amount
Underperforming	36.0%	Lifetime expected credit loss	88	247	158	Gross carrying amount
Non-performing	51.5%	Lifetime expected credit loss	90	194	94	Net carrying amount
Totals			255	1 837	1 583	

The loss rate percentages erroneously presented the probability of default in the 2019 annual financial statements. The percentages have been updated to reflect the expected credit loss rate.

The company uses three categories for trade and loan receivables which reflect their credit risk and how the loss provision is determined for each of these categories. A summary of the assumptions underpinning the company's expected credit loss model is as follows:

Category	Company definition of category	Basis for recognition of expected credit loss provision
Performing	All accounts that have not had a significant increase in credit risk since initial recognition	12-month expected credit loss
Underperforming	Accounts that have had a significant increase in credit risk since initial recognition	Lifetime expected credit loss
Non-performing	Accounts that have objective evidence of impairment at the reporting date	Lifetime expected credit loss

3. Risk management and financial instrument disclosure (continued)

3.3 Credit risk management (continued)

The loss allowance for trade and loan receivables as at 31 December 2020 reconciles to the opening loss allowance for that provision as follows:

	Performing		Underperforming		Non-performing		Total	
Description	Retail Rm	Financial Services Rm	Retail Rm	Financial Services Rm	Retail Rm	Financial Services Rm	Retail Rm	Financial Services Rm
Opening loss allowance as at 1 January 2019	83	50	113	108	163	94	359	252
Movement between stages[1]	(11)	1	11	11	47	15	47	27
New financial assets originated or purchased[2]	53	25	57	22	93	57	203	104
Change in risk[3]	3	6	(1)	26	5	50	7	82
Debt review portfolio sold	–	–	–	(42)	–	(45)	–	(87)
Other[4]	(1)	(9)	(2)	(9)	–	2	(3)	(16)
Loans and advances settled in the current year[5]	(18)	(5)	(20)	(8)	(13)	(2)	(51)	(15)
Write-offs[6]	(6)	(3)	(41)	(19)	(149)	(71)	(196)	(93)
Closing loss allowance as at 31 December 2019	103	65	117	89	146	100	366	254
Movement between stages[1]	**(23)**	**(2)**	**5**	**21**	**90**	**8**	**72**	**27**
New financial assets originated or purchased[2]	**38**	**33**	**60**	**37**	**199**	**32**	**297**	**102**
Change in risk[3]	**(11)**	**10**	**4**	**34**	**6**	**13**	**(1)**	**57**
Write-off point adjustment	**–**	**(7)**	**–**	**(7)**	**–**	**54**	**–**	**40**
Debt review portfolio sold	**–**	**–**	**(3)**	**(34)**	**(2)**	**(75)**	**(5)**	**(109)**
Other[4]	**–**	**(14)**	**2**	**(33)**	**(2)**	**40**	**–**	**(7)**
Loans and advances settled in the current year[5]	**(20)**	**(6)**	**(19)**	**(11)**	**(12)**	**(1)**	**(51)**	**(18)**
Write-offs[6]	**(9)**	**(3)**	**(37)**	**(30)**	**(226)**	**(44)**	**(272)**	**(77)**
Closing loss allowance as at 31 December 2020	**78**	**76**	**129**	**66**	**199**	**127**	**406**	**269**

The loss allowance reconciliation has been expanded from the 2019 Annual Financial Statements. Due to this expansion, movements have been reallocated from the reconciling items presented in 2019. The 2019 numbers have been restated to ensure consistency of the reconciling item classification between the current and comparative figures. Refer below to the footnotes for the definitions of the reconciling items.

1 *Movement between stages results in increased loss allowances as the movement to the underperforming and non-performing stages carry higher loss allowances.*
2 *Includes credit advanced during the year to customers who were not on book at the beginning of the year.*
3 *Includes transfers to debt review and other extended payment terms.*
4 *Includes movements in the loss allowance resulting from changes in the activity of debtors due to retrenchments, disabilities, debt administration, death, fraud and cancellations.*
5 *Includes the reversal of opening loss allowances for trade and loans receivable repaid during the year.*
6 *Includes the release of allowances held against all accounts that were written off during the year. These write-offs were included based on the stage of the receivable at the beginning of the year.*

3. Risk management and financial instrument disclosure (continued)

3.3 Credit risk management (continued)

Significant changes in the gross carrying amount of trade receivables and loans receivable that contributed to changes in the loss allowance were:

- The group sold trade receivables and loans receivable held in a debt review to release capital and drive investment in loans to existing low-risk customers. The gross receivables sold at 31 December 2020 were R13 million and R213 million for the trade receivables and loans receivable respectively.
- The financial services segment moved its write-off point (at which there is no reasonable expectation of future recovery) outwards by two billing cycles during the current year (refer to note 1.29). This resulted in an increase in gross loans receivable of R75 million and a corresponding increase in the stage 3 loss allowance of R54 million.
- Gross receivables written off during the year amounted to R676 million for Retail and R253 million for Financial Services. The effect on the loss allowance is disclosed in the loss allowance reconciliation above.

Trade receivables

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 % of the value of outstanding balances, based on both the gross trade receivables book before provisions and the net trade receivables book after provisions.

	Gross trade receivables		Net trade receivables		Provision as a % of gross trade receivables	
	2020 Rm	2019 Rm	**2020 Rm**	2019 Rm	**2020 %**	2019 %
Contractual						
Retail						
Satisfactory paid	**1 377**	1 387	**1 235**	1 273	**10.3**	8.3
Current	**1 098**	1 082	**1 029**	1 033	**6.3**	4.6
Past due less than 30 days	**279**	305	**206**	240	**26.2**	21.2
Past due 31 – 60 days	**151**	164	**89**	106	**41.1**	35.0
Past due 61 – 90 days	**103**	111	**52**	61	**49.5**	45.1
Past due more than 91 days	**292**	285	**141**	141	**51.7**	50.6
	1 923	1 947	**1 517**	1 581	**21.1**	18.8
Trade receivables gross, net (Rm)	**1 923**	1 947	**1 517**	1 581	**(406)**	(366)

3. Risk management and financial instrument disclosure (continued)

3.3 Credit risk management (continued)

Loans receivable

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.

	Gross loans receivable		Net loans receivable		Provision as a % of gross loans receivable	
	2020 Rm	2019 Rm	**2020 Rm**	2019 Rm	**2020 %**	2019 %
Recency						
Financial Services						
Current	**1 469**	1 576	**1 353**	1 449	**7.9**	8.1
Not paid 1 – 30 days	**126**	138	**80**	85	**36.5**	38.4
Not paid 31 – 60 days	**47**	56	**25**	23	**46.8**	58.9
Not paid more than 61 days	**120**	67	**35**	26	**70.8**	61.2
	1 762	1 837	**1 493**	1 583	**15.3**	13.8
Loans receivable gross, net (Rm)	**1 762**	1 837	**1 493**	1 583	**(269)**	(254)

	2020 %	2019 %
Loan product weighting		
Financial Services		
1 – 3-month loan	**10.1**	8.6
6-month loan	**5.7**	6.3
12-month loan	**27.4**	18.3
24-month loan	**35.6**	42.0
36-month loan	**12.4**	11.9
Other	**8.8**	12.9
	100.0	100.0

The total loss allowance as a percentage of the trade and loans receivable books in stage 2 and stage 3 at the reporting date is:

	2020 %	2019 %
Retail	**56.4**	50.2
Financial Services	**71.4**	57.6

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 investment-grade 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 and includes contractually charged interest cash flows.

	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
2020									
Non-interest-bearing liabilities									
Non-current trade and other payables		**–**	**1**	**1**	**1**	**1**	**–**	**4**	**4**
Trade and other payables		**142**	**207**	**–**	**–**	**–**	**–**	**349**	**349**
Interest-bearing liabilities									
Mortgage bonds	**6.27**	**–**	**37**	**38**	**39**	**40**	**121**	**275**	**225**
Suspensive sale agreements	**7.36**	**–**	**19**	**16**	**14**	**7**	**2**	**58**	**52**
Commercial term loan facilities	**6.45**	**–**	**45**	**45**	**45**	**718**	**–**	**853**	**695**
Lease liabilities	**9.60**	**–**	**29**	**24**	**16**	**10**	**3**	**82**	**70**
		142	**338**	**124**	**115**	**776**	**126**	**1 621**	**1 395**
2019									
Non-interest-bearing liabilities									
Non-current trade and other payables		–	1	1	1	1	–	4	4
Trade and other payables		59	247	–	–	–	–	306	306
Interest-bearing liabilities									
Mortgage bonds	9.49	–	37	38	38	39	133	285	205
Suspensive sale agreements	10.38	–	18	15	14	11	5	63	51
Commercial term loan facilities	9.87	–	424	340	–	–	–	764	672
Lease liabilities	10.25	–	26	26	21	13	5	91	75
		59	753	420	74	64	143	1 513	1 313

The group has the following borrowing facilities available:

	2020 Rm	2019 Rm
General banking facilities available	**300.0**	285.0
Guarantees	**14.2**	14.2
Suspensive sale agreements facility available	**85.0**	85.0
	399.2	384.2
Amounts drawn against these facilities	**(99.4)**	(156.7)
Unutilised borrowing facilities at 31 December 2020	**299.8**	227.5
Commercial term loan facilities available	**1 050.0**	800.0
Amounts drawn against these facilities	**(694.8)**	(672.0)
Unutilised borrowing facilities at 31 December 2020	**355.2**	128.0

3. Risk management and financial instrument disclosure (continued)

3.5 Market risk management

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: other price risk, 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.

Other price risk management
The group is not exposed to other 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 (including foreign bank overdrafts) at 31 December 2020 amounting to R49.5 million (2019: R7 million).

The group measures sensitivity to foreign exchange rates as the effect of a change in the US Dollar on profit after taxation based on the group's exposure at 31 December 2020. 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	
	2020 Rm	2019 Rm
15% appreciation in ZAR/USD exchange rates	**5.2**	1.2
15% depreciation in ZAR/USD exchange rates	**(5.2)**	(1.2)

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

	2020 Rm	2019 Rm
Cash and cash equivalents	**1.7**	0.1
Trade and other payables	**3.0**	7.0
Bank overdraft	**–**	4.4

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

The group measures sensitivity to interest rates as the effect of a change in the Reserve Bank repo rate on the profit after taxation based on the group's exposure at 31 December. The group regards a 100 basis point (2019: 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	**2020 Rm**	2019 Rm
Cash and cash equivalents	+100	**3.0**	0.6
	-100	**(3.0)**	(0.6)
Bank overdraft	+100	**–**	(0.3)
	-100	**–**	0.3
Borrowings from the bank	+100	**(1.6)**	(1.5)
	-100	**1.6**	1.5
Suspensive sale agreement	+100	**(0.4)**	(0.4)
	-100	**0.4**	0.4
Commercial term loan facilities	+100	**(5.0)**	(4.8)
	-100	**5.0**	4.8

3. Risk management and financial instrument disclosure (continued)

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.

A comparison by category of carrying amounts and fair values of the group's financial instruments carried at fair value is set out below:

			Carrying amount		Fair value	
	Fair value hierarchy	Valuation techniques and key inputs	**2020 Rm**	2019 Rm	**2020 Rm**	2019 Rm
Financial assets at fair value through profit or loss	Level 3	The investments comprise shares in Guardrisk Insurance Company Limited and Guardrisk Life Limited. The investments are valued at the net asset values of the investees at the reporting date	**34**	24	**34**	24

The fair values of the following items are not disclosed as these assets and liabilities closely approximate their carrying amount:

- Cash and cash equivalents, 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: 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: 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.

There have been no transfers between the levels during the year.

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.

4. Property, plant and equipment

	2020 Cost Rm	2020 Accumulated depreciation Rm	2020 Carrying value Rm	2019 Cost Rm	2019 Accumulated depreciation Rm	2019 Carrying value Rm
Land and buildings	**353**	**(12)**	**341**	351	(12)	339
Motor vehicles	**6**	**(5)**	**1**	6	(4)	2
Computer equipment	**93**	**(74)**	**19**	85	(63)	22
Equipment, furniture, fittings and plant	**222**	**(107)**	**115**	186	(78)	108
Total	**674**	**(198)**	**476**	628	(157)	471

Analysis of movements

	Opening balance Rm	Additions Rm	Depreciation Rm	Closing balance Rm
2020				
Land and buildings	**339**	**2**	**–**	**341**
Motor vehicles	**2**	**–**	**(1)**	**1**
Computer equipment	**22**	**8**	**(11)**	**19**
Equipment, furniture, fittings and plant	**108**	**36**	**(29)**	**115**
Total	**471**	**46**	**(41)**	**476**
2019				
Land and buildings	339	–	–	339
Motor vehicles	3	–	(1)	2
Computer equipment	26	8	(12)	22
Equipment, furniture, fittings and plant	96	36	(24)	108
Total	464	44	(37)	471

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 Number 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 16) as at 31 December 2020 was R47 million (2019: R37 million).

Included in property, plant and equipment are assets with a cost of R75 million (2019: R42 million) that are in use but fully depreciated.

Land and buildings include a carrying value of R341 million (2019: R339 million) currently encumbered as shown in note 16.

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

- equipment, furniture and fittings and plant with a cost of R3 million (2019: R4 million) and accumulated depreciation of R3 million (2019: R4 million); and
- computer equipment with a cost of R3 million (2019: R4 million) and accumulated depreciation of R3 million (2019: R4 million) ,

5. Intangible assets

	2020			2019		
	Cost Rm	Accumulated amortisation and impairments Rm	Carrying value Rm	Cost Rm	Accumulated amortisation and impairments Rm	Carrying value Rm
Licences	**26**	**(25)**	**1**	25	(24)	1
Computer software	**363**	**(154)**	**209**	293	(125)	168
Total	**389**	**(179)**	**210**	318	(149)	169

Analysis of movements

	Opening balance Rm	Additions Rm	Amortisation Rm	Impairment Rm	Closing balance Rm
2020					
Licences	**1**	**1**	**(1)**	**–**	**1**
Computer software	**168**	**70**	**(24)**	**(5)**	**209**
Total	**169**	**71**	**(25)**	**(5)**	**210**
2019					
Licences	2	1	(2)	–	1
Computer software	114	71	(17)	–	168
Total	116	72	(19)	–	169

Included in intangibles is internally generated software with a carrying value of R150 million (2019: R80 million). Included in intangible assets are assets with a cost of R65 million (2019: R52 million) that are in use but fully amortised, and development costs of R57 million (2019: R85 million) incurred on assets which are not yet available for use by the group and have not been amortised.

6. Right-of-use assets and lease liabilities

The group has lease contracts for various land and buildings consisting mainly of showroom leases and a distribution centre used in its operations. Leases for land and buildings have, on average, lease terms between five and thirteen years. The majority of the leases include an option to renew the lease for an additional period of the same duration after the end of the contract term. The group includes extension options when determining the lease term when it is reasonably certain that the renewal option will be exercised.

	2020 Rm	2019 Rm
Right-of-use assets		
Buildings	**60**	67
Lease liabilities		
Current	**22**	18
Non-current	**48**	57
	70	75
Analysis of movements – Right-of-use assets		
Opening balance on 1 January	**67**	–
Recognition of right-of-use assets on adoption of IFRS 16	**–**	50
Additions	**16**	34
Remeasurement	**(3)**	–
Depreciation	**(20)**	(17)
Closing balance on 31 December	**60**	67
Analysis of movements – Lease liabilities		
Opening balance on 1 January	**75**	–
Recognition of lease liabilities on adoption of IFRS 16	**–**	55
Additions for new leases	**16**	34
Remeasurement	**(3)**	(2)
Interest on lease liabilities	**7**	6
Lease payments	**(25)**	(18)
Closing balance on 31 December	**70**	75
The statement of comprehensive income shows the following amounts relating to leases:		
Depreciation charge of right-of-use assets	**20**	17
Interest expense (included in finance cost)	**7**	6
	27	23

An analysis of future lease commitments is included under note 3.4.

No significant leases are due to contractually terminate in the next 12-month period.

7. Financial assets at fair value through profit or loss

	2020 Rm	2019 Rm
Financial assets at fair value through profit or loss	**34**	24

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 their net asset value at the reporting date.

	2020 Rm	2019 Rm
Opening balance	**24**	24
Investment	**–**	3
Return of capital	**–**	(14)
Movement in insurance cell assets	**10**	11
Movement in insurance cell liabilities	**–**	(3)
Closing balance	**34**	24

The gain from the investment for the year amounts to R10 million (2019: R11 million) and is recognised in profit or loss.

8. Deferred taxation

	2020 Rm	2019 Rm
The analysis of deferred tax assets and liabilities is as follows:		
Deferred tax assets	**45**	2
Deferred tax liabilities	**(69)**	(51)
Net deferred tax liabilities	**(24)**	(49)
The gross movements on the deferred income tax account are as follows:		
At 1 January 2020	**(49)**	(65)
Charged to profit and loss	**25**	16
At 31 December 2020	**(24)**	(49)

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	Tax loss carry-forward Rm	Debtors' provisions and allowances Rm	Other Rm	Total Rm
Deferred tax assets					
At 1 January 2019	4	–	–	3	7
Charged to profit or loss	–	–	–	(3)	(3)
At 31 December 2019	4	–	–	–	4
Charged to profit or loss	3	13	8	4	28
At 31 December 2020	**7**	**13**	**8**	**4**	**32**

8. Deferred taxation (continued)

	Accelerated tax wear and tear allowances Rm	Debtors' provisions and allowances Rm	Total Rm
Deferred tax liabilities			
At 1 January 2019	(40)	(32)	(72)
Charged to profit or loss	(5)	24	19
At 31 December 2019	(45)	(8)	(53)
Charged to profit or loss	(11)	8	(3)
At 31 December 2020	**(56)**	**–**	**(56)**

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.

9. Inventories

	2020 Rm	2019 Rm
Merchandise for resale	**293**	310
Provision for inventory obsolescence	**(29)**	(18)
Goods in transit	**51**	57
	315	349

The total amount of inventories expensed to cost of Retail sales during the year was R828 million (2019: R827 million). Inventory sold at less than cost during the current year amounted to R24 million (2019: R25 million) and Inventory write-downs recognised as an expense during the year amounted to R11 million (2019: R3 million).

10. Trade and other receivables

	2020 Rm	2019 Rm
Group		
Trade and loan receivables	**3 685**	3 784
Provision for impairment	**(675)**	(620)
Other receivables	**14**	24
	3 024	3 188

Refer to note 3.3 for detailed credit risk disclosure and a reconciliation of the movement in the provision for impairment for the year.

Trade and loan receivables have repayment terms of between 1 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 R683 million (2019: R972 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.

Included in trade and loan receivables as at 31 December 2020 is a refund liability for expected returns of R10 million (31 December 2019: R10 million).

Loans receivable – Financial Services are secured under the commercial term loan facilities as described in note 16.

11. Cash and cash equivalents

	2020 Rm	2019 Rm
Cash at bank	**415**	80
Bank overdraft	**–**	48
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	**415**	80
Bank overdraft	**–**	(48)
	415	32

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 16.

Included in cash and cash equivalents is restricted cash of R59 million (2019: R43 million).

12. Stated capital, share capital and share premium

12.1 Stated and share capital

	2020 Rm	2019 Rm
Authorised		
200.0 million (2019: 200.0 million) ordinary shares at one cent par value	**2**	2
Issued		
105.8 million (2019: 105.4 million) ordinary shares at one cent par value	**1**	1
Stated and share capital	**1**	1

	2020 Millions	2019 Millions
Reconciliation of movement in issued shares:		
Number of issued shares at the beginning of the year	**105.4**	104.9
Shares issued	**0.4**	0.5
Sub-total	**105.8**	105.4
Treasury shares held within the group	**(1.6)**	(1.0)
Number of issued shares, net of treasury shares	**104.2**	104.4
Treasury shares as a % of issued shares	**1.5**	1.0

Upon HIL's incorporation on 22 July 2014, 72 900 000 HIL shares were issued at a subscription price equal to 25% of the par value thereof, i.e. R0.183 million. Pursuant to the implementation of the above reorganisation:

- 101 379 351 HIL shares were issued to the scheme participants in the ratio of 1 (one) HIL share for every 1 (one) HomeChoice Holdings share held; and
- the 72 900 000 HIL shares issued on incorporation were repurchased by HIL at the subscription price paid for such HIL shares at incorporation and cancelled.

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

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

12.2 Share premium

	2020 Rm	2019 Rm
Balance at the beginning of the year	**3 010**	3 005
Share issue	**4**	5
Balance at the end of the year	**3 014**	3 010

13. Treasury shares

	2020 Rm	2019 Rm
Reconciliation of movement of treasury shares:		
Balance at the beginning of the year	**(18)**	(3)
Purchase of shares to settle forfeiture share scheme obligations	**(16)**	(15)
Forfeitable shares vested	**1**	–
Balance at the end of the year	**(33)**	(18)

	Millions	Millions
Number of shares:		
Balance at the beginning of the year	**1.0**	0.6
Purchase of shares to settle forfeiture share scheme obligations	**0.6**	0.4
Balance at the end of the year	**1.6**	1.0

617 070 shares (2019: 375 000) were acquired on the market at an average price of R25.38 (2019: R37.79) per share.

14. Share incentive schemes

14.1 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:

	2020		2019	
	Average exercise price per share (cents)	**Number of options**	Average exercise price per share (cents)	Number of options
At 1 January	**2 717**	**1 853 855**	2 420	2 361 785
Options granted during the year	**3 204**	**276 800**	3 500	259 600
Options forfeited during the year	**3 605**	**(405 400)**	3 481	(300 785)
Options exercised during the year	**1 151**	**(353 255)**	1 159	(466 745)
At 31 December	**2 956**	**1 372 000**	2 717	1 853 855

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

	2020		2019	
	Average exercise price per share (cents)	**Number of options**	Average exercise price per share (cents)	Number of options
2016	**1 064**	**4 000**	1 064	213 095
2017	**–**	**–**	1 120	74 160
2018	**1 444**	**257 000**	1 446	329 500
2019	**3 370**	**221 000**	3 370	249 500
2020	**2 800**	**310 800**	2 800	370 500
2021	**3 500**	**78 500**	3 500	140 000
2022	**4 414**	**122 000**	4 414	232 000
2023	**3 500**	**130 800**	3 500	245 100
2024	**3 199**	**247 900**	–	–
	2 956	**1 372 000**	2 717	1 853 855

14. Share incentive schemes (continued)

14.1 Share option incentive scheme (continued)

Analysis of options outstanding:

Date of offer	Vesting date	Grant price (cents)	Fair value at grant date (cents)	Number of options 2020	2019
31 March 2012	Vested	1 064	82	**4 000**	4 000
29 June 2012	Vested	1 064	76	**–**	209 095
20 March 2013	Vested	1 000	160	**–**	14 160
20 March 2013	Vested	1 388	121	**–**	10 000
27 August 2013	Vested	1 100	83	**–**	50 000
31 March 2014	Vested	1 444	92	**250 000**	322 500
30 September 2014	Vested	1 528	105	**7 000**	7 000
20 March 2015	Vested	3 370	663	**221 000**	249 500
1 May 2016	Vested	2 800	598	**310 800**	370 500
22 March 2017	22 March 2021	3 500	789	**78 500**	140 000
31 March 2018	31 March 2022	4 414	1 009	**122 000**	232 000
15 May 2019	31 March 2023	3 500	741	**130 800**	245 100
31 March 2020	31 March 2024	3 199	646	**247 900**	–
Balance at the end of the year				**1 372 000**	1 853 855

The options were valued using a binomial model and assume an option life equivalent to the vesting period. Other valuation assumptions include expected volatility of 30.0% (2019: 30.0%) based on a 12-month historical analysis of the company and similar entities, a dividend yield of 5.2% (2019: 5.5%) and a risk-free interest rate of 6.0% (2019: 7.4%).

The weighted average remaining contractual life of options outstanding at the end of the year is 2.19 years (2019: 1.63 years).

14. Share incentive schemes (continued)

14.2 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 before vesting date.

	2020		2019	
	Average market value per share (cents)	**Number of shares**	Average market value per share (cents)	Number of shares
At 1 January	**3 774**	**1 529 482**	3 658	1 063 800
Forfeitable shares awarded during the year	**3 129**	**1 190 709**	3 995	563 246
Forfeitable shares vested during the year	**4 000**	**(20 000)**	4 000	(36 364)
Forfeitable shares forfeited during the year	**3 793**	**(360 752)**	3 649	(61 200)
At 31 December	**3 423**	**2 339 439**	3 774	1 529 482

Analysis of options outstanding:

Date of offer	Vesting date	Market value (cents)	Fair value at grant date (cents)	Number of shares 2020	2019
19 October 2019	1 May 2020	4 000	4 000	**–**	20 000
28 June 2019	30 September 2020	4 000	4 000	**–**	40 682
31 March 2020	31 March 2021	3 199	3 199	**41 000**	–
4 May 2017	4 May 2021	3 625	3 625	**695 000**	815 000
23 October 2018	31 March 2022	3 757	3 757	**157 200**	187 600
31 March 2020	31 March 2022	3 199	3 199	**80 550**	–
31 March 2020	1 February 2023	3 199	3 199	**100 000**	–
4 April 2019	31 March 2023	3 800	3 800	**366 200**	406 200
31 March 2020	31 March 2023	3 199	3 199	**75 000**	–
31 March 2020	1 February 2024	3 199	3 199	**300 000**	–
1 September 2019	31 March 2023	4 000	4 000	**–**	60 000
31 March 2020	31 March 2024	3 199	3 199	**409 489**	–
1 October 2020	1 October 2024	2 500	2 500	**100 000**	–
1 November 2020	1 November 2024	2 600	2 600	**15 000**	–
Balance at the end of the year				**2 339 439**	1 529 482

Total expenses of R15 million (2019: R15 million) relating to equity-settled share-based payments were recognised during the year. Refer to note 15 for disclosure of the share-based payment reserve.

15. Other reserves

	Share-based payment reserve Rm
Balance at 1 January 2019	18
Share-based payment charge to profit or loss	15
Balance at 31 December 2019	**33**
Share-based payment charge to profit or loss	**15**
Forfeitable shares vested	**(1)**
Balance at 31 December 2020	**47**

16. Interest-bearing liabilities

	2020 Rm	2019 Rm
Long-term portion		
Mortgage bonds	**201**	187
Suspensive sale agreements	**37**	37
Commercial term loan facilities	**695**	313
Total non-current interest-bearing liabilities	**933**	537
Short-term portion payable within one year		
Mortgage bonds	**24**	18
Suspensive sale agreements	**15**	14
Commercial term loan facilities	**–**	359
Total current interest-bearing liabilities	**39**	391
Total interest-bearing liabilities	**972**	928

Mortgage bonds

Mortgage bonds include Standard Bank of South Africa Limited facilities, secured by general covering bonds over erf 160341, Wynberg, 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 mortgage bond carries interest at prime less 0.75% and has a remaining repayment term of six years (2019: seven years). The FirstRand mortgage bond is repayable over five years (2019: six years) at the one-month Jibar rate plus 2.80%.

Movements in mortgage bonds were as follows:

	2020 Rm	2019 Rm
Opening balance	**205**	220
Borrowings raised	**41**	–
Interest and administration fees	**16**	20
Capital payments made	**(21)**	(15)
Interest payments made	**(16)**	(20)
Closing balance	**225**	205

16. 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 R1.6 million (2019: R1.6 million) including interest and capital.

Interest rates are linked to the prime overdraft rate and varied between 4.95% and 10.75% (2019: 7.95% 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.

Movements in suspensive sale agreements were as follows:

	2020 Rm	2019 Rm
Opening balance	**51**	44
Borrowings raised	**15**	22
Interest and administration fees	**4**	4
Capital payments made	**(14)**	(15)
Interest payments made	**(4)**	(4)
Closing balance	**52**	51

Commercial term loan facilities

During the year the group refinanced and upsized its interest-bearing loans and borrowings to R1 050 million.

The facilities consist of a revolving credit facility and a bullet term loan facility and are secured by the first ranking cession of Financial Services loans receivable, insurances, claims, subordination of intergroup loans and group cash and cash equivalents.

- The revolving credit facility carries interest at the three-month Jibar rate plus 2.90% 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 3.10% and has a term of four years with quarterly interest payments.

Movements in commercial term loan facilities were as follows:

	2020 Rm	2019 Rm
Opening balance	**672**	584
Borrowings raised	**725**	293
Interest and administration fees	**55**	63
Capital payments made	**(702)**	(213)
Interest payments made	**(59)**	(58)
Finance-raising costs amortised	**4**	3
Closing balance	**695**	672

17. Other payables

Non-current

	2020 Rm	2019 Rm
Amounts owed to customer prize winners payable in excess of 12 months	**4**	4

	2020 Rm	2019 Rm
18. Trade and other payables		
Current		
Trade payables	**226**	216
Annual leave pay accrual	**13**	9
Value-added taxation and employee-related accruals	**24**	9
Insurance accruals	**23**	19
Accrued expenses	**56**	30
Other payables	**7**	–
	349	283
19. Retail sales		
Disaggregation of retail sales by product type is as follows:		
Homeware	**1 231**	1 400
Appliances and electronics	**437**	403
Fashion and footwear	**51**	72
Furniture	**73**	76
	1 792	1 951
Disaggregation of retail sales by channel is as follows:		
Contact centre	**1 117**	1 380
Digital	**462**	294
Showroom and ChoiceCollect	**161**	177
Sales agents	**52**	100
	1 792	1 951
Retail sales are settled at a point in time.		
20. Fees from ancillary services		
Retail	**180**	180
Service fees	**170**	160
Insurance fees	**7**	6
Other	**3**	14
Financial Services	**265**	260
Service fees	**100**	102
Insurance fees	**162**	148
Other	**3**	10
	445	440

	2020 Rm	2019 Rm
21 Credit impairment losses		
Trade receivables – Retail	**556**	432
Loans receivable – Financial Services	**318**	285
Total credit impairment losses	**874**	717

There were no significant recoveries in the current year or in the prior year.

Included in the credit impairment losses for the year are the following gains and losses arising from derecognition of financial assets measured at amortised cost:

- loss on sale of the Retail debt review book: R0.1 million; and
- gain on sale of the Financial Services debt review book: R20.2 million.

22. Total trading expenses

	2020 Rm	2019 Rm
Expenses by nature		
Auditor's remuneration	**6**	5
Audit-related services	**5**	5
Other non-audit services	**1**	–
Amortisation of intangible assets	**25**	19
Depreciation of property, plant and equipment and right-of-use assets	**61**	54
Marketing costs	**253**	243
Staff costs: short-term employee benefits	**448**	434
Total staff costs	**523**	509
Less: disclosed under cost of Retail sales	**(34)**	(35)
Less: staff costs capitalised to intangible assets	**(41)**	(40)
Other costs	**353**	303
Total other costs	**476**	462
Less: disclosed under cost of Retail sales	**(123)**	(159)
Total other trading expenses	**1 146**	1 068

23. Other net gains and losses

	2020 Rm	2019 Rm
Impairment of intangible assets	**(5)**	–
Foreign exchange losses	**(3)**	(1)
	(8)	(1)

24. Other income

	2020 Rm	2019 Rm
Prescription of trade and loans receivables	**5**	5
Other	**5**	3
	10	8

25. Interest paid

	2020 Rm	2019 Rm
Bank borrowings	**2**	5
Mortgage bonds	**16**	20
Suspensive sale agreements	**4**	4
Lease liabilities	**7**	6
Commercial term loan facilities	**59**	58
Other	**5**	–
Total interest paid	**93**	93

26. Taxation

	2020 Rm	2019 Rm
Income taxation		
Current year	**(40)**	(146)
Deferred taxation		
Increase in deferred tax assets	**43**	1
(Increase)/decrease in deferred tax liabilities	**(18)**	15
	(15)	(130)

	%	%
Reconciliation of effective taxation rate:		
Standard taxation rate	**28.0**	28.0
Non-deductible expenditure[1]	**3.2**	0.7
Effect of foreign income tax rates	**(23.0)**	(6.9)
Effective taxation rate	**8.2**	21.8

[1] *Non-deductible expenses primarily consist of share-based remuneration, corporate and shareholder-related expenditure.*

27. Earnings per share

27.1 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:

	2020 Rm	2019 Rm
Profit for the year	**167**	455
Adjusted for the after-tax effect of:		
Impairment of intangible assets	**4**	–
Headline earnings for the year	**171**	455
Weighted average number of ordinary shares in issue ('000)	**104 128**	104 364
Earnings per share (cents)		
Basic	**160.4**	436.0
Headline	**164.2**	436.0

27.2 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:

	2020	2019
Weighted average number of ordinary shares in issue ('000)	**104 128**	104 364
Number of shares issuable under share-based remuneration schemes for no consideration ('000)	**1 163**	1 761
Weighted average number of diluted shares in issue ('000)	**105 291**	106 125
Earnings per share (cents)		
Diluted	**158.6**	428.7
Diluted headline	**162.4**	428.7

	2020 Rm	2019 Rm
28. Reconciliation of cash generated from operations		
Profit before taxation	**182**	582
Deduct finance income earned	**(1 038)**	(1 093)
Add back finance income received	**987**	1 055
Profit from insurance cells	**(10)**	(11)
Depreciation and amortisation	**86**	73
Impairment of intangible assets	**5**	–
Share-based employee service expense	**15**	15
Interest expense	**93**	101
Interest income	**(5)**	(4)
Operating cash flows before working capital changes	**315**	718
Movements in working capital	**315**	(281)
Decrease/(increase) in inventories	**34**	(45)
Decrease/(increase) in trade receivables – Retail	**101**	(47)
Decrease/(increase) in loans receivable – Financial Services	**104**	(226)
Decrease in other receivables	**10**	26
Increase in trade and other payables	**66**	14
Decrease in provisions	**–**	(3)
	630	437

	2020 Rm	2019 Rm
29. Taxation paid		
Amounts owing at the beginning of the year	**(15)**	(46)
Amounts charged to profit or loss	**(15)**	(127)
Current taxation	**(40)**	(130)
Deferred taxation	**25**	3
Deferred taxation movement	**(25)**	(16)
Amounts (receivable)/owing at the end of the year	**(1)**	15
	(56)	(174)

	2020 Rm	2019 Rm
30. Net debt reconciliation		
Cash and cash equivalents	**415**	80
Bank overdraft	**–**	(48)
Interest-bearing liabilities	**(972)**	(928)
Lease liabilities	**(70)**	(75)
	(627)	(971)
Net debt reconciliation		
Net debt at the beginning of the year	**971**	740
Movement in interest-bearing loans and borrowings		
Cash flows	**44**	72
Accrued interest and administration fees	**–**	8
Movement in lease liabilities		
Cash flows	**(18)**	(12)
Lease liability recognised on adoption of IFRS 16	**–**	55
Remeasurement	**(3)**	(2)
New leases	**16**	34
Net movement in cash and cash equivalents	**(335)**	28
Net movement in bank overdrafts	**(48)**	48
Net debt at the end of the year	**627**	971
31. Distributions per share		
Distributions proposed/paid (cents per share)	**–**	87.0
Interim	**–**	87.0
Final	**–**	–

32. Commitments

	2020 Rm	2019 Rm
Properties		
Payable within one year	**37**	37
Payable between two and five years	**206**	157
Payable over five years	**32**	91
	275	285
Suspensive sale agreements		
Payable within one year	**19**	23
Payable between two and five years	**39**	51
	58	74
Future finance charges on suspensive sale agreements	**(6)**	(23)
	52	51
Commercial term loan facilities		
Payable within one year	**45**	424
Payable between two and five years	**808**	340
	853	764
Future finance charges on commercial term loan facilities	**(158)**	(92)
	695	672
Capital commitments for property, plant and equipment and intangible assets:		
Approved by the directors	**18**	6
Approved by the directors and contracted for	**–**	–
	18	6

33. Related party transactions

Holding company

At the reporting date the group's ultimate controlling party is the Maynard Trust.

Subsidiaries 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 and related trusts, refer to note 1 to the company annual financial statements.

Other related parties

Provident fund

The group provides retirement benefits for its permanent employees through a defined contribution plan.

	2020 Rm	2019 Rm
Contributions to the provident fund	**26**	29

Remuneration

Details regarding executive and non-executive directors' remuneration are disclosed in note 34.

Richard Garratt, a former non-executive director of HomeChoice International plc, has a consultancy agreement with a subsidiary of the group from which he earned remuneration of R4.9 million for the year ended 31 December 2020.

Interest of directors in the share capital of the company

GFM Limited is an associate (as contemplated in the Listings Requirements) of Shirley Maltz (an executive director of HIL), because she 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 895 894 shares (including 419 850 forfeitable shares) (2019: 565 249 shares).

Paul Burnett, an executive director of HIL, has a direct beneficial interest in 102 350 shares (including 62 350 forfeitable shares) (2019: 87 500 shares).

Amanda Chorn, an independent non-executive director of HIL, has an indirect beneficial interest in 50 000 shares (2019: 50 000 shares).

Pierre Joubert, an independent non-executive director of HIL, has a direct beneficial interest in 100 000 shares (2019: 100 000 shares).

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

Interest of directors in contracts

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 34).

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 have been classified as key management personnel. Emoluments paid are summarised below:

	2020 Rm	2019 Rm
Remuneration	**38**	37
Retention payments	**2**	–
Share-based payment cost	**15**	14
Retirement and other benefits	**4**	3
	59	54

34. Remuneration

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

				Short-term remuneration				Long-term remuneration	
				Guaranteed pay		Variable		Variable	
	Notes	Directors' fees R'000	Fees earned from subsidiary companies R'000	Salary R'000	Benefits[1] R'000	Performance bonus R'000	Remuneration R'000	Value of equity-settled share-based incentives granted[2] R'000	Gains realised on share options vesting R'000
2020									
Executive directors									
Gregoire Lartigue		**–**	**–**	**402**	**–**	**–**	**402**	**–**	**–**
Shirley Maltz		**–**	**–**	**4 891**	**481**	**–**	**5 372**	**3 588**	**2 481**
Paul Burnett		**–**	**–**	**1 908**	**913**	**–**	**2 821**	**537**	**–**
		–	**–**	**7 201**	**1 394**	**–**	**8 595**	**4 125**	**2 481**
Non-executive directors									
Stanley Portelli	3	**85**	**–**	**–**	**–**	**–**	**85**	**–**	**–**
Amanda Chorn		**147**	**214**	**–**	**–**	**–**	**361**	**–**	**–**
Eduardo Gutierrez-Garcia	4	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Robert Hain		**147**	**–**	**–**	**–**	**–**	**147**	**–**	**–**
Pierre Joubert		**567**	**–**	**–**	**–**	**–**	**567**	**–**	**–**
Charles Rapa	3	**64**	**–**	**–**	**–**	**–**	**64**	**–**	**–**
		1 010	**214**	**–**	**–**	**–**	**1 224**	**–**	**–**
Total		**1 010**	**214**	**7 201**	**1 394**	**–**	**9 819**	**4 125**	**2 481**
2019									
Executive directors									
Gregoire Lartigue		–	–	340	–	–	340	–	–
Shirley Maltz		–	–	4 318	432	–	4 750	2 763	379
Paul Burnett		–	–	1 827	825	–	2 652	417	–
		–	–	6 485	1 257	–	7 742	3 180	379
Non-executive directors									
Stanley Portelli		174	–	–	–	–	174	–	–
Amanda Chorn		126	186	–	–	–	312	–	–
Richard Garratt	5	126	6 895	–	–	–	7 021	–	–
Eduardo Gutierrez-Garcia		–	–	–	–	–	–	–	–
Robert Hain		126	–	–	–	–	126	–	–
Pierre Joubert		361	–	–	–	–	361	–	–
Charles Rapa		141	–	–	–	–	141	–	–
		1 054	7 081	–	–	–	8 135	–	–
Total		1 054	7 081	6 485	1 257	–	15 877	3 180	379

Notes

1 *Benefits include retirement fund contributions and expatriate allowances for staff employed in Mauritius.*

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 by 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 *Stanley Portelli and Charles Rapa resigned as directors of HomeChoice International plc effective 31 May 2020.*

4 *Eduardo Gutierrez, as a representative of ADP II Holdings 3 Limited on the HIL board, does not earn any directors' fees.*

5 *Richard Garratt has a consultancy agreement with a South African subsidiary from which he earns consultancy fees and other related benefits. He resigned as a director of HomeChoice International plc effective 31 December 2019.*

6 *The disclosed remuneration is based on an earned basis.*

34. Remuneration (continued)

Share-based incentives outstanding as at 31 December 2020 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	195 000	–	11	195 000	–
	27 August 2013	27 August 2017	50 000	–	11	50 000	–
	31 March 2014	31 March 2018	100 000	–	14	–	100 000
	20 March 2015	20 March 2019	40 500	–	34	–	40 500
	1 May 2016	1 May 2020	52 000	–	28	–	52 000
	4 May 2017	4 May 2021	–	150 000	–	–	150 000
	23 October 2018	31 March 2022	–	48 300	–	–	48 300
	4 April 2019	31 March 2023	–	120 000	–	–	120 000
	31 March 2020	31 March 2024	–	101 550	–	–	101 550
			437 500	419 850		245 000	612 350
Paul Burnett	20 March 2015	20 March 2019	12 000	–	34	–	12 000
	1 May 2016	1 May 2020	12 000	–	28	–	12 000
	4 May 2017	4 May 2021	–	20 000	–	–	20 000
	23 October 2018	31 March 2022	–	7 500	–	–	7 500
	4 April 2019	31 March 2023	–	20 000	–	–	20 000
	31 March 2020	31 March 2024	–	14 850	–	–	14 850
			24 000	62 350		–	86 350

35. Financial impact of Covid-19 and going concern

Covid-19 has had a negative impact on the financial performance of the group during the 2020 financial year. Loan disbursements were curtailed by R700 million, lost Retail sales amounted to R264 million and debtor costs were R124 million higher due to higher bad debts and increased provisions.

Group debtor costs increased by 21.9% to R874 million. As a result, operating profit was R270 million, 60.2% lower than the 2019 financial year. Management applied additional overlays to the provisions of R16 million to account for the short-term economic outlook.

At the onset of Covid-19 the group took immediate decisive action – conserving cash, curtailing credit and accelerating activity on digital platforms. Loan disbursements were significantly reduced, credit limits were lowered for existing customers and loans to new customers were stopped, resulting in a reduction in disbursements. Credit-granting criteria for retail customers were tightly managed and lower credit limits allocated. A strong focus on collections and incentivising customers to make use of digital payment options, resulted in an increase of group digital payments. As a result of the strong focus on cash management, the group increased its cash conversion percentage to 177.0% (2019: 58.2%) and achieved a very healthy cash balance of R415 million (2019: R32 million).

The group incurred additional Covid-19-related capital and operating expenditure of R22 million to enable the business to operate during lockdown. This included personal protective equipment, hygiene and deep-cleaning costs, additional computer equipment and data to enable staff to work from home. The group also negotiated rental relief from landlords as a result of stores being closed during the lockdown period.

During lockdown the group successfully refinanced and upsized the banking facilities to R1 050 million with unutilised facilities amounting to R655 million, excluding cash, at year-end. Despite the negative impact of Covid-19 on operations, the group's healthy cash on hand and borrowing capacity have remained available to sustain and grow operations. There is sufficient liquidity for the group to meet its obligations. The directors confirm that the group did not breach any bank covenants during the 2020 financial year.

35. Financial impact of Covid-19 and going concern (continued)

The group assessed the going concern assumption at year-end as a result of the current economic, trading and operational conditions on the group consolidated annual financial statements, as well as the financial statements of each statutory entity. The directors are comfortable, based on the forecast evaluation and current financial position, that the group will continue to operate as a going concern for the 12 months after year-end.

The group has performed a line-by-line assessment on the annual financial statements for the year ended 31 December 2020 for the impact of the Covid-19 pandemic on the business and its financial and operating performance.

The following material financial statement line items were considered and appropriate disclosures have been made.

Impairment of trade and other receivables
Refer to note 1.28.

Trade and loan receivables written off
Management introduced new credit-granting criteria using employer and industry-based data to determine more acceptable levels of risk for new customers. In addition, the increase in percentage of collections using debit orders provides more certainty that customers will be able to pay their accounts. Bad debts written off increased by 15.7% during the year ended 31 December 2020.

Refer to note 21 for detail on credit impairment losses for the year.

Net realisable value of inventory
Annually, the group assesses all inventory categories for possible write-down to net realisable value, should this be lower than cost.

As a result of the ongoing Covid-19, the group, in its assessment of the net realisable value of inventory, considered future sales patterns and resultant impact on the net realisable value of inventory. This resulted in higher-than-normal (82%) stock levels transferred to obsolete status, which attracts a higher obsolete stock provision rate.

The additional provision for obsolete stock as at 31 December 2020 amounts to R11 million.

Refer to note 9 for inventory disclosure.

Leases
Refer to note 2.2.

Share-based payments
The group has taken into account the effect that Covid-19 has had on the economic environment in determining the number of shares likely to vest and, consequently, the number of share options which are likely to be exercised. The fair value of shares and options are determined at grant date using economic indicators applicable at the date of the grant.

Refer to note 14 for share incentive schemes disclosure.

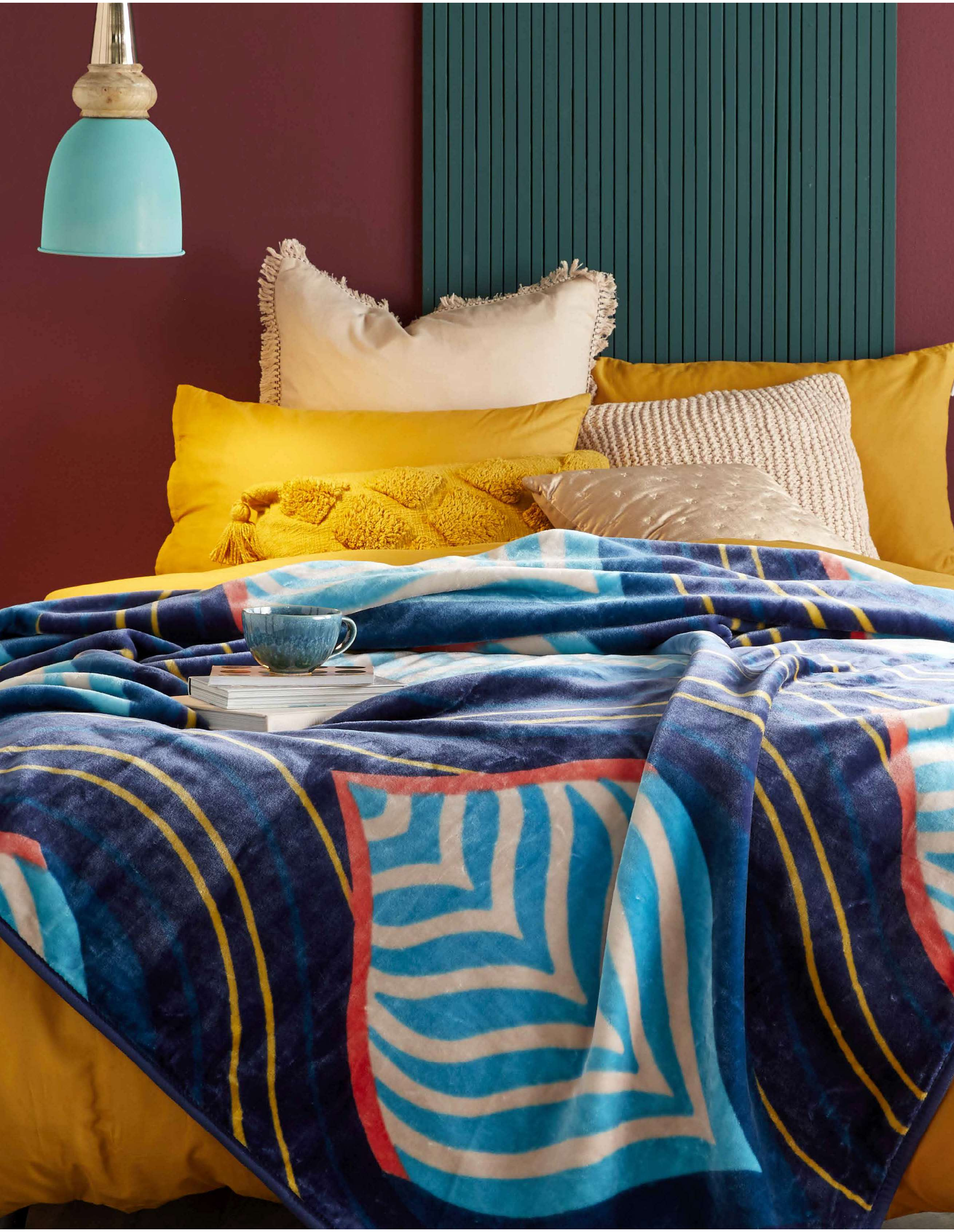
Impairment of non-financial assets
The group has assessed the impact of Covid-19 on the assumptions and significant judgements made in the valuation of non-financial assets. HomeChoice has a Covid-19 response plan in place to mitigate the pandemic's effects on its people and businesses as far as is practically possible to do so. In this context, management does not anticipate that the effects of Covid-19 will have a lasting impact on the productivity of the group's property, plant and equipment, intangible assets and right-of-use assets. In assessing the potential future impact of Covid-19 on the value of these non-financial assets, the following factors were considered:

- that the group's Retail and Financial Services segments will be permitted to operate during all levels of potential future lockdowns. While the retail business was impacted by operational challenges in the harshest lockdown level 5, it remained profitable during 2020. Given the anticipated benefits of new initiatives and the expected return to normal trading in the short and medium term, no adverse effects on the present value of future cash flows of the non-financial assets are foreseen;
- the group is a going concern and plans to continue using its property, plant and equipment, intangible assets and right-of-use assets to support its revenue-generating activities. Consequently there is no significant negative impact on the planned productivity of the non-financial assets. Management expects that any changes in the carrying amounts of non-financial assets will be immaterial in the medium term; and
- the group has forecast positive cash flows, in line with historical cash flows, for the Retail and Financial Services segments, in line with an improvement of the GDP growth rate over the short to medium term.

Refer to notes 4 to 7 for disclosure of non-financial assets' balances and transactions for the year.

36. Events after the reporting date

HomeChoice International plc acquired an 85% interest in the issued share capital of a financial services company for consideration of R45 million on 1 March 2021. No other event material to the understanding of these financial statements has occurred between the end of the year ended 31 December 2020 and the date of approval.



COMPANY STATEMENT OF FINANCIAL POSITION

at 31 December 2020

	Notes	2020 Rm	2019 Rm
Assets			
Non-current assets			
Investment in subsidiaries	1	**190.0**	176.3
Intercompany loans	2	**283.8**	159.2
		473.8	335.5
Current assets			
Other receivables		**0.8**	0.7
Cash and cash equivalents	3	**0.2**	0.9
		1.0	1.6
Total assets		**474.8**	337.1
Equity and liabilities			
Equity attributable to equity holders of the parent			
Share capital	4.1	**1.1**	1.1
Share premium	4.2	**3 014.3**	3 010.2
Reorganisation reserve	4.3	**(2 837.3)**	(2 837.3)
Other reserves	5	**46.7**	33.1
Retained earnings		**248.3**	128.0
Total equity		**473.1**	335.1
Current liabilities			
Other payables	6	**1.7**	2.0
Total liabilities		**1.7**	2.0
Total equity and liabilities		**474.8**	337.1

These financial statements were approved by the board of directors on 24 March 2021 and signed on its behalf by:

S Maltz
Executive Chair

P Burnett
Finance Director

COMPANY STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2020

	Notes	**2020 Rm**	2019 Rm
Dividends received		**125.0**	196.3
Operating expenses	7	**(4.7)**	(4.6)
Interest income		**–**	0.2
Profit before taxation		**120.3**	191.9
Taxation	8	**–**	(0.1)
Profit for the year		**120.3**	191.8

COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2020

	Share capital Rm	Share premium Rm	Reorganisation reserve Rm	Other reserves Rm	Retained earnings Rm	Equity attributable to owners of the parent Rm
Balance at 1 January 2019	1.0	3 004.8	(2 837.3)	19.3	131.8	319.6
Changes in equity	0.1	5.4	–	13.8	(3.8)	15.5
Profit for the year	–	–	–	–	191.8	191.8
Shares issued	0.1	5.4	–	–	–	5.5
Dividends paid	–	–	–	–	(195.6)	(195.6)
Share incentive schemes	–	–	–	13.8	–	13.8
Balance at 1 January 2020	**1.1**	**3 010.2**	**(2 837.3)**	**33.1**	**128.0**	**335.1**
Changes in equity	**–**	**4.1**	**–**	**13.6**	**120.3**	**138.0**
Profit for the year	**–**	**–**	**–**	**–**	**120.3**	**120.3**
Shares issued	**–**	**4.1**	**–**	**–**	**–**	**4.1**
Share incentive schemes	**–**	**–**	**–**	**14.7**	**–**	**14.7**
Forfeitable shares vested	**–**	**–**	**–**	**(1.1)**	**–**	**(1.1)**
Balance at 31 December 2020	**1.1**	**3 014.3**	**(2 837.3)**	**46.7**	**248.3**	**473.1**
Notes	4.1	4.2	4.3	5		

COMPANY STATEMENT OF CASH FLOWS

for the year ended 31 December 2020

	Notes	2020 Rm	2019 Rm
Cash flows from operating activities			
Operating cash flows before working capital changes	14	**(4.7)**	(4.6)
Increase in other receivables		**(0.1)**	(0.3)
Decrease in other payables		**(0.3)**	(0.4)
Net cash outflow from operations		**(5.1)**	(5.3)
Interest received		**–**	0.2
Dividends received		**125.0**	196.3
Taxation paid		**(0.1)**	(0.1)
Net cash inflow from operating activities		**119.8**	191.1
Cash flows from investing activities			
Intercompany loans advanced		**(192.9)**	(0.7)
Intercompany loans repaid		**68.3**	–
Net cash outflow from investing activities		**(124.6)**	(0.7)
Cash flows from financing activities			
Proceeds from the issuance of shares		**4.1**	5.5
Dividends paid		**–**	(195.6)
Net cash inflow/(outflow) from financing activities		**4.1**	(190.1)
Net (decrease)/increase in cash and cash equivalents and bank overdrafts		**(0.7)**	0.3
Cash, cash equivalents and bank overdrafts at the beginning of the year		**0.9**	0.6
Cash, cash equivalents and bank overdrafts at the end of the period		**0.2**	0.9

NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2020

1. Investment in subsidiaries

	2020 Rm	2019 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	**46.7**	33.0
	190.0	176.3

The company measures its investment in subsidiaries at cost less accumulated impairment losses.

	% interest held	Number of company shares issued and held 2020	2019
HomeChoice South Africa Limited operating subsidiary companies			
HomeChoice (Pty) Limited	100%	**2**	2
HomeChoice Property Company (Pty) Limited	100%	**61**	61
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			
HomeChoice Nominees (Pty) Limited	100%	**120**	120
HomeChoice (Pty) Limited (incorporated in Namibia)	100%	**1**	1
HomeChoice (Pty) Limited (incorporated in Botswana)	100%	**100**	100
K2020690686 (South Africa) (Pty) Limited	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**	100
FinChoice Personal Finance (Pty) Limited (incorporated in Namibia)	100%	**100**	100
Guardrisk International Limited – HomeChoice Mauritius PCC Group Insurance Cell Captive	100%	**–**	–
Guardrisk Life International Limited – HomeChoice Mauritius PCC Group Insurance Cell Captive	100%	**–**	–
HomeChoice Mauritius PCC dormant companies			
Kwik Logistics (Pty) Limited	100%	**100**	–

	2020 Rm	2019 Rm
2. Intercompany loans		
Wholly-owned subsidiaries' loans		
HomeChoice (Pty) Limited	**34.4**	30.4
HomeChoice Mauritius PCC	**249.4**	60.5
FinChoice Africa Limited	**–**	68.3
Intercompany loans receivable	**283.8**	159.2

The loans are unsecured, interest-free and repayable on demand and secured under the group's commercial term loan facilities (refer to note 16 of the group annual financial statements). There is no intention to repay the loan within the next 12 months.

As at the reporting date the subsidiaries have sufficient liquid assets and therefore sufficient resources to repay the loans if demanded. The expected credit losses are not considered significant.

	2020 Rm	2019 Rm
Current assets	**–**	–
Non-current assets	**283.8**	159.2
	283.8	159.2

3. Cash and cash equivalents

	2020 Rm	2019 Rm
Cash at bank	**0.2**	0.9

4. Share capital, share premium and reorganisation reserve

4.1 Share capital

	2020 Rm	2019 Rm
Authorised		
200.0 million (2019: 200.0 million) ordinary shares at one cent par value	**2.0**	2.0
Issued		
105.8 million (2019: 105.4 million) ordinary shares at one cent par value	**1.1**	1.1
Reconciliation of movement in issued shares:		
Number of issued shares at the beginning of the year	**105.4**	104.9
Shares issued	**0.4**	0.5
Total	**105.8**	105.4

4.2 Share premium

	2020 Rm	2019 Rm
Balance at the beginning of the year	**3 010.2**	3 004.8
Share issue	**4.1**	5.4
Balance at the end of the year	**3 014.3**	3 010.2

4.3 Reorganisation reserve

	2020 Rm	2019 Rm
Reorganisation of HomeChoice Holdings Limited into HomeChoice International plc during 2014	**(2 837.3)**	(2 837.3)

	2020 Rm	2019 Rm
5. Other reserves		
Share incentive schemes	**46.7**	33.1

The group has established a share option incentive scheme 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 following share option transactions occurred during the year at an average exercise price per share of 2 661 cents per option: 276 800 options were awarded, 405 400 options were forfeited and 353 255 options were exercised.

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. The following forfeiture scheme transactions occurred during the year at an average exercise price per share of 3 292 cents per share: 1 190 709 shares were awarded, 20 000 shares were forfeited and 360 752 shares were exercised.

	2020 Rm	2019 Rm
6. Other payables		
Other payables	**1.7**	2.0

Other payables are unsecured, interest-free and repayable on demand.

	2020 Rm	2019 Rm
7. Operating expenses		
Directors' emoluments	**(1.3)**	(1.3)
Auditor's remuneration: audit-related services	**(0.8)**	(0.3)
Other operating expenses	**(2.6)**	(3.0)
	(4.7)	(4.6)

	2020 Rm	2019 Rm
8. Taxation		
Current tax expense	**–**	(0.1)

	%	%
Reconciliation of effective taxation rate		
Standard taxation rate	**15.0**	35.0
Non-deductible expenditure	**0.6**	0.8
Exempt dividend income	**(15.6)**	(35.8)
Effective taxation rate	**–**	–

The standard taxation rate changed due to the redomiciliation of the company from Malta to Mauritius on 7 May 2020.

9. Risk management and financial instrument disclosure

9.1 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, repurchase its own shares, or increase or reduce debt.

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.

9.2 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:

	At amortised cost	
	2020 Rm	2019 Rm
Assets		
Non-current assets		
Loans to subsidiaries	**283.8**	159.2
Current assets		
Other receivables	**0.8**	0.7
Cash and cash equivalents	**0.2**	0.9
	284.8	160.8
Liabilities		
Current liabilities		
Other payables	**1.7**	2.0
	1.7	2.0

9. Risk management and financial instrument disclosure (continued)

9.3 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. Management considered the solvency of subsidiaries and their most recent forecasts and concluded that no default events are probable in the next 12 months. The group has therefore not raised a 12-month expected credit loss allowance on any intercompany loans.

Cash and cash equivalents
The company only deposits short-term cash surpluses with investment grade financial institutions.

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

9.5 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 comprised three types of risk: equity price risk, foreign currency risk and interest risk. Financial instruments affected by market risk include trade and other receivables 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.

10. Related parties

As at the reporting date the majority shareholder of the company was GFM Limited and the ultimate controlling party was the Maynard Trust.

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

	2020 Rm	2019 Rm
Directors' emoluments		
Executive director's fees		
Gregoire Lartigue	**0.4**	0.3
Non-executive directors' fees		
Stanley Portelli	**0.1**	0.2
Amanda Chorn	**0.1**	0.1
Robert Hain	**0.1**	0.1
Charles Rapa	**0.1**	0.1
Pierre Joubert	**0.6**	0.4
Dividends received		
HomeChoice South Africa Limited	**125.0**	196.3

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

11. Distributions per share

	2020 Cents	2019 Cents
Distributions proposed/paid (per share)	–	87.0
Interim	–	87.0
Final	–	–
Nature of distributions (per share)	–	87.0
Dividend proposed/paid	–	87.0

12. 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.

	2020 Cents	2019 Cents
Net asset value per share	447	318

13. Events after the reporting period

HomeChoice International plc acquired an 85% interest in the issued share capital of a financial services company for consideration of R45 million on 1 March 2021. No other event material to the understanding of these financial statements has occurred between the end of the year ended 31 December 2020 and the date of approval.

14. Operating cash flows before working capital changes

	2020 Rm	2019 Rm
Profit before taxation	120.3	191.9
Interest received	–	(0.2)
Interest paid	–	–
Dividends received	(125.0)	(196.3)
	(4.7)	(4.6)

APPENDIX

Shareholder analysis

	Shareholders Number	Shareholders %	Shares held Number	Shares held %
Range of shareholding				
2020				
1 – 999	**230**	**63.0**	**17 696**	**0.0**
1 000 – 9 999	**58**	**15.9**	**175 569**	**0.2**
10 000 – 99 999	**49**	**13.4**	**1 455 246**	**1.4**
100 000+	**28**	**7.7**	**104 080 890**	**98.4**
	365	**100.0**	**105 729 401**	**100.0**
GFM Limited	**1**	**0.3**	**73 449 531**	**69.5**
ADP II Holdings 3 Limited	**1**	**0.3**	**23 031 927**	**21.8**
Directors of the company	**4**	**1.1**	**1 148 244**	**1.1**
Directors of subsidiary companies	**5**	**1.4**	**1 988 355**	**1.9**
The HomeChoice Development Trust	**1**	**0.3**	**600 000**	**0.6**
Related parties	**4**	**1.1**	**871 929**	**0.8**
Public	**349**	**95.5**	**4 639 415**	**4.3**
	365	**100.0**	**105 729 401**	**100.0**
2019				
1 – 999	131	47.0	16 075	–
1 000 – 9 999	67	24.0	210 063	0.2
10 000 – 99 999	57	20.4	1 901 176	1.8
100 000+	24	8.6	103 248 832	98.0
	279	100.0	105 376 146	100.0
GFM Limited	1	0.4	73 449 531	69.7
ADP II Holdings 3 Limited	1	0.4	23 031 927	21.9
Directors of the company and/or its subsidiaries	7	2.5	1 971 894	1.9
The HomeChoice Development Trust	1	0.4	600 000	0.6
Related parties	3	1.0	508 229	0.4
Public	266	95.3	5 814 565	5.5
	279	100.0	105 376 146	100.0

	Shares held Number	Shares held %
Individual shareholders holding more than 5% of the shares in issue		
2020		
GFM Limited	**73 449 531**	**69.5**
ADP II Holdings 3 Limited	**23 031 927**	**21.8**
	96 481 458	**91.3**
2019		
GFM Limited	73 449 531	69.7
ADP II Holdings 3 Limited	23 031 927	21.9
	96 481 458	91.6

ADMINISTRATION

Country of incorporation
Republic of Mauritius

Date of incorporation
9 April 2020

Company registration number
C171926

Registered office
c/o Sanlam Trustees International Limited
Labourdonnais Village
Mapou
Riviere du Rempart
31803
Mauritius

Company secretary
Sanlam Trustees International (Mauritius)

Auditors
PricewaterhouseCoopers
Republic of Mauritius

Corporate bank
Butterfield Bank (Jersey) Limited

JSE listing details
Share code: HIL
ISIN: MT0000850108

Sponsor
Rand Merchant Bank, a division of FirstRand Bank Limited

Transfer secretaries
Computershare Investor Services Proprietary Limited

SHAREHOLDERS' DIARY

Financial year-end
31 December

Annual general meeting
May 2021

Distributions to shareholders
April and September

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

HiL PLC