


HiL PLC



# Integrated annual report 2017

HomeChoice International plc

## GROUP OVERVIEW



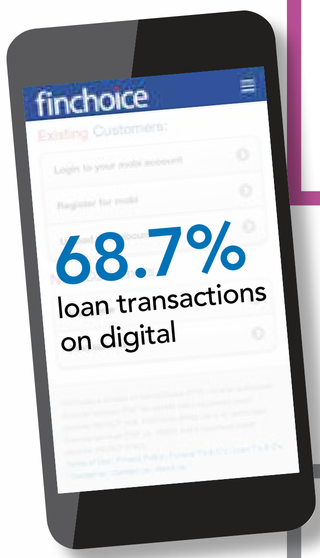
## THE YEAR UNDER REVIEW



## GOVERNANCE



# Financial highlights




**Retail sales**
**+ 16.8%**
to **R1.7 billion**

**Loan disbursements**
**+ 17.5%**
to **R1.5 billion**

**R1.2 billion**
**group credit extended on digital channels**

**Cash generated from operations**
**+ 29.5%**
to **R358.7 million**

**Full-year dividend**
**+ 20.9%**
to **191.0 cents**

**Headline earnings per share**
**+ 22.9%**
to **509.4 cents**

# Our integrated report

*The directors of HomeChoice International plc (HIL) have pleasure in presenting the integrated annual report for the 2017 financial year.*

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

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

## Reporting suite

The group makes the following documents available to stakeholders:

- Integrated annual report
- Annual financial statements report, including Notice of annual general meeting
- Investor presentations
- King IV application register

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

## Scope and Boundary

This report covers the performance and activities of HIL and its subsidiaries (the group) for the period 1 January 2017 to 31 December 2017.

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

There has been no material change in the comparability of reporting from 2016, with no restatements of financial results.





## IIRC Framework

The group aims to adopt the guidelines outlined in the International Integrated Reporting Council's Framework as appropriate. The Framework includes reporting in terms of the six capitals of value creation, being financial, intellectual, human, manufactured, social and relationship, and natural capital. While the group has chosen not to structure the report around the capitals, the performance and activities relative to these capitals are covered throughout the integrated report.

Materiality has been applied in determining the content and disclosure in this report, ensuring the report is both concise and relevant to our shareholders. Material issues are considered to be those that may impact on the group's ability to satisfy customers' needs, improve financial returns and deliver sustainable growth. The material issues are covered in more detail on pages 34 to 37.

## Assurance

The group's external auditor, PricewaterhouseCoopers, has provided assurance on the annual financial statements and expressed an unqualified audit opinion. The financial statements have been prepared under the supervision of Paul Burnett CA(SA), the finance director of HIL. The content of the integrated report has been reviewed by the directors and management but has not been externally assured.

## Forward-looking statements

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

## Approval

The audit and risk committee, which has oversight responsibility for integrated reporting, has confirmed that the report fairly represents the integrated performance of the group and has recommended the report for approval by the board of directors. The board approved the 2017 integrated annual report for release to shareholders on 28 March 2018.

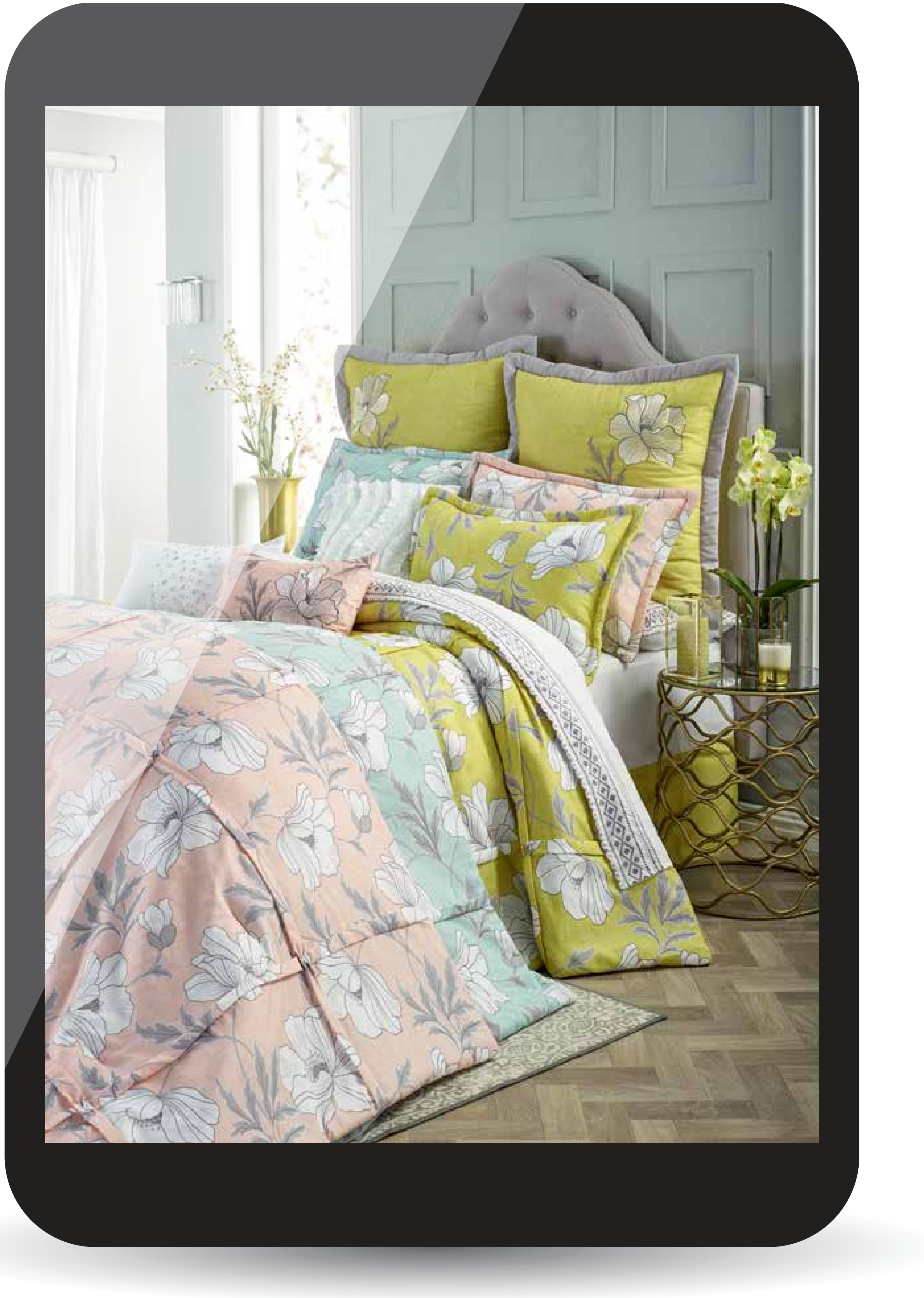
**Stanley Portelli**
Independent non-executive chairman

**Gregoire Lartigue**
Chief executive officer

# GROUP OVERVIEW



*"we are a leading provider of innovative retail and financial services products to a loyal and growing female customer base in southern Africa*



# Group profile

*HomeChoice International plc is an investment holding company incorporated in Malta and listed on the JSE Limited.*

*Trading operations are primarily based in South Africa, with growing operations in Mauritius.*

## Trading divisions

*making shopping convenient*

### RETAIL

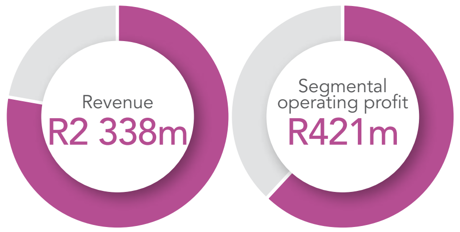
**"to be the leading omni-channel retailer, delighting our loyal and growing customer base with an innovative range of curated products on personalised terms"**

An omni-channel retailer offering an extensive range of household textiles and homeware merchandise, and fashion products under private label brands supplemented with a broad range of well-known external brands. Affordable credit options enable customers to finance purchases. A home delivery distribution network provides convenient delivery options.

Available in countries neighbouring South Africa.

Active customers

741 000




*convenient, digital financial services*

### FINANCIAL SERVICES

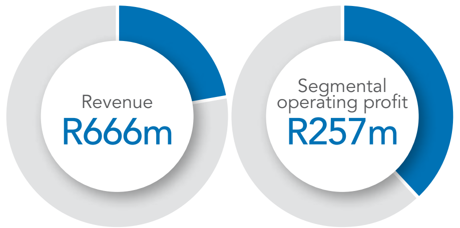
**"to be our customers' favourite digital financial services provider, enabling her easy access to affordable products"**

A fintech business selling innovative loans, female-orientated insurance and value-added financial services under the FinChoice brand. Products are available to the Retail customer base of good credit standing.

Developing markets in Botswana and Namibia.

Active loan customers

158 000




Active insurance customers

28 000

## Our vision

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

## Our customer target market

Our customers are female, residing mainly in urban areas, aged between 25 and 60 in the mass middle market with an average gross monthly income of R10 000.

## Our products

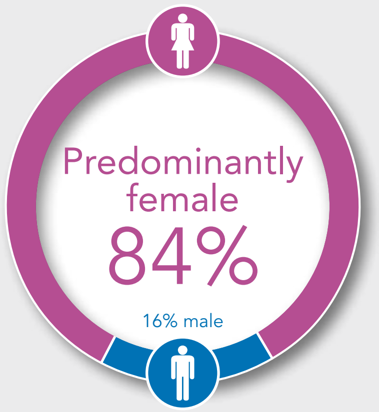
We offer aspirational private label textile and homewares and selected well-known retail brands which appeal to our mass-market consumers, who are committed to providing their families with a home of which to be proud. Flexible credit options enable customers to purchase on affordable payment terms.

A range of personal short-term loans and insurance products complement the retail offering.

# Our customers

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

The group customer base reached 1.6 million people at end-December 2017, currently with 796 000 active customers, 49% of the base.




## In mass middle market,
with an average gross monthly income of R10 000

| | LSM 1 – 3 | LSM 4 – 8 | LSM 9 – 10 |
|---|---|---|---|
| 2015 | 9% | 75% | 16% |

## Appeals to women of all ages

| less than 30 yrs | 30 – 60 yrs | 60+ yrs |
|---|---|---|
| 12% | 81% | 7% |

**685 000** Facebook community

**15 500** customers engage on Instagram

## How we attract new customers


| | |
|---|---|
| 31% | Television |
| 8% | Digital |
| 16% | Contact centre |
| 34% | Targeted mailing |
| 11% | Sales agents |

## RETAIL

### Providing her with her preferred way to shop

Digital is the fastest-growing channel

| | | |
|---|---|---|
| digital | 23% | 2016: 19% |
| contact centre | 62% | 2016: 64% |
| sales agents | 12% | 2016: 13% |
| mail | 2% | 2016: 3% |
| showroom | 1% | 2016: 1% |

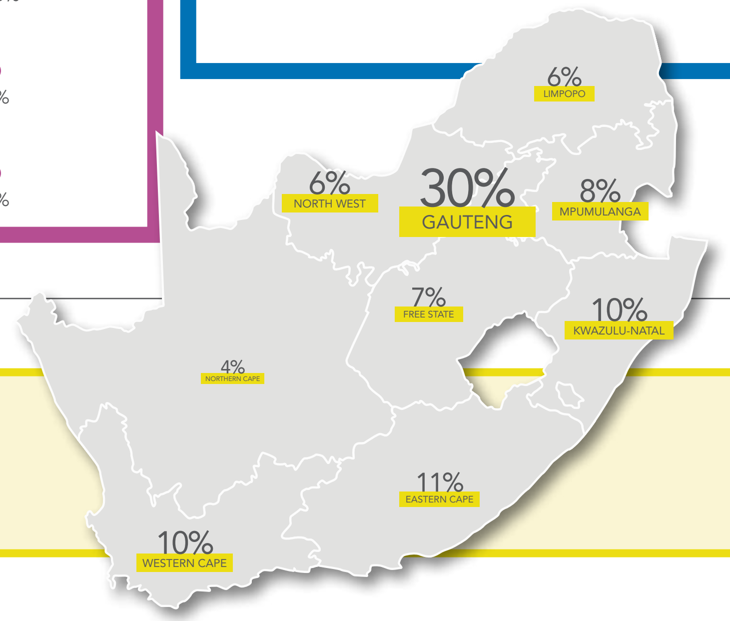
## FINANCIAL SERVICES

### Her preferred way to manage her financial transactions

Increasing our fintech strategy

| | | |
|---|---|---|
| digital | 69% | 2016: 64% |
| contact centre | 31% | 2016: 36% |

Based mainly in urban areas with 8% outside South Africa




## Growing customer base

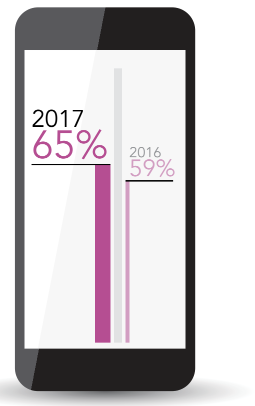
Consistent growing base of loyal customers

GROUP CUSTOMER BASE
Thousands

| 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|
| 557 | 619 | 677 | 743 | 796 |

## Mobi provides convenient access

Shopping on her phone is becoming more important



# Our investment case

## 1 A track record of sustainable and profitable growth

- 10-year revenue CAGR of 20.6%
- 10-year profit CAGR of 31.5%
- Proven organic growth strategy to gain market share
- Innovation-driven business expansion

## 2 Positioned in sizeable and growing mass market

- Committed to fastest-growing middle-income mass market
- Aspirational retail and financial services product offering attracts new customers
- HomeChoice brand strong heritage in mass market, desirable and recognisable, driving loyalty
- Digitally enabled personal loans and insurance products

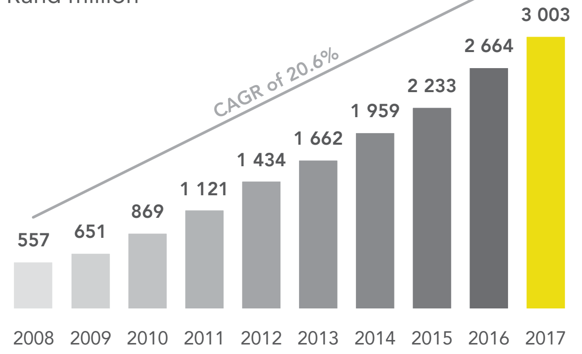
## 3 Proven ability to leverage the customer base

- Unique and rich database of behavioural, attitudinal and transactional data
- Proprietary customer credit and response knowledge and history
- Group leverages its Retail customer base for financial services and insurance offerings
- Experts in direct marketing, engaging customers with offers and newness

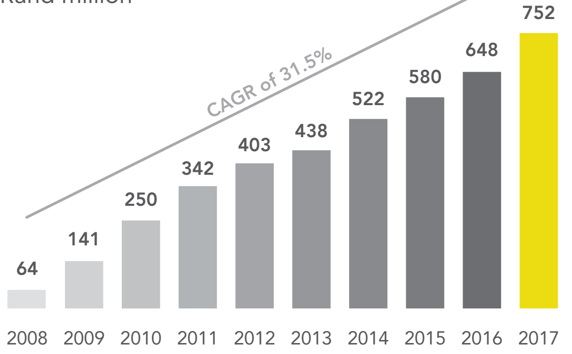
## 4 Convenient customer engagement

- Multiple selling channels provide customer convenience
- Digital engagement through mobi and web
- Experienced telemarketing operations migrating to digital support
- Retail showrooms support brand positioning, awareness and access to breadth of product
- Distribution focused on direct-to-home delivery

GROUP REVENUE
Rand million




GROUP OPERATING PROFIT
Rand million




## 5 Proven growth through product innovation

- Positioned on heritage textiles private label business
- Retail product development supports price tiering and affordability
- External brands support and enhance private label offering
- Innovation driven through long-standing supplier partnerships
- Financial Services innovation driven through mobi technology
- Channel expansion to support changing shopping patterns

## 6 Mass market credit expertise

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

## 7 Digital-led transformation

- Proprietary mobi financial services platform
- Mobi technology supporting smartphone and "simple phone" access
- Retail digital channel achieving fastest growth rates
- Proprietary systems enhanced by world-class digital platforms and telephony systems
- Progressing digital self-service functionality
- Agile development process with technology product owners driving innovation

## 8 Logistics expertise

- E-commerce enabled distribution infrastructure
- Delivery coverage nationwide with SAPO support for more out-of-town accessibility
- "Single item" logistics operations support digital with strong back-end processes managing customer returns and reverse logistics
- Driving convenience with click and collect capability

## 9 Talent

- Entrepreneurial spirit that launched the business remains a core value
- Continuous innovation and investment in teams
- Technology resources attracted to new architecture and agile system development

# Our values

The values were refreshed in 2017 in response to the feedback received from the annual employee survey. More than 65 sessions were held to roll out the values to the business with great feedback received from all levels of staff.


**Keep innovating** – we have the courage to contribute new ideas and turn these ideas into reality

**Think like an entrepreneur** – we treat the business like it's our own

**Keep it real** – we are mindful of the impact of our words and actions

**Raise the bar** – we strive to deliver excellence in everything we do

**Wow our customers** – we are passionate about delighting our customers

**Play as a team** – we collaborate and build relationships based on trust

## What our staff told us after the sessions

*"I feel that the launch of the new company values has really invigorated the company culture. They are so relevant on both a business and professional level and I see evidence of people incorporating them into their daily activities all around me."*

*"The new values are simpler and easier to digest. They are in line with the business strategy. It feels real and I can identify with them."*

*"I'm wowing my customers, making them feel important."*

*"I think the values are great – they don't just apply to work life, but can be applied outside of work as well."*

*"Our company's values motivate me to do better in this industry."*

*"It is all so simple to apply and what you basically need to do in order to fulfil your job on a daily basis."*

# Our history

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

## 1980s

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

**35** employees


## 1990s

**1994** • Contact centre and telemarketing introduced to support mail order catalogue

**1995** • Developed the first credit scorecard

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

**1997** • HomeChoice website launched
• Head office located in Claremont

**291** employees

## 2000s

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

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

**2007** • FinChoice established to offer financial services products to HomeChoice customers

**402** employees


## 2010s

**2011** • FinChoice develops and launches KwikServe® USSD, a mobi self-service transaction channel for loan products
• FoneChoice established to offer personal technology and computer products

**2013** • Retail mobi site launched and website revamped
• World-class 200 000 m³ centralised distribution centre completed at investment of R150 million

**2014** • Establishment of HIL Group to drive global strategy with listing on JSE

**2015** • State-of-the-art 1 000-seat contact centre built at investment of R100 million
• FinChoice mobi site launched
• First HomeChoice showroom opened in Wynberg, Western Cape

**2016** • HomeChoice introduced range of well-known brands
• Introduced TV as a customer acquisition channel
• Launched Retail credit facility product – affordable and quick
• Mauritius operations commenced
• Personal insurance business launched
• ISO 9000 certification for Cape distribution centre

**2017** • Financial Services launched three-month credit facility product, MobiMoney™
• Additional 42 brands launched
• Launched group sustainability programme
• New values programme introduced in the business

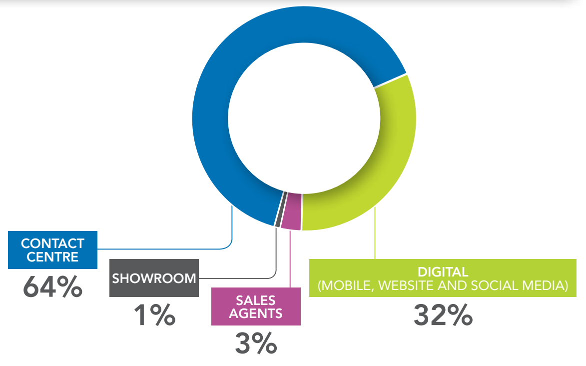
**1 613** employees

# Our business model to create value

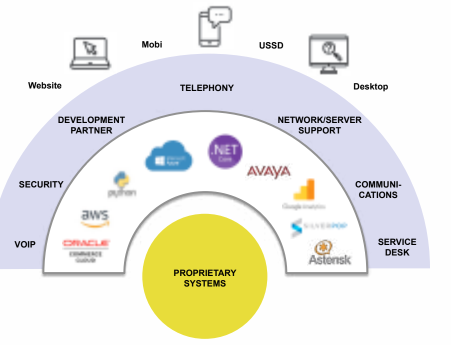
## PRODUCTS


## DELIVERING VALUE

## OMNI-CHANNEL CUSTOMER EXPERIENCE




## TECHNOLOGY-ENABLED




## BUSINESS PROCESSES

- Customer acquisition
  - Data insights and analytics
    - Innovative product development
      - Proprietary technology expertise
        - Fulfilment and delivery

## STRATEGY DEFINED


## RESOURCES USED

| FINANCIAL | INTELLECTUAL | HUMAN | OMNI-CHANNEL | RELATIONSHIP | ENVIRONMENT |
|---|---|---|---|---|---|
| • Shareholder funding<br>• Debt | • Knowledge of SA mass-market consumer<br>• Innovative product development<br>• Enablement of digital platforms | • Contact centre operations<br>• Digital development expertise | • Mobi – USSD and smartphone<br>• Contact centre infrastructure<br>• Retail showrooms<br>• Logistics enabling e-commerce home delivery | • World-class technology providers<br>• ISP delivery providers<br>• Regulatory bodies<br>• Specialist service providers<br>• Sales agents | • Water<br>• Energy<br>• Land |

## CONSIDERING OUR STAKEHOLDERS

## MATERIAL ISSUES

- Credit risk management
- Delivery network and customer experience
- Trading environment
- Talent management
- Digitilisation
- Technology transformation, including cybersecurity

# Our strategy

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


## ENHANCE THE CUSTOMER EXPERIENCE

OPERATING CONTEXT

Globally, a focus on customers' end-to-end journey satisfaction is an increasingly important lever to attract and retain customers in highly competitive retail and financial services markets.

As an omni-channel retailer and digital financial services offering, we have a unique relationship with our customers. A customer experience must be consistent across all channels in the group.

STRATEGIC INITIATIVES

- Driving a favourable customer experience will be a focus in the group's strategic and operational conversations.
- Map customer journey and define experience for all touchpoints
- Provide consistent experience by channel
- Develop digital processes to empower customers to manage service requirements
- Focus on customer delivery experience to reduce days to deliver
- Use of real-time technology to improve customer experience in digital channels

## Our medium-term targets

| | | Target | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|---|---|
| Retail gross profit margin | (%) | **48 – 52** | **51.2** | 49.3 | 50.7 | 49.8 | 49.1 |
| Operating profit margin | (%) | **22 – 27** | **25.0** | 24.3 | 26.0 | 26.6 | 26.4 |
| Return on equity | (%) | **22 – 27** | **23.5** | 22.5 | 23.7 | 24.8 | 26.3 |
| Net debt to equity | (%) | **<40** | **28.1** | 28.7 | 26.2 | 14.8 | 14.8 |
| Dividend cover | (times) | **2.2 – 2.8** | **2.6** | 2.6 | 2.6 | 2.2 | 2.8 |
| Digital credit extended | (%) | **>60%** | **32.4** | 27.4 | 27.9 | 26.0 | 24.6 |
| **New target** | | | | | | | |
| Customer experience | (delivery days) | **<4** | | | | | |

## INNOVATIVE PRODUCT AND CREDIT OFFERS

OPERATING CONTEXT

Digital platforms, offering a large variety of products and brands, have become increasingly prevalent in recent years. A variety of brands have greater potential to attract customers and satisfy their needs.

Knowledge of our customer's buying patterns allows us to provide a carefully selected range of well-known products and brands to satisfy her needs.

STRATEGIC INITIATIVES

- Innovation mindset drives product offering
- Maintain retail heritage bedding offering
- Expand range of external brands suited to our customer's needs, providing customers access to a digital department store
- Reposition the retail credit offering to provide customers with more affordable and flexible options to suit their purchasing requirements
- Transition from financial services loans business to fintech business selling innovative financial services and insurance products designed to meet the needs of our customers
- Develop value-added financial services products and services using mobi-wallet functionality

## INSIGHT-LED CUSTOMER GROWTH

OPERATING CONTEXT

Data, and for a retailer its proprietary customer data, is becoming one of the most critical business assets. Businesses are now transitioning from collecting customer data, to leveraging and analysing it for better decision-making, informing organic growth strategies and gaining valuable insights on customers' needs and wants.

We have more than 1.6 million customers on our database and 796 000 active customers. Our catalogue and digital channels have enabled us to collect richer data than traditional bricks and mortar retailers.

STRATEGIC INITIATIVES

- Invest in data analytics to further develop our customer segmentation models to drive personalisation
- Use risk and response propensity models to acquire new customers
- Data allows us to reduce fraud and manage potential financial stress
- Strong partnerships with industry experts support our internal investment in data teams and technology platforms
- Our primary customer acquisition channel will continue to be driven from the retail business supported with targeted marketing of local and foreign markets for financial services

## DIVERSIFY INTO NEW MARKETS AND SERVICES

OPERATING CONTEXT

There is a growing trend for online retailers to develop "showrooms", where a customer can see and experience the product first-hand. Showrooms provide an opportunity to display the breadth of the product range not easily achieved by the catalogue. They also serve as convenient locations for customers to collect their merchandise.

The group is able to diversify its product offering by introducing additional value-added financial services and female-orientated insurance products, which appeal to our customers' needs.

STRATEGIC INITIATIVES

- Develop a regional Retail showroom physical footprint
- Drive expansion into neighbouring countries to South Africa
- Expand insurance product offering and develop new digital sales channels with key partners
- Introduce value-added services which are supported by MobiMoney™

## MOBI-FIRST ENGAGEMENT AND SALES

OPERATING CONTEXT

Digital shopping and financial services technology-driven offerings are becoming more mainstream in South Africa.

Our customer target market has embraced the use of mobile phones as their primary digital technology tool. Whether a customer has access to a smartphone or a simple device, they can transact on their mobile phone either through USSD or more advanced applications.

Digitalisation of business processes and customer engagement channels can improve efficiencies and deliver a more enriched customer experience.

As a technology-enabled business, the group is well positioned to take advantage of the benefits of digitalisation.

STRATEGIC INITIATIVES

- Drive a digital mindset with a mobi-first execution
- Increase digital Retail sales contribution
- Migrate Financial Services customer journeys to mobile self-service
- Design solutions for mobi for deployment on all digital channels
- Migrate from contact centre selling to digital enablement and customer support
- Develop Retail digital-exclusive product ranges

## Strategic progress

Our vision is to provide for our customer's lifestyle through digitally focused and innovative retail and financial services products. We aim to achieve this through a multi-pronged customer-first strategy that enhances her shopping experience by mapping her journey with us and defining and implementing a superior experience at every touch point.

### Strategic pillars

ENHANCE **THE CUSTOMER** EXPERIENCE

**INNOVATIVE PRODUCT** AND **CREDIT OFFERS**

INSIGHT-LED **CUSTOMER GROWTH**

**MOBI-FIRST ENGAGEMENT** AND **SALES**

DIVERSIFY INTO **NEW MARKETS** AND **SERVICES**

### Enhance the customer experience

Our key focus is to make her experience simple, easy, consistent and transparent. A multitude of initiatives are being implemented to improve the customer journey:

- improving the ease and speed of delivery;
- launching a Customer Service Training Academy;
- contact centres are migrating towards being digital support teams;
- digital platforms are designed to be attractive and easy to use;
- the digital thrust is supported through the roll-out of retail showrooms;
- using social media, credit bureaus and internal data to smooth processes and reduce pain points; and
- our mobi solution allows her to buy what she requires without having to leave the safety of her home.

**PROGRESS:** Defined customer experience strategy.

Recruited resources and restructured marketing teams to deliver strategy.

Commenced measuring of customer experience journeys.

### Innovative product and credit offers

Our Retail business is moving towards becoming the digital department store for the mass market in southern Africa. We aim to achieve this through the continuous broadening of our product offering, using a combination of private label, as well as an extended but carefully selected range of well-known branded goods across all product categories.

**PROGRESS:** More than 60 external brands have been launched in the last two years, with branded goods growing to 12% of Retail sales in the same period.

From a Financial Services perspective, our aim is to be her favourite digital financial services partner, offering a range of loans, a suite of insurance products, as well as a variety of value added services.

**PROGRESS:** 28 00 active insurance customers.

New digital-only MobiMoney™ product tested in the fourth quarter, to good customer response.

The group offers a range of affordable and flexible credit products, enabling customers to purchase Retail products and manage her financial requirements.

**PROGRESS:** R3.7 billion credit extended.

Debtors costs as a % of revenue at 16.8% (2016: 17.9%).

### Insight-led customer growth

The group has accumulated a vast amount of behavioural, attitudinal and transactional customer data over 30 years. We are developing strong partnerships and investing in our data teams and technology to maximise this key competitive advantage. Our rich purchase and credit data is leveraged to generate personalised offers based on each customer's unique preferences, interests and buying patterns in order to increase the lifetime value of our customers. The aim is to provide what she wants at the right time, with the right intervention, on the right channel, with the right offer and at the right price.

**PROGRESS:** 7% growth in the group's active customer base.

Retail customer growth: 6%, Financial Services customer growth: 11%.

Low risk pre-selection for financial services eligibility, based on customer performance within Retail.

Data informs merchandise range, stock management and marketing resources.

Database further leveraged to sell additional financial services products.

### Mobi-first engagement and sales

Our drive towards further digitalisation has seen us make significant investments in digital platforms, primarily aimed at improving the customer experience – being able to meet her requirements, while giving her ownership of the relationship, self-service functionality and access 24/7. Digital engagement also carries significant cost and efficiency benefits for the group, by:

- reducing the cost of serving the customer though the use of machine learning and bots;
- increasing the breadth of products offered without the associated increase in marketing costs; and
- reducing credit risk through the use of additional digital data sources such as social media and credit bureaus.

**PROGRESS:** Group credit extended on digital channels now 32.4% (2016: 27.4%) of total credit extended.

Digital retail sales growth of 48.2%.

Loan transactions concluded via digital channels up from 63.5% to 68.7% of total loan transactions.

Contact centre agent-to-customer ration improved by 27%, due to self-service.

### Diversify into new markets and services

The group has always focused on an entrepreneurial culture and organic growth to create long term value. Our track record of successfully starting new ventures is well-established – Financial Services was launched 11 years ago, FoneChoice was created some five years ago and our insurance business was successfully launched in 2016. The group has significant growth opportunities in the retail and financial services markets in southern Africa.

New geographic operations will be established in a measured way, harnessing and leveraging our experience in the South African market.

The group's Retail business will diversify by offering additional products and the roll-out of showrooms to strengthen the brand positioning, create awareness and provide further customer engagement channels.

Financial Services diversification includes value added services and additional insurance products.

**PROGRESS:** Strong growth from Mauritius insurance operations.

Blueprint for Retail showroom expansion developed.

Financial infrastructure established in Botswana and Namibia.

# How we add value

## Stakeholders

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

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

### Customers

- Offering an edited range of innovative private label and external branded retail products
- Suite of personal loans and credit facility products
- Enabling customers to manage their financial requirements in an easy and affordable manner
- Multiple channels to engage with the group

### Employees

- Market-related remuneration
- Recognising diversity – race and gender
- Providing an opportunity for training and career development
- A culture which supports and rewards good performance

### Shareholders and funders

- Delivering a consistent return on investment
- Regular dividend income
- Payment of interest
- Delivering sustainable long-term shareholder value

### Suppliers

- Regular business for the provision of goods and services
- Payments in line with agreed terms
- Long-term relationships

### Independent service providers

- Supporting and growing small enterprise suppliers
- Training and development to enable them to deliver the service that our customers expect

### Direct sales agents

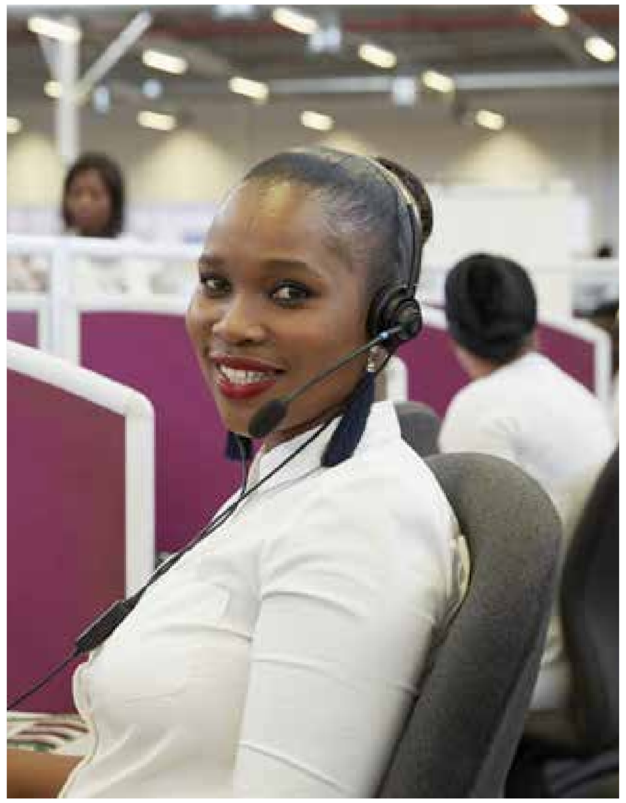
- Opportunity for more women to earn an income or supplement their income by selling Retail products
- Empowering women to support their families and improve their lifestyles

### Communities

- Providing an opportunity for children, under the age of six, in the Western Cape community to receive a quality start to their education
- Employment opportunities
- Responsible corporate citizenship

### Regulators and governmental departments

- Payment of taxation in the countries in which we operate
- Compliance with applicable legislation under which the group operates



# Our stakeholders

## Employees

**"to be empowered, respected, challenged and recognised for the unique contribution we make"**

The group has 1 613 permanent employees, predominantly based in the head office situated in the Western Cape as well as distribution centres in the Western Cape and Gauteng, and newly opened showrooms.

### Employee composition

Our employee value proposition is critical to attracting, retaining and developing our staff.

1 613

| | |
|---|---|
| Executives | 1% |
| Management levels | 19% |
| Operations | 80% |

### Employees representative of customer base

Supporting our customers' experience

| | |
|---|---|
| 70% female | 30% male |
| 90% black | 10% white |

### Contact centre tenure

75%

of contact centre staff have been with the group for longer than 12 months, a 20% improvement from 2016.

**Tenure delivering strong sales**

### Employment equity driving transformation*

83% of all promotions during 2017 were made to black employees.

| TOP | SENIOR | MIDDLE | JUNIOR | SEMI-SKILLED | UNSKILLED |
|---|---|---|---|---|---|
| 0% | 27% | 38% | 81% | 100% | 100% |
| 2016: 0% | 2016: 23% | 2016: 33% | 2016: 80% | 2016: 100% | 2016: 100% |

** Percentage of black staff relative to total staff composition.*

### Showing their talent

With so many talented employees in the business we just couldn't resist giving people an opportunity to utilise their talents. The HomeChoice choir was launched in 2016 and now has grown to 45 members. The choir achieved first place in the development section of the Western Cape Choral Music Association Eisteddfod and Lami, the conductor, received a medal for Best Development Section Conductor.

### Staff wellness

Our employee assistance programme, ChoiceCare, provides staff with an all-hours toll-free telephonic support on legal, financial and physio-social issues.

### How has HR embraced digital engagement

We have commenced with the development of an e-learning platform, which will stretch across the whole business. Online tutorials, videos and digital learning materials are used for refresher training. Many of the administrative recruitment processes are conducted electronically with advertisements available on Facebook and Twitter.

### Leadership programme

**9** delegates completed inaugural Leadership Development Programme

**50%** placed in new roles or promoted

Included formal training, EQ development, development of strategic projects and engagement with directors. The programme was an overwhelming success, with a significant shift in the delegates' EQ profile at the end of the programme.

*"The programme gave me the confidence to step up in my career journey at HomeChoice."*

*"The LDP made learning both terrifying and interesting at the same time. My biggest learning was ...'to fear risk is to fear success'!"*

### Training

**Investment in training**
R5.5 million 2016: R3.9 million

**Number of interventions**
11 694 2016: 12 826

**Hours trained**
49 774 2016: 72 495

More efficient training reducing the number of hours required.

**Bursaries provided**
22 2016: 23

### Recognising our achievements

Recognising and rewarding employees for living the values.

- Peer-to-peer recognition
- Monthly recognition
- Quarterly incentives received
- Annual company awards

## Distribution network partners

Digital retailers require an efficient logistics and distribution network capability.

The group's Retail distribution network is facilitated through three categories of business partners – South African Post Office, third-party courier companies and "owner-drivers" or independent service providers (ISPs). The ISPs form an integral part of the group's enterprise development initiatives, and are key business stakeholders who transport 60% of home deliveries. The South African Post Office is a key stakeholder in enabling deliveries to more out-of-town areas of South Africa allowing a broader network reach.

Click and collect, introduced in 2016, allows customers to pick up their parcels at a Retail showroom. Customers have found this method very convenient, more than 50% of showroom orders are "click and collect". As additional showrooms are brought on-stream, we anticipate more customers to take advantage of this convenience.

Deliveries in 2017

**>940 000**

65% home deliveries

25% SAPO

click and collect 3%

7% Africa

7.2 days to deliver to her home

Courier partners provide 40 hubs for collections

### Independent service providers

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

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

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

Transport **60%** of home deliveries in South Africa

18 service providers with 64 vehicles/drivers

**>45%** drivers based in Gauteng

more than **360 000** deliveries

Average earnings of
**R1.2 million pa**

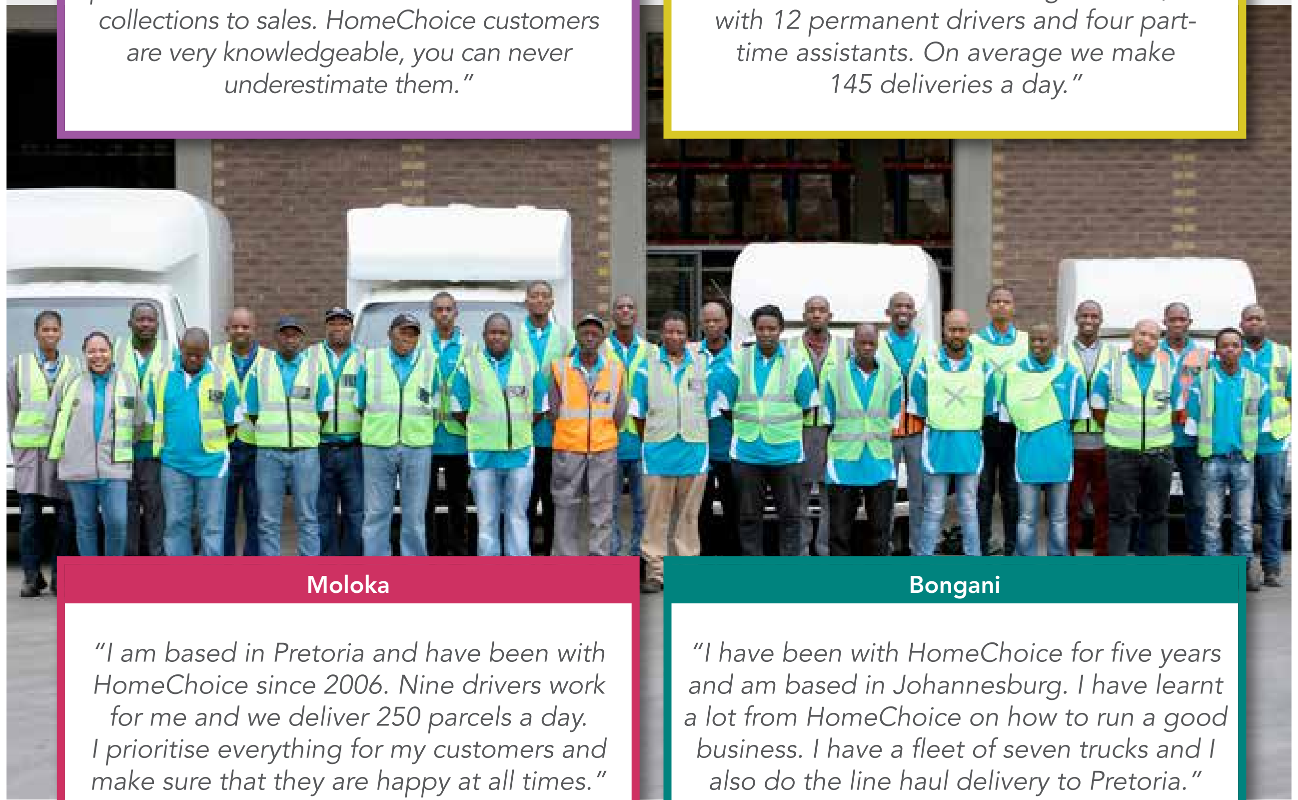
**We asked some of our ISP providers to tell us about their work**

**Bongiwe**

*"I have been part of the HomeChoice family since 2012. Customers are pleasantly surprised when they see a female delivering their parcels and they quickly change from referring to me as the 'delivery lady' to the 'consultant'. When customers ask me questions I need to know all the answers – from collections to sales. HomeChoice customers are very knowledgeable, you can never underestimate them."*

**Zakele**

*"I joined in 2016. I deliver in the surrounding areas of Durban. I have eight trucks, with 12 permanent drivers and four part-time assistants. On average we make 145 deliveries a day."*



**Moloka**

*"I am based in Pretoria and have been with HomeChoice since 2006. Nine drivers work for me and we deliver 250 parcels a day. I prioritise everything for my customers and make sure that they are happy at all times."*

**Bongani**

*"I have been with HomeChoice for five years and am based in Johannesburg. I have learnt a lot from HomeChoice on how to run a good business. I have a fleet of seven trucks and I also do the line haul delivery to Pretoria."*

## Direct sales agents

The direct sales agents channel is an enabler in the expansion of Retail into the neighbouring countries, particularly Botswana and Namibia.

There are 5 649 active sales agents operating in local communities in South Africa and neighbouring countries.

Approximately 20% of the agents are focused full time on selling merchandise and may earn in excess of R20 000 per month. The remaining 4 000 agents use the commission they earn to supplement their income on a part-time basis. Commission is earned on a tiering structure – bronze, silver, gold and platinum.

Regular rallies are held during the year to celebrate their successes, focus on training and development to assist them in establishing their own network of clients, and engage with them on changes of processes which may impact them. Sales agents may also purchase subsidised marketing materials such as gazebos and personalised banners to assist them in driving sales.

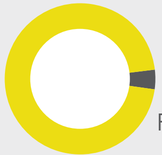
### Number of sales agents

Sales agents channel delivered 27 000 new customers and a Retail sales growth of 6%.

**5 649**

2016: 6 946

### Geographic split



96% South Africa

4% Foreign

### Empowering women to improve their lifestyle

93% Women

7% Men

Top 10 agents earn an average **R218 000 pa**

**Supplementing their income R2 300 pa**

### How have the sales agents embraced digital engagement

Social media and WhatsApp groups are used to engage with the agents, who in turn make use of social media as a selling platform. Electronic order forms will be rolled out to the top 200 agents through the use of mobi, changing the manual order forms currently in use.


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

**Elizabeth**

*"I set my own targets and strive to exceed them. I believe in customer service and always look after my clients. I am now my own boss and determine how much I earn each month.*

*I have paid up my furniture and house bond. I have bought two cars."*

**Thandi**

*"I do my own admin daily, follow up on orders and queries for my customers. I have certain activations spots all over Johannesburg where I sell with my gazebo and do a lot of road trips to other provinces throughout the year.*

*My house is bond free and I bought a car with my earnings."*

**Maria**

*"I do most of my selling via social media and road trips and activations. Be serious about your work – you are your own boss and the more effort you put into your work, the better the results!*

*I own my house and want to buy another one next year."*

**Nokuthula**

*"I choose my customers carefully and make sure that they have banking details.*

*I purchased and paid for a plot and now I am going to build my own house."*

As the group is based in Cape Town, community investment is targeted at the stakeholder community situated in the Western Cape. The work in the community is facilitated by the HomeChoice Development Trust.

The Trust partners with key non-profit organisations who have long-term and sustainable plans in the Early Childhood Development (ECD) sector.

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

**MISSION:**
*the upliftment of underprivileged communities through focusing on early childhood development*

# OUR PRIMARY PROJECT IN 2017

## Shack-to-chic programme

In the Mfuleni community the Trust funds and supports the "shack-to-chic" programme. The objective of this project is to select shack (unregistered) ECD centres and transform them so that these centres comply with government regulations in order to register and receive their subsidy, but more importantly to provide a safe, secure and healthy learning environment for the children in Mfuleni.
In partnership with the Starting Chance Trust and through this project we are committed to a model that assists township ECDs to become best-practice schools that are economically sustainable.

### Highlights

Over the past five years the HCDT has been instrumental in enabling Starting Chance to create and expand its best-practice footprint in the Mfuleni ECD community in order to reach more children.

The Trust is financially committed to the development and build of four new "shack-to-chic" schools over the next three years and committed to actively give back through its staff engagement programmes. In 2017 nine of the "shack-to-chic" schools in Mfuleni benefited from the Mandela Day campaign "Share the Joy of Giving Back".

**Reach impact**
The Trust's support positively impacted over 2 700 children, 150 teachers and the local community.

## Mandela Day Campaign

In 2017 the group held a Mandela Day experience to enable employees to give back to the community "Share the Joy of Giving Back".

The aim was to support the nine schools in the shack-to-chic programme in Mfuleni by packing and donating education boxes to enhance parent engagement with their children at home.
The campaign enabled more than 900 children to receive an education box made up of toys aligned with their daily programme in the school to supplement learning at home.

The Trust made a matching donation of R100 for every box packed and donated. More than 900 boxes were packed and R90 000 donated by the Trust.

The campaign tied in with the nine schools' first-ever fundraiser, which was held in Mfuleni. The boxes for education – or as the community refers to it, *the boxes of joy* – were handed over to the schools at the fundraiser.


**Mandela Day impact**
The campaign had an overwhelming positive impact on nine schools, more than 900 children, 57 teachers and almost 2 000 community members.

**Feedback from the Principals**

*"We had a great time with our parents, and it took us at the school to another level when we workshopped with them about the toys that were in the box. It created a solid bond between parents and teachers. Parents even tell us that there are no more fights about TV remote because their children are focusing on their toys."*

**Philiswa, Blooming Stars Principal**

*"The Mandela Day increased the number of children attending the school this year, even those who are coming from very far because my parents were talking about the amazing boxes in taxis and in buses."*

**Princess, Ikusasalethu**

*"The Mandela Boxes of Joy was not only a gift to children but a gift to parents as well as it educated parents on how children learn. Children were overwhelmed by their gifts. Parents started to understand that children go to the ECD centres to be equipped for school, not just to be kept safe while they go to work."*

**Bonita, Fieldworker and parent**

## Other projects

### The Rainbow and Development Programme

**Vrygrond and Overcome Heights**

The Trust has been involved in the Vrygrond and Overcome Heights communities for over five years and financially supports various pioneering and innovative initiatives through its partnership with True North.

The Rainbow Development Programme includes skills development training, implementation, quality assurance, monitoring and evaluation as well as infrastructure development. The programme identifies the standard of pre-schools entering the programme and assigns the ECD facility to a colour band. By the time the ECD facility has progressed through all the colour bands, they will be a safe, legal, profitable and self-sustaining facility.

The Trust has concluded another three-year agreement with True North to provide the funding for the development of three ECD centres, a financial commitment of R7 million.

### Site Learning Programme

**Atlantis and Worcester**

The Trust was the first corporate to fund the **Site Learning Programme** in these areas. The programme includes training, capacity building as well as infrastructure upgrades in order for ECD facilities to comply with government regulations. Over the past four years, the financial support from the Trust has enabled Grassroots to expand the Site Learning Programme to 66 ECD centres in Atlantis and 50 ECD centres in Worcester. The programme has also provided training to 224 teachers, positively impacting the lives of 4 700 children under the age of six.

### Donations in-kind

All donations in-kind requests are channelled through the Trust. During 2017 donations were made to Community Chest, True North, Gift of the Givers, SHAWCO and Starting Chance.

### Skills Development and Bursary Programme

**Garden Route area**

In February 2017 the Trust formed a new partnership with Knysna Education Trust, the only organisation in the Garden Route area to focus exclusively on the upliftment of early childhood education.

The Trust supports two programmes – an ECD practitioner skills development and capacity-building programme and a bursary programme. Bursary funding was provided to six students in 2017, assisting them to complete their NQF level 4 and 5 teacher training.

### Outreach Programme

**Khayelitsha – Monwabisi Park**

In Monwabisi Park, Khayelitsha, very few children attend or receive early childhood development services. The Trust financially supports the Emthonjeni play group outreach programme. In partnership with Sikhula Sonke, this programme offers free ECD access to children whose parents can't afford to send their children to school. The programme takes ECD to the children of Monwabisi Park and enables them to play and learn with facilitators while their caregivers and parents have the opportunity to participate in discussions, learn more about ECD and basic healthcare, and talk to counsellors. There are more than 350 children under the age of six benefiting from this programme.


### Impact in the community since 2011

**268** (2016: 202)
educare centres supported

**936** (2016: 860)
ECD practitioners trained

**14 606** (2016: 11 075)
children under 6 received quality start to education

### Financial investment

Spent more than **R19 million** to support ECD

**R4.3 million**
financial commitments from HCDT in 2017

**R25 million**
donations made by Trust since inception

# Material issues

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

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

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

## Risks and opportunities

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

Opportunities have been identified for each material issue to highlight some of the strategies that the group intends to implement for 2018 onwards. More detail on the group strategy can be found on pages 18 to 21.

## Credit risk management and regulatory compliance

### Strategic context and stakeholder needs

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

In-house bespoke scorecards determine and monitor the level of credit granted. Credit bureaus are used to validate customer data in the credit-vetting process. Independent specialists review the scorecards and credit risk models on a regular basis.

Extensive changes have been made to the group's systems and processes to cater for the changes in the credit regulations. We continue to make it simpler and easier for customers to submit their necessary documentation when applying for a loan or entering a new credit agreement to purchase merchandise.

Further details on credit risk management can be found on pages 73 to 75.

### Risks and mitigations

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

### Opportunities

- In-house scorecards and intellectual capital allows us to build up significant credit history and understanding of the LSM 4 – 8 customer market
- Alternative data sources to be used as a predictor of risk
- Use technology, including machine learning, to automate processes
- Leverage group opportunities to streamline and optimise credit-granting processes
- Collections strategy to optimise collections and improve book yield

## Delivery network and customer experience

### Strategic context and stakeholder needs

A key component of the customer journey is the delivery of their goods. Customers expect delivery times to be shorter, drop-off and pick-up points to be more convenient and processes to return goods to be simple and easy.

We are constantly aware that our delivery processes have to improve to meet customer expectations.

We have two distribution centres situated in Cape Town and Gauteng, a delivery network enabled by three categories of delivery providers and supported by technology to ensure that our customers are kept informed of their delivery.

The South African Post Office is an important service provider to deliver catalogues to customers and provides a pick-up point for customers' orders in areas where there is limited home delivery infrastructure.

We continue to use our owner-driver service providers, an enterprise development initiative, which has provided us with the opportunity to expand home deliveries to more customers and provide employment for small black-owned driver operations.

Courier partners provide additional hubs, delivering an additional 40 pick-up points for customers. Click and collect points have increased delivery options for customers.

Further details on distribution network partners can be found on pages 26 and 27.

### Risks and mitigations

| | |
|---|---|
| **Our delivery experience does not meet our customers' expectations** | Investment in Gauteng distribution centre |
| | Independent owner-driver home delivery service with performance tracking and training |
| | Roll-out of click and collect with additional showrooms |
| | Partnering with specialised courier networks in established metropolitan areas |
| | Use digital technology to engage with customers |
| **Our customer experience does not meet expectations** | Map and refine customer journeys |
| | Provide customers with the ability to select her delivery option |
| | Use customer satisfaction measurement tools to identify pressure points |

### Opportunities

- Expand click and collect delivery strategy
- Technology to drive selection of delivery options to suit customers' needs
- Drive speed and efficiencies in warehouse stock management in both Cape Town and Gauteng distribution centres
- Reposition independent service providers to enhance delivery experience
- Distribution hubs at selected showrooms

**MATERIAL ISSUES** CONTINUED

## Trading environment

### Strategic context and stakeholder needs

The trading environment in South Africa has been challenging for consumers in the group's primary target market. Living costs have generally exceeded wage increases, with high food inflation and transport costs persisting for much of 2017.

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

Our long-standing relationships with key offshore suppliers help us to achieve that.

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

### Risks and mitigations

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

### Opportunities

- Product innovation in key categories
- Broaden range of external brands appropriate for product categories
- Technology-enabled flexible credit options provide wider choice
- Introduction of value-added services leveraging Financial Services credit facility account

## Digitalisation

### Strategic context and stakeholder needs

One of the strategic initiatives of the group is to drive mobi-first engagement as it provides convenience for the customer and improves efficiencies for the group. The majority of the Financial Services personal loans business is carried out on a digital platform and 15.4% of Retail sales are digital.

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

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

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

### Risks and mitigations

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

### Opportunities

- Drive digital engagement strategy
- Develop new e-commerce engine
- Allocation of technology capital expenditure to support digital transformation
- Develop and roll out customer self-service options on digital platforms

## Talent management

### Strategic context and stakeholder needs

Market norms indicate a relatively high labour turnover in a contact centre operation with attrition in the range of 35% – 45%. Our contact centre experienced turnover of 35% and has seen good improvement in average tenure to 34 months (2016: 30 months).

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

In the annual employee survey, employees told us that they wanted more feedback on the career paths available and access to more learning and development.

Further details on employees can be found on pages 24 and 25 and the Remuneration policy can be found on pages 77 to 80.

### Risk and mitigations

| | |
|---|---|
| **Inability to attract, retain and develop employees with the necessary skills required by the group** | Targeted retention strategy formalised, with a focus on leadership |
| | Combined guaranteed and performance-related remuneration structure with market benchmarking to ensure competitiveness |
| | Implementation of accredited learnership programme |
| | Adoption of best-practice people policies and procedures |

### Opportunities

- Introduction of e-learning training programmes
- Define career paths for critical roles with supporting development plans
- Robust employee value proposition implementation
- Develop junior management training programme
- Bespoke leadership programmes for senior management

## Technology transformation, including cybersecurity

### Strategic context and stakeholder needs

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

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

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

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

### Risks and mitigations

| | |
|---|---|
| **Threat of breach of data security** | Solutions developed and implemented in technology roadmap |
| | Proactive monitoring by external specialist companies |
| | Best-practice cyber prevention protocols implemented |
| **We are unable to transform our legacy systems** | Specific capital allocation and resources for redesign of legacy systems |
| | Legacy upgrades to be designed in services methodology |

### Opportunities

- Use of leading software providers in the suite of technology
- Internal staff training to create awareness and understanding of information security
- Deployment of agile development processes and services technology

# THE YEAR UNDER REVIEW

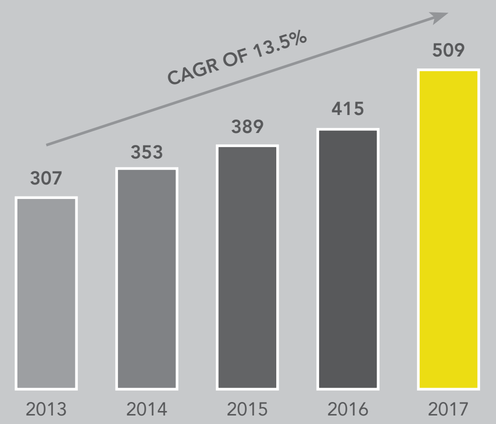


*"the group has delivered a robust financial performance in a challenging retail and credit market*

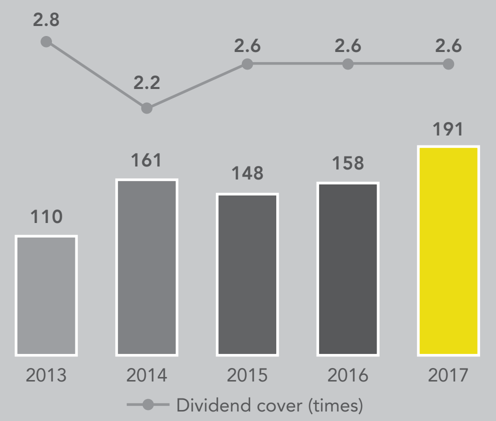
# Chairman's review

*South Africa experienced a challenging economic and political environment for much of 2017. The group achieved a strong set of results from both operating divisions.*

## HEADLINE EARNINGS PER SHARE
Cents per share




## DIVIDENDS PER SHARE
Cents per share




**STANLEY PORTELLI**
Independent non-executive chairman

## Financial results

The group has delivered strong financial results this year, despite challenging economic and operating conditions. We are also pleased with the excellent progress made in the past year to position the group as a leading provider of innovative Retail and Financial Services products to a loyal and growing female customer base in southern Africa.

Headline earnings per share for 2017 grew by 22.9% to 509.4 cents per share (2016: 414.6 cents per share). The full-year dividend of 191.0 cents was up 20.9% on 2016

## Governance

The King IV Report on Corporate Governance is effective for the group from 1 October 2017.

The JSE implemented changes to the Listings Requirements in response to King IV. In line with the changes, the board conducted a review of the governance framework and sub-committee structure. It was agreed to establish a social and ethics sub-committee which will be supported by the social and ethics committee of the South African operations. Eduardo Gutierrez-Garcia is the chairman of the HIL social and ethics committee in addition to being a member of the South African committee.

A gender diversity policy was approved by the board. We have committed to a voluntary target of 30% women representation in line with international benchmarks. Current representation, after the appointment of an alternate director, is 20%.

A King IV gap assessment was discussed by the board. The board recognises that application of the King IV practices is at leading practice level and the board is committed to applying them as appropriate to the scale and complexity of the group. A more detailed analysis of the application to King IV can be found on the group's website: www.homechoiceinternational.com

## Board of directors

There were no changes to the composition of the board during the financial year.

We are pleased that Development Partners International (DPI) has proposed, and the board has accepted, the appointment of Adefolarin Ogunsanya with effect from 7 March 2018. Adefolarin is an alternate director to Eduardo Gutierrez-Garcia. He has a MBA from Wharton and is an investment specialist at DPI, focusing on investments throughout the African continent.

We look forward to the contribution that Adefolarin will make to the board's deliberations.

## Equity capital raising

As the group continues to grow, further capital investments will be made in areas of strategic importance. The board is considering undertaking an equity capital raise to fund capital expansion projects.

The company has also been focusing on improving its free float and share liquidity. Any equity capital raise would also be intended to introduce new investors into the company. The board has engaged with the company's major shareholders who are supportive of this initiative and agreed to sell a portion of their own shareholdings.

We believe both actions will be beneficial to the free float and liquidity in the company's shares.

## Acknowledgements

I would like to acknowledge the continued support and contribution from my board colleagues during the year. Shirley and her management teams have delivered a strong set of results and are focused on execution of the group's strategy going forward.

# Our group chief executive officers' review

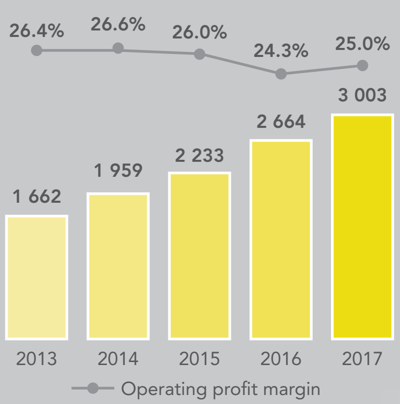
The group has operated in South Africa for more than 30 years and has developed considerable expertise in retail and in providing credit finance, targeted at a growing class of mass-market consumers. Our homeware sector has grown exponentially in recent years, driven primarily by the growing affluence in South Africa's middle market and increasing home ownership as a result of the government's housing and electrification efforts. This has attracted a variety of retail participants and created a burgeoning homeware retail sector, offering increasing choice and variety.

*Over the last year, our group has retained its position as a leading participant in the growth of South Africa's homeware and financial services sectors.*

This has been achieved through a singular focus on understanding and satisfying the needs of our selected target market, as well as by using the wealth of data and deep customer insights we have amassed over time, to grow with customers as their needs change and demands escalate.

On average, we attract more than 20 000 new customers per month, which has resulted in the active customer base growing by 7% this year, to 796 000 customers. Over the next five years, our aim is to grow the customer base to some 1.2 million customers and we are implementing a range of strategic initiatives to make this goal a reality.

## GROUP REVENUE
Rand million




GREGOIRE LARTIGUE

SHIRLEY MALTZ

## Trading environment

The group has delivered a robust financial performance in 2017, in a challenging retail and credit market characterised by low levels of growth and high unemployment, and further exacerbated by political instability.

Consumer credit granted in South Africa increased modestly by 5.2% year-on-year (NCR report to September 2017) while the share of credit granted to moderate income earners, those earning less than R10 000 p/m, reduced from 61% to 56% year-on-year. This has largely been a result of credit providers tightening credit granting criteria in recognition of prevailing economic conditions. The overall credit health of consumers in South Africa has remained stable.

The Rand was relatively steady against the dollar for most of 2017 and improved markedly in the last quarter of the year, as political conditions in the country took a more encouraging turn. We believe that the full extent of any positive effects on the economy will take some time to materialise.

Consumer price inflation reduced from a drought-induced high of 6.6% in January 2017 to 4.7% in December 2017, as improved rainfalls reduced input pricing for foodstuffs, an important component of our customers' basket. The household content and services sector experienced deflation of 3% to 4% year-on-year.

## Financial performance

Group revenue increased by 12.7% to R3 003.2 million, bolstered by strong growth in Retail sales of 16.8%, as well as a solid contribution from FinChoice, our financial services provider.

EBITDA grew by 14.1% to R800.6 million and headline earnings per share increased by 22.9%.

More information on our financial performance is available in the Finance director's commentary on page 47.

## Regulations

The reduction of the National Credit Regulator's (NCR) maximum prescribed interest rates on credit contracts in May 2016, continued to affect the finance charges earned. The group also continued to be negatively impacted by the affordability assessment regulations introduced by the NCR, in particular the requirement for customers to provide proof of income, which has resulted in additional costs and lost revenue from some customers simply walking away because of the difficulties to conclude credit transactions. We have had a strong focus over the past year to make it easier for customers to submit these documents.

The group's strategy to diversify its financial services income streams beyond interest income has gained good traction this year. Customers have responded well to the rollout of the group's funeral insurance products, providing confidence that we can support the diversification of income through additional insurance and value-added services. Fees from insurance and services increased by 37.6% to R310.9 million.

## Operating context

**Trends expected to revolutionise the retail industry**

- Digital engagement
- Personalisation of customer offers through data-driven insights
- Improving customer experience through a complete understanding of customer journeys

**Competitive threats to circumnavigate**

- Increasing risk from disruptive competitors – low cost start-ups with no or limited short term profit incentive
- Outdated legacy systems, data security and cyberattacks
- Not keeping pace with changing demands of customers

## Corporate citizenship and a sustainable business model

### Transformation

The group is dependent on the skills and dedication of its 1 600 employees to grow successfully. To ensure that we meet their need for a dynamic environment and create a great culture to work within, our focus for the past year has been on developing our employee value proposition.

Our annual employee survey highlighted that staff want more development opportunities. To this end we launched our Siyafunda learnership programme ("We are Learning") for the contact centre. We are thrilled to announce that the group has been awarded Training Provider Accreditation by the Services Seta. We currently have 15 learners on a journey to gain their National Certificate in Contact Centre support and the accreditation will enable us to offer up to 100 learnerships in 2018.

Transformation continues to be a focus for the group. Significant improvements have been achieved across the group in black representation in senior and middle management categories to 27% and 38% respectively (2016: 23% and 33%). Black participation in the Leadership Development programme was 50% and the Siyafunda programme has more than 90% black participation.

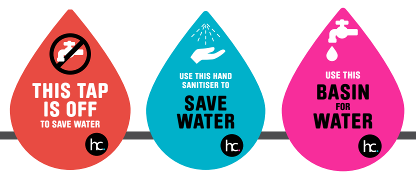
homechoice Development Trust

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

The Trust receives an annual donation of 1% of the group's operating profit and earns a regular dividend income on 600 000 HIL shares donated to the Trust on the group's listing in 2014. We are confident that we have a low-cost, high-impact model that positively affects our customer's children in a way that is meaningful to her. Financial commitments of R4.3 million was provided by the Trust during the year, bringing the total expenditure to over R19 million since 2011, positively impacting the lives of more than 14 000 children under the age of six.

During the year we formally launched our sustainability strategy, adding impetus to the proactive managing of our natural resources that we commenced some years ago. Our centralised business operations means that we are able to manage our water and energy requirements within a smaller footprint.

The work we have previously implemented has positioned the group to successfully steer our operations through the current drought crisis in the Western Cape. The building housing our contact centre operations is off the water grid, using storm water access, pumps and tanks for its daily requirements. Water storage tanks have been installed at the distribution centre in Cape Town, collecting water off the roof. A comprehensive "be a water warrior" staff education programme ensures that staff are aware of what they should be doing in order to keep within the daily target of 50 litres. We have also implemented water-saving devices in our ablutions, introduced biodegradable plates and vegetable gardens to supply the canteens and worm farms to reduce the waste generated. These efforts have shown real success, with both water and power consumption substantially reduced over the past three years.




### Capital expenditure

We are continuing to invest heavily in digitalisation, the customer experience and fulfilment.

Some expenditure planned over the short-term, includes investments in our new warehouse and changes in the delivery network as well as a range of technology, including the commerce engine, fraud prevention tools, data marketing, cloud personalisation and data on offer to the customer, merchandise planning and the replacement of our debtors' engine, among others.

Further capital investments will be made in areas of strategic importance including new product development, systems and platforms to enhance the customer experience and analytics capabilities, and warehousing and logistics infrastructure.

### Outlook

Apart from a more positive business mood, there are growing indications of an emerging, more upbeat consumer climate. There is the expectation that new political leadership will lead to more pragmatic and predictable business with better economic policy options, which should enhance sustainable economic growth and employment prospects, all of which point to modestly improving retailing conditions for the next year.

Both the Retail and Financial Services businesses have continued to experience good demand in the period following year-end.

The group will continue to maintain tight credit policies, with cash collections and cost control remaining management priorities, whilst taking advantage of trading opportunities when they arise.

### Appreciation

The hard work and dedication of our employees have been pivotal in ensuring the successful delivery of our strategic ambitions this year. It is their passion, energy and commitment that ensures that our customers get a great experience and continue to shop with us for generations. We would like to thank you all for the hard work during 2017.

The leadership from Leanne and Sean, the CEOs of Retail and Financial Services and their teams, have enabled us to produce solid results in a challenging operating environment.

We also express our gratitude to all members of the Board for their valuable input and guidance, and to our shareholders for their continued support and faith in the group. Your efforts are helping drive a stronger business that is geared for growth.

*"driving digital transformation*

# Summarised five-year review

| | | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|---|
| **Statements of comprehensive income** | | | | | | |
| Revenue | (Rm) | **3 003.2** | 2 664.2 | 2 233.0 | 1 958.6 | 1 662.0 |
| Retail sales | (Rm) | **1 749.1** | 1 497.6 | 1 197.1 | 1 082.5 | 929.7 |
| Retail gross profit | (Rm) | **895.5** | 738.3 | 607.1 | 539.4 | 457.0 |
| Other operating costs | (Rm) | **(1 409.7)** | (1 267.8) | (1 064.4) | (892.8) | (751.2) |
| Operating profit | (Rm) | **751.9** | 648.2 | 580.4 | 521.5 | 438.3 |
| Profit before taxation | (Rm) | **666.8** | 585.1 | 549.8 | 499.0 | 431.0 |
| **Statements of financial position** | | | | | | |
| Non-current assets | (Rm) | **558.3** | 578.1 | 563.3 | 418.3 | 385.1 |
| Trade and other receivables | (Rm) | **2 660.2** | 2 214.7 | 1 787.3 | 1 504.8 | 1 170.0 |
| Inventories | (Rm) | **256.8** | 213.8 | 170.4 | 166.4 | 144.9 |
| Cash and cash equivalents | (Rm) | **130.3** | 187.2 | 88.3 | 65.0 | 68.0 |
| Other current assets | (Rm) | **4.2** | 4.7 | 4.3 | 12.2 | 0.1 |
| **Total assets** | (Rm) | **3 609.8** | 3 198.5 | 2 613.6 | 2 164.7 | 1 768.0 |
| Total equity | (Rm) | **2 386.5** | 2 030.1 | 1 751.4 | 1 578.3 | 1 285.7 |
| Non-current liabilities | (Rm) | **746.2** | 718.8 | 281.7 | 363.3 | 259.7 |
| Current liabilities | (Rm) | **477.1** | 449.6 | 580.5 | 223.1 | 222.5 |
| **Total equity and liabilities** | (Rm) | **3 609.8** | 3 198.5 | 2 613.6 | 2 164.7 | 1 768.0 |
| **Statements of cash flows** | | | | | | |
| Cash generated from operations | (Rm) | **358.7** | 277.0 | 358.5 | 233.6 | 278.0 |
| Capital expenditure | (Rm) | **56.3** | 46.4 | 187.3 | 56.9 | 161.6 |
| Dividends paid | (Rm) | **175.1** | 158.8 | 228.3 | 66.5 | 94.7 |
| **Returns and margin performance** | | | | | | |
| Gross profit margin | (%) | **51.2** | 49.3 | 50.7 | 49.8 | 49.1 |
| Operating profit margin | (%) | **25.0** | 24.3 | 26.0 | 26.6 | 26.4 |
| EBITDA | (Rm) | **800.6** | 701.4 | 632.2 | 541.8 | 450.1 |
| EBITDA margin | (%) | **26.7** | 26.3 | 28.3 | 27.7 | 27.1 |
| Return on equity | (%) | **23.5** | 22.5 | 23.7 | 24.8 | 26.3 |
| Net debt:equity ratio | (%) | **28.1** | 28.7 | 26.2 | 14.8 | 14.8 |
| Net asset value per share | (cents) | **2 291.0** | 1 972.7 | 1 719.3 | 1 559.8 | 1 275.8 |
| **Share performance** | | | | | | |
| Headline earnings per share | (cents) | **509.4** | 414.6 | 389.1 | 352.8 | 306.9 |
| Dividends declared/paid | (cents) | **191.0** | 158.0 | 148.0 | 161.0 | 110.0 |
| Dividend cover | (times) | **2.6** | 2.6 | 2.6 | 2.2 | 2.8 |
| Weighted shares in issue, net of treasury shares | ('000) | **103.6** | 102.4 | 101.5 | 100.8 | 100.8 |





# Finance director's commentary

## Performance review and targets

| | | Medium-term targets | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|---|---|
| Revenue | (Rm) | | **3 003.2** | 2 664.2 | 2 232.9 | 1 958.6 | 1 662.0 |
| Growth in revenue | (%) | | **12.7** | 19.3 | 14.0 | 17.8 | 15.9 |
| Retail sales | (Rm) | | **1 749.1** | 1 497.6 | 1 197.1 | 1 082.5 | 929.7 |
| Growth in retail sales | (%) | | **16.8** | 25.1 | 10.6 | 16.4 | 10.5 |
| Gross profit margin | (%) | 48 – 52 | **51.2** | 49.3 | 50.7 | 49.8 | 49.1 |
| Operating profit | (Rm) | | **751.9** | 648.1 | 580.4 | 521.5 | 438.3 |
| Growth in operating profit | (%) | | **16.0** | 11.7 | 11.3 | 19.0 | 8.8 |
| Operating profit margin | (%) | 22 – 27 | **25.0** | 24.3 | 26.0 | 26.6 | 26.4 |
| EBITDA | (Rm) | | **800.6** | 701.4 | 632.2 | 541.8 | 450.1 |
| Growth in EBITDA | (%) | | **14.1** | 11.0 | 17.0 | 20.3 | 9.1 |
| Cash generated by operations | (Rm) | | **358.7** | 277.0 | 358.5 | 233.6 | 278.0 |
| HEPS | (cents) | | **509.4** | 414.6 | 389.1 | 352.8 | 306.9 |
| Growth in HEPS | (%) | | **22.9** | 6.6 | 10.3 | 15.0 | 8.8 |
| Dividend cover | (times) | 2.2 – 2.8 | **2.6** | 2.6 | 2.6 | 2.2 | 2.8 |
| Net debt to equity | (%) | <40 | **28.1** | 28.7 | 26.2 | 14.8 | 14.8 |
| Return on equity | (%) | 22 – 27 | **23.5** | 22.5 | 23.7 | 24.8 | 26.3 |

## 2017 performance

In a challenging retail and credit market, the group delivered a strong financial performance for 2017.

Group revenue increased by 12.7% to R3.0 billion, with above market Retail sales growth and strong Financial Services loans disbursements. Operating profit was up 16.0%, with positive gross margin and expense leverage, to R751.9 million.

Headline earnings per share (HEPS) grew by 22.9% to 509.4 cents. The final dividend has been increased by 25.2% to 109.0 cents, bringing the total dividend for the year to 191.0 cents per share.

## Financial commentary

The financial commentary on the performance for the twelve months ended 31 December 2017 should be read in conjunction with the annual financial statements available on the group's website, www.homechoiceinternational.com

The complete summarised financial statements are available on the website and extracts have been included in the relevant sections of the commentary.

PAUL BURNETT

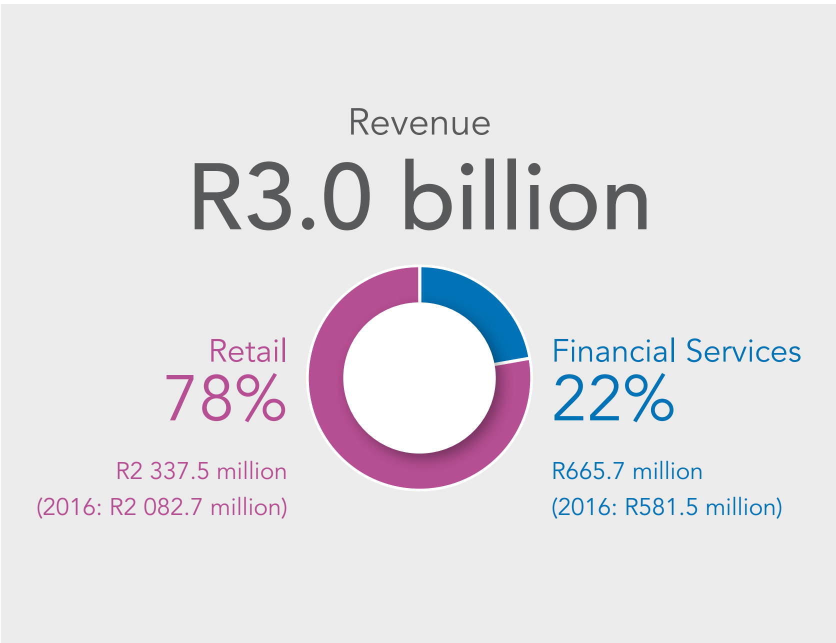
## Statement of comprehensive income

| | | 2017 Rm | % change | 2016 Rm |
|---|---|---|---|---|
| **Revenue** | | **3 003.2** | 12.7 | 2 664.2 |
| Retail sales | | **1 749.1** | 16.8 | 1 497.6 |
| Finance charges and initiation fees earned | | **943.1** | | 940.6 |
| Finance charges earned | | **647.2** | (3.7) | 672.1 |
| Initiation fees earned | | **295.9** | 10.2 | 268.5 |
| Fees from ancillary services | | **311.0** | 37.6 | 226.0 |
| Cost of retail sales | | **(853.6)** | 12.4 | (759.3) |
| Gross profit | | **895.5** | 21.3 | 738.3 |
| **Other operating costs** | | **(1 409.7)** | | (1 267.8) |
| Debtor costs | | **(503.6)** | 5.3 | (478.1) |
| Other trading expenses | | **(906.1)** | 14.7 | (789.7) |
| Other net gains and losses | | **0.8** | | 7.5 |
| Other income | | **11.2** | | 3.5 |
| **Operating profit** | | **751.9** | 16.0 | 648.1 |
| Interest received | | **6.5** | 91.2 | 3.4 |
| Interest paid | | **(82.8)** | 27.8 | (64.8) |
| Share of loss of associates | | **(8.8)** | | (1.6) |
| **Profit before taxation** | | **666.8** | 14.0 | 585.1 |
| Taxation | | **(147.1)** | (8.2) | (160.3) |
| **Profit and total comprehensive income for the year** | | **519.7** | 22.3 | 424.8 |
| **Earnings per share (cents)** | | | | |
| Basic | | **501.9** | 21.0 | 414.8 |
| Diluted | | **496.7** | 21.0 | 410.5 |
| Retail gross profit margin | (%) | **51.2** | | 49.3 |

### Revenue

Revenue for the group increased by 12.7%, with a five-year compound annual growth rate (CAGR) of 15.9%. The mix of revenue between the two divisions, Retail and Financial Services, has been maintained at 22%.

The affordability assessment regulations introduced by the National Credit Regulator has adversely impacted revenue, increased operating costs and required continual investment in systems.








### Retail sales

Retail sales grew 16.8%, with pleasing growth driven by continued product innovation in the core categories of homewares and hard goods. Customer response to the external branded home appliances, electronics and footwear combined with the introduction of additional brands, has resulted in an increased contribution to 12.4% (2016: 5.5%).

### Finance charges and initiation fees earned

Finance charges earned were 3.7% down on 2016. The group has not yet fully annualised the NCR reduction in the maximum prescribed interest rates on credit contracts (introduced in May 2016) and the strategic introduction of the lower interest-earning Retail credit facility account in April 2016. Finance charges earned in the second half were up 5.5% on the comparable period for 2016.

Loan disbursements in Financial Services were relatively subdued in the first six months at 12.3% growth. Disbursements for the second six months were up 22.0%, resulting in an increase of 17.5% to R1 467.6 million. Customers took advantage of rebasing their loans at the lower interest rates, with reload activity up 19.5%. The average loan account balance is R10 444, up 4.7% (2016: R9 972).

Initiation fees earned increased by 10.2% to R295.9 million (2016: R268.5 million), with a higher proportion of reloans in Financial Services mitigating the lower fees earned from the Retail credit facility account.

### Fees from ancillary services

The group continues to diversify towards being less reliant on interest earned from credit agreements, increasing other forms of revenue. Fees from ancillary services increased by 37.6% to R311.0 million (2016: R226.0 million) and now represents 10% of total revenue earned, up from 8% in 2016.

Ancillary services' fees include all insurance income from credit life and product-protection insurance, stand-alone personal insurance products as well as service fees charged to manage credit facility accounts.

### Other trading expenses

There has been a strong focus on cost management across the group.

The increase in trading expenses at 14.7% is marginally above the revenue growth of 12.7% as the group invests in resources to drive the digital transformation and customer experience strategies. The affordability regulations have required additional processes and system compliance costs to be incurred by the group.

### Interest paid

A 27.8% increase in interest paid of R82.8 million is due to the higher borrowings on the long-term facility funding.

### Profit for the year

Group profit before taxation for the year is R666.8 million, 14.0% up on 2016.

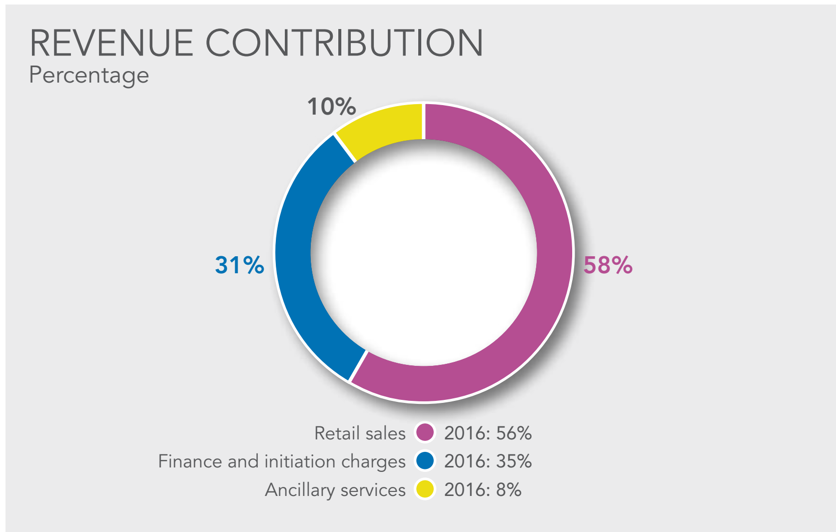
The effective tax rate has decreased from 27.4% to 22.1% in line with the increase in the revenue and operating profit earned from the Mauritian-based Financial Services operations.

Group operating profit margin at 25.0% (2016: 24.3%) is in line with the medium-term target of 25% to 30%.

### Gross profit

Gross profit margin at 51.2% for the twelve months ended December 2017 showed an improvement from the first half of 49.4% and an increase of 190 basis points from 49.3% in 2016.

The Retail division has managed the overall net margins in light of the increased external branded product offering, investing the benefits from unplanned exchange rate gains into distribution and logistics.



## Balance sheet

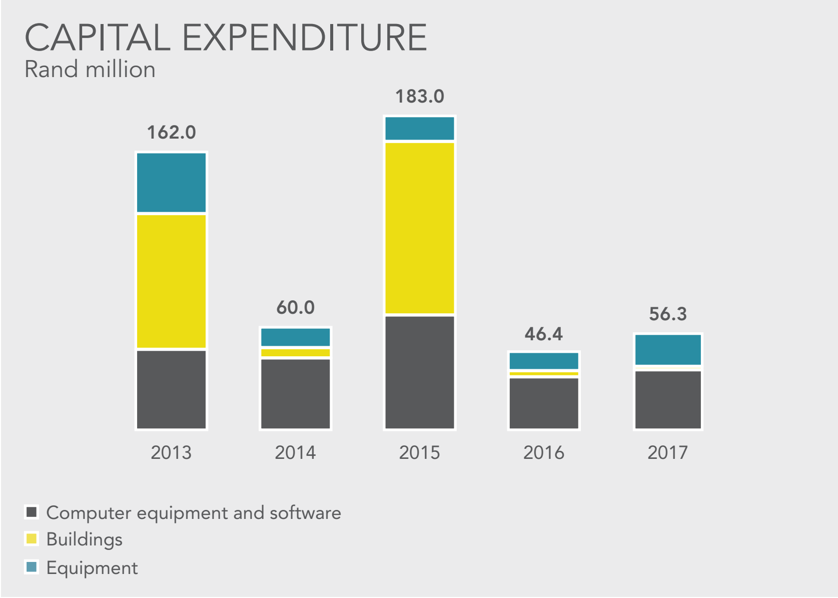
| | 2017 Rm | % change | 2016 Rm |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 428.6 | 0.6 | 425.9 |
| Intangible assets | 85.6 | (4.6) | 89.7 |
| Investment in associates and other | 43.7 | | 24.3 |
| Deferred taxation | 0.4 | | 38.2 |
| | 558.3 | (3.4) | 578.1 |
| **Current assets** | | | |
| Inventories | 256.8 | 20.1 | 213.8 |
| Taxation receivable | 4.2 | | 4.7 |
| Trade and other receivables | 2 660.2 | 20.1 | 2 214.7 |
| Trade receivables – Retail | 1 482.4 | 21.3 | 1 221.7 |
| Loans receivable – Financial Services | 1 162.8 | 19.9 | 969.5 |
| Other receivables | 15.0 | (36.2) | 23.5 |
| Cash and cash equivalents | 130.3 | | 187.2 |
| | 3 051.5 | 16.5 | 2 620.4 |
| **Total assets** | 3 609.8 | 12.9 | 3 198.5 |
| **Non-current liabilities** | | | |
| Interest-bearing liabilities | 616.0 | 6.4 | 579.1 |
| Deferred taxation | 124.6 | | 134.8 |
| Other payables | 5.6 | | 4.9 |
| | 746.2 | 3.8 | 718.8 |
| **Current liabilities** | | | |
| Interest-bearing liabilities | 165.6 | >100.0 | 31.5 |
| Taxation payable | 8.4 | | 11.8 |
| Trade and other payables | 241.2 | 12.4 | 214.5 |
| Provisions | 38.0 | | 31.7 |
| Derivative financial instruments | 5.1 | | – |
| Bank overdraft | 18.8 | | – |
| Shareholder loan | – | | 160.1 |
| | 477.1 | 6.1 | 449.6 |
| **Total liabilities** | 1 223.3 | 4.7 | 1 168.4 |
| **Total equity and liabilities** | 3 609.8 | 12.9 | 3 198.5 |

### Property, plant and equipment

Capital expenditure, at R56.3 million, is in line with 2016 levels, after a five-year programme of significant infrastructure investments.

R30.0 million, 54% of total capital expenditure, was allocated to the investment in information technology systems and infrastructure to support digital transformation. An initial investment made in the Gauteng distribution centre will require further investment in 2018 to fully develop the distribution network capabilities required for the group's growth prospects.

*"54% of capital expenditure was allocated to digital transformation*




### Inventories

Stock has increased by 20.1% to R256.8 million, marginally above the full-year Retail sales growth.

In response to customer demand, additional investment was made in stock at year-end to support the sales in the first quarter of 2018. The provision for stock obsolescence has reduced by 20% as a result of the higher than normal clearance activities during the year.

### Trade and other receivables

Group trade and other receivables increased by 20.1% to R2 660.2 million (2016: R2 214.7 million).

The growth in debtors' books is driven by the 7% growth in the group's customer base. The average term on the year-end Financial Services book decreased to 20.4 months (2016: 20.8 months) and the Retail book decreased to 18.7 months (2016: 19.0 months).

### Interest-bearing liabilities

Interest-bearing liabilities increased by 1.4% to R781.6 million (2016: R770.7 million).

During the year the group entered into an R800 million commercial term loan facility for the purpose of settling the previous R350 million commercial term loan facility, repaying the R160 million short-term shareholder loan and creating additional capacity for the medium-term growth of the group.

As at 31 December 2017 the group had drawn down R550 million.

The net debt to equity ratio of 28.1% is well within the target range of <40%.

## Debtor costs

| | | 2017 | 2016 | % change |
|---|---|---|---|---|
| **Group** | | | | |
| Gross trade and loans receivable | (Rm) | **3 157.7** | 2 654.6 | 19.0 |
| Debtor costs as a % of revenue* | (%) | **16.8** | 17.9 | |
| **Retail** | | | | |
| Gross trade and loans receivable | (Rm) | **1 806.1** | 1 507.3 | 19.8 |
| Debtor costs as a % of revenue | (%) | **14.9** | 15.1 | |
| Provision for impairment as a % of gross receivables | (%) | **17.9** | 18.9 | |
| Non-performing loans (NPLs) (>120 days) | (%) | **9.9** | 10.3** | |
| NPL cover | (times) | **1.8** | 1.8** | |
| **Financial Services** | | | | |
| Gross trade and loans receivable | (Rm) | **1 351.7** | 1 147.3 | 17.8 |
| Debtor costs as a % of revenue | (%) | **23.2** | 28.0 | |
| Provision for impairment as a % of gross receivables | (%) | **14.0** | 15.5 | |
| Non-performing loans (NPLs) (>120 days) | (%) | **4.2** | 4.7 | |
| NPL cover | (times) | **3.3** | 3.3 | |

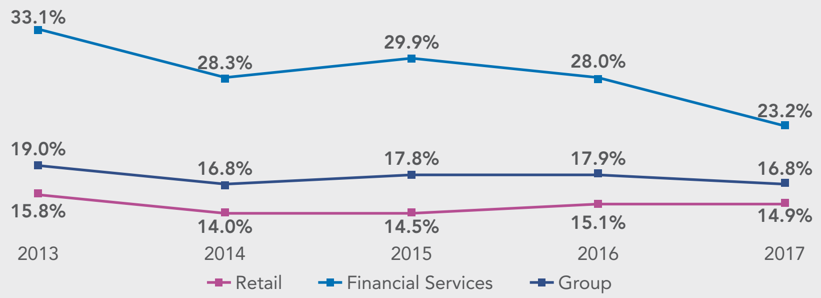
* *Debtor costs include bad debts written off net of recoveries, as well as movements in provisions.*
** *Restated.*

Group debtor costs increased by 5.3% to R503.6 million (2016: R478.1 million), well below the group's revenue growth of 12.7%. Debtor costs as a percentage of revenue has decreased by 110 basis points to 16.8% (2016: 17.9%).

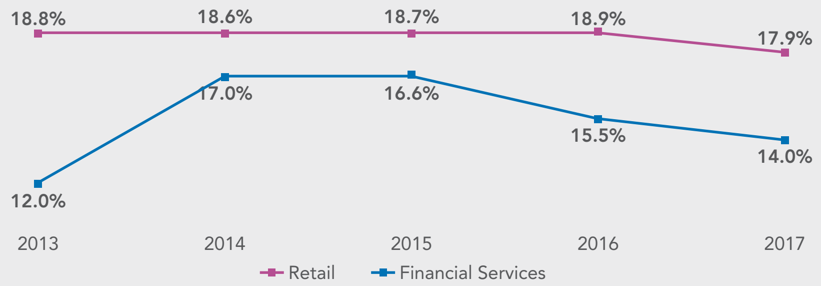
The vintages in both businesses show improving trends for 2017 and the improved credit risk performance has resulted in a reduction in the provisions.

The percentage of non-performing loans (loans in arrears after 120 days) has improved with conservative covers in both loan books maintained from 2016.

DEBTOR COSTS AS A PERCENTAGE OF REVENUE
Percentage




PROVISION FOR IMPAIRMENT AS A PERCENTAGE OF GROSS RECEIVABLES
Percentage






## Cash management

Cash management and collections of the debtors' book is a key focus of the group.

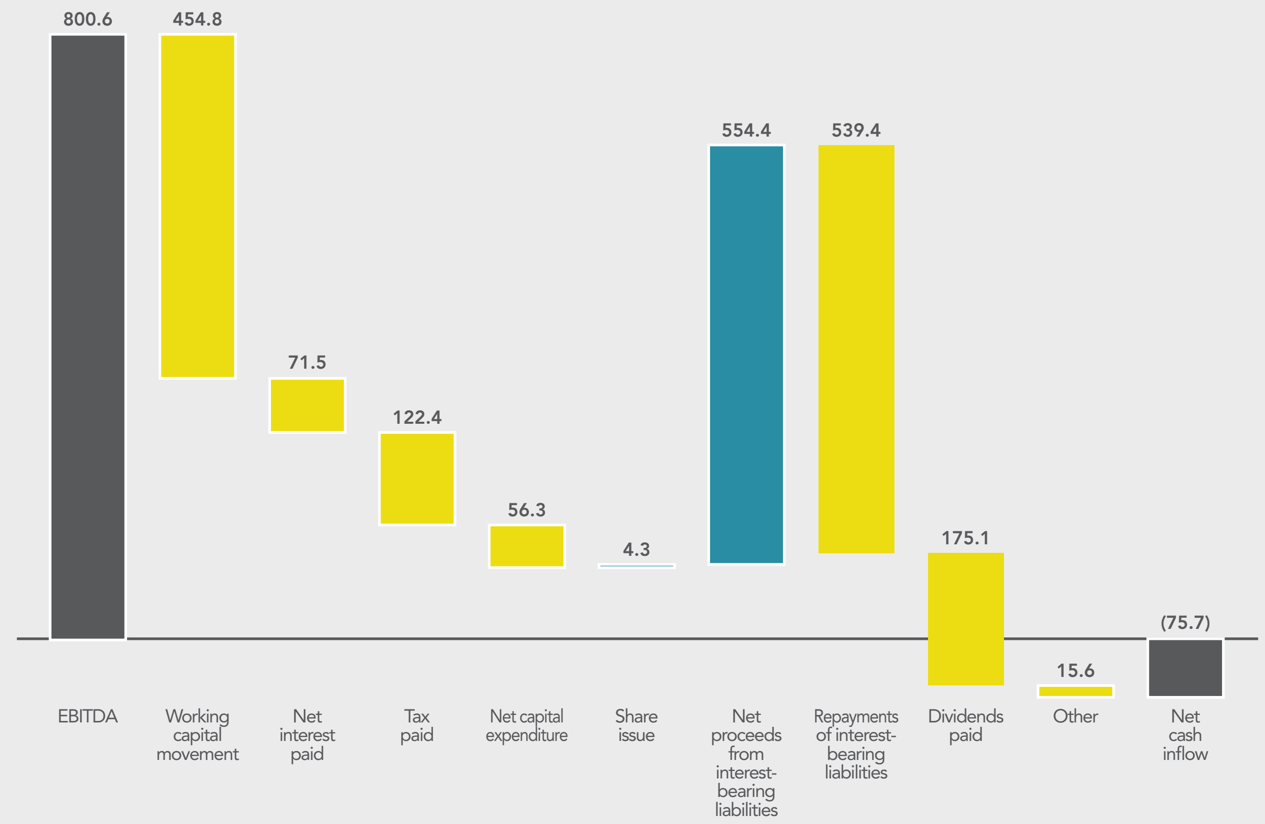
Cash and cash equivalents decreased to R130.3 million (2016: R187.2 million) at year-end.

Cash generated from operations at R358.7 million showed good growth of 29.5% on 2016. The investments made in the debtor collections team and changes to their processes have delivered good results, with more than R3.8 billion collected during the year. The growth in the debtors' book reflects good cash collections and the shortening terms.

Cash conversion (cash generated from operations expressed as a percentage of EBITDA) increased to 44.8% (2016: 39.5%).

An analysis of the cash utilisation is provided in the graph below.

ANALYSIS OF GROUP CASH FLOWS
Rand million




## Dividends

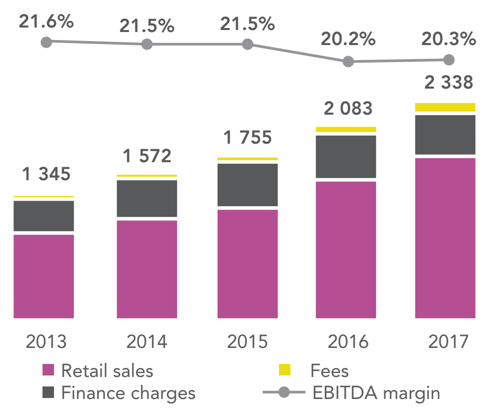
During 2017 dividends of R175.1 million were paid, representing the final dividend of 2016 of 87.0 cents per share and the half-year dividend for 2017 of 82.0 cents per share.

The dividend cover has remained at 2.6 times, within our target of 2.2 – 2.8.

# Q&A with the Retail chief executive officer

*"challenging ourselves to think mobi-first and a continuous drive for innovation throughout the business has delivered strong results*

## RETAIL REVENUE
Rand million




### How has the Retail business performed during the year?

I am very pleased with the performance. We achieved a top-line sales growth of 16.8% to R1.7 billion, driven by strong product innovation, and made great progress with our digital transformation.

### External brands now comprise 12% of the Retail business. Do you see this continuing to grow?

Yes we do. The success of our external brands has been driven by demand from our customers. Our aim is to become a digital department store, where we curate brands that appeal to our customer target market and which support and enhance our HomeChoice core textiles and hard goods ranges.

We currently have more than 60 brands available and expect to broaden this further in 2018. Our strategy is to select external brands to complement and extend our range of HomeChoice-branded goods.

Our omni-channel business model makes shopping for external brands convenient, and together with affordable credit, has driven strong response. Our dedicated home delivery network enables customers to get otherwise bulky purchases delivered direct to her home.

**LEANNE BUCKHAM**

### A sales growth of 16.8% in a challenging retail market is excellent. What drove this?

Product innovation is at the heart of our business and critical to provide newness and excitement for our customers.

We continue to achieve strong growth in our core textiles business, with customers loving the more contemporary bedding offerings. Our innovative multiple bedding options with one purchase, provides customers with outstanding value and great quality. Range extension has also given us good growth, the expansion of external brands delivered a 159% increase in branded product sales.

We acquired 243 000 new customers, attracted to our innovative homewares range. Our use of television as a customer acquisition channel continues to show good results. Television enables us to reach a wider audience and is cost-effective.

Importantly, our facility credit offer makes it simple and quick to shop on credit.

### What has driven your success with the 48% growth in digital channels, now contributing 15.4% of sales?

We have been driving digital transformation with a single-minded focus this year. Digitalisation is a win-win for both our customers and the business.

The introduction of USSD technology has provided greater opportunity for those customers without smartphones to shop over her phone. We continue to see strong engagement on our feature-rich mobi platform.

Digital provides convenience for our customers, being able to order anywhere, anytime and provides access to our complete product range. It also allows us to test and trial products without the restrictions of print size and deadlines of a catalogue. Targeted e-mail campaigns and regular communication about product newness have also stimulated customer demand. Customers have responded positively to exclusive web-only products.

### Achieving a 51.2% gross margin in a year with a fluctuating exchange rates is a good result.

Yes. Our underlying product margin has been maintained and we have actively managed the net margin on external brands to ensure that we do not have margin degradation with a higher-branded product contribution.

Our policy is not to hedge currency. We managed to take advantage of the exchange rates when it showed improvements. This was invested in improving our customer experience, particularly the delivery.

### Debtor costs as a percentage of revenue have reduced to 14.9% (2016: 15.1%). What were the key drivers?

A strengthened credit risk management team and new processes have brought new focus on credit metrics with improved results.

New scorecards, the use of additional bureau data, fraud prevention tools and improved vetting for the television campaigns have allowed us to more effectively manage the granting of credit to potential customers.

Upskilling and training of the collections teams, combined with improvements in internal and external collections processes, resulted in R1.9 billion of cash collections in the year.

The vintages have improved and resulted in the provision for impairment of trade receivables being reduced to 17.9% (2016: 18.9%) whilst still maintaining a conservative NPL cover at 1.8 times.

## How do you intend to support your future growth?

We believe that that our logistics and distribution network is uniquely positioned to deliver to our target market and is a distinctive competitive advantage. It enables a single-item pick and supports more than 600 000 deliveries directly to customer's homes, as well as other collection points convenient to her.

At the end of the year we made an initial investment in a distribution centre in Gauteng to support our main distribution centre in Cape Town. Warehouse processes will be re-engineered and our delivery partners will be managed to further reduce delivery times and improve customer convenience. We will use technology to make sure that customers are kept informed as to where their deliveries are in the process.

## Have you expanded your physical footprint?

Not in 2017. It is important for us to find the right sites for our Retail showrooms. They are key to expose the brand to more customers. We have spent 2017 building a property pipeline for future showroom openings where we get maximum brand exposure.

We will launch in Maponya Mall, Soweto in April 2018 and a flagship in central Johannesburg in fourth quarter 2018. We expect to finalise the opening of a further two showrooms.

Retail showrooms support the click and collect function providing another option for customers to receive her goods.

## What are your key focus areas for 2018?

- Driving a mobi mindset throughout the business
- Transforming our legacy systems, with all future systems built in service layers and agile technology
- Enhancing customers' experience with the brand with particular focus on customer service and delivery experience
- Fully operationalise the Gauteng DC to reduce delivery time and costs
- Driving innovation in all aspects of the business
- Data-insights led customer growth
- Building the future credit offer to provide more affordable, flexible and convenient credit products

## How are you driving digital transformation across the business?

We are challenging ourselves to use technology as a real enabler of business growth and not merely a tool to do things quicker.

From a customer perspective, the investment in a new e-commerce engine will significantly change our digital capabilities. Social media engagement and marketing will encourage and drive customers to visit our digital platforms, with SMS, WhatsApp and e-mail being convenient and simple ways in which we can keep a customer informed on her purchase.

Our digital transformation is also an internal employee focus. We will aggressively roll out e-learning in response to our employees' request for additional opportunities for learning and development.

## HACKATHON

### The challenge

Create a digital solution to capture staff orders replacing the manual order process. You and your team have 24 hours to build a working solution.

### Who can participate

Any IT developer or anybody who thinks they have what it takes to up the challenge. Find five colleagues and form a team for the challenge

### Judging criteria

Innovation and creativity, Feasibility and adaptability, Alignment to new IT architecture

### The result

All nine teams did great work in the limited time they had. The final three teams had fully working solutions that could be implemented with little additional work.

The eventual winners, "The I in Team", took the inaugural title by one vote.

*"For me it's more about the Customer experience, user-friendliness and then the administration side. "The I in Team" nailed it and understood what was needed in order to make this platform work."*

## RETAIL PERFORMANCE FOR 2017 AND OPERATIONAL PLANS FOR 2018

### Enhance the customer experience

| 2017 plans and focus areas | Targets met | 2017 achievements |
|---|---|---|
| • Develop customer experience strategy and structure to support it | ✓ | • Strategy defined with appropriate structure |
| • Define customer service metrics and targets | ✓ | • Metrics defined |
| • Migration from marketing focus to customer experience focus | ✓ | • Conversion to e-statements |
| • Focus on driving digitisation in service | ✗ | |

**Plans for 2018**

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

### Innovative product and credit offers

| 2017 plans and focus areas | Targets met | 2017 achievements |
|---|---|---|
| • Drive continued growth in bedding | ✓ | • Retail sales up 16.8% |
| • Increase range of external brands | ✓ | • Brands contribution of 12% (2016: 5%) |
| • Expand click and collect and maintain home delivery/SAPO mix | ✓ | • Debtor costs as a % of revenue decreased to 14.9% |
| • Upskill to support the transition to digital expansion | ✓ | • Provision for impairment decreased to 17.9% |
| • Redevelop and build new scorecards | ✓ | |
| • Develop and implement new credit models | ✓ | |
| • Drive improvements in cash yield | ✗ | |
| • Introduce additional credit bureaus | ✓ | |
| • Collections strategy refocus and drive Naedo penetration | ✓ | |

**Plans for 2018**

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

### Insight-led customer growth

| 2017 plans and focus areas | Targets met | 2017 achievements |
|---|---|---|
| • Increase digital focus for new customer acquisition | ✓ | • Television delivered 31% of new customers |
| • Introduce on-boarding for customers | ✗ | • Launched response frequency modelling segmentation for existing customers |
| • Develop customer centricity through segmentation | ✓ | |

**Plans for 2018**

- Television to drive customer acquisition
- Drive digital acquisition e-mailers and new commerce engine
- Enhance in-house data analytics capabilities and personalisation
- Implement segmentation strategy

### Mobi-first engagement and sales

| 2017 plans and focus areas | Targets met | 2017 achievements |
|---|---|---|
| • Digital marketing focus and efficiency improvement | ✓ | • Digital Retail sales up 48% |
| • Expand digital only product offering | ✓ | • Digital sales contribution increased to 15.4% |
| • Evaluate and plan for future e-commerce platform | ✓ | • E-commerce platform launched in 2018 |
| | | • Sales conversion from social media engagement |

**Plans for 2018**

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

### Diversify into new markets and services

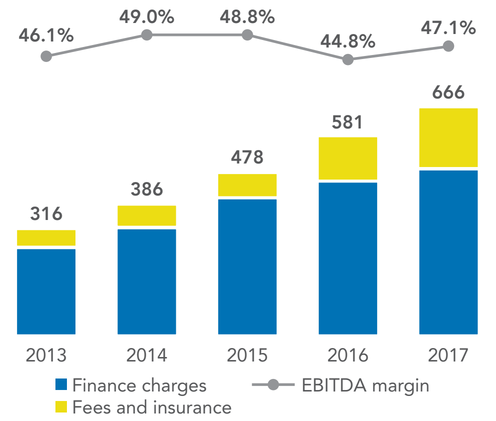
| 2017 plans and focus areas | Targets met | 2017 achievements |
|---|---|---|
| • Further roll-out of showrooms | ✗ | • Two sites identified for launch in 2018 |
| • Increase sales contribution in neighbouring African countries with digital focus | ✗ | • Higher growth in South Africa prioritised over Africa expansion |
| • Introduce insurance products to Retail customers | ✗ | • Insurance products to be launched in 2018 |

**Plans for 2018**

- Open four new showrooms
- Expand click and collect delivery options
- Expand sales agents network in Namibia and Botswana
- Introduce insurance products

# Q&A with the Financial Services chief executive officer

FINANCIAL SERVICES REVENUE
Rand million




*"the launch of MobiMoney™ will accelerate our fintech digital platform*

## How has the Financial Services business performed this year?

I am pleased to say we have had a solid year.

We grew loan disbursements by 17.5% to R1.5 billion, while actively managing our average disbursement term down to 14.4 months from 15.5 last year. We also saw robust growth from our new insurance products – exciting to see our income diversification strategy playing out in our customer base. Revenue was up 14.5% to R665.7 million and converted to a 20.4% increase in EBITDA of R313.8 million, after a strong credit performance and improvements in our operational costs due to digitalisation.

We acquired 41 000 new customers in 2017 and increased our customer base to 158 000, an 11.2% increase.

The strong credit performance and tighter management of the term mix resulted in an improvement in our book yield and cash collections of R1.9 billion off our gross book of R1.4 billion.

**SEAN WIBBERLEY**

## Product innovation really drives the business. Can you tell us about the launch of your new MobiMoney™ product?

I am really excited about this new product. MobiMoney™ is an innovative credit facility product designed exclusively for our customers' mobile phones. We have effectively enabled a credit card on her phone.

The initial launch has been well received and the product will be scaled more aggressively in 2018. This provides us with a platform on which to build mobi-wallet functionality in future enhancements.

The design and approach we've taken to building this product has really started to change our positioning from being a direct marketer of personal loans into being a fintech business, where all our lending, insurance and value-added products and services are digitally accessible in a convenient portal for her, 24/7.

## Debtor costs as a percentage of revenue were down to 23.2% (2016: 28.0%), a strong credit performance. What were the key drivers to achieve this good result?

The Financial Services business has always enjoyed unique access to the Retail database of credit-proven and responsive customers, leading to consistent and good credit performance of our lending products. In 2017 we continued to refine our credit extension criteria and scorecards, leading to generally better intake quality.

The group launched a new debt collections agency, allowing the ability to levy arrears charges to delinquent customers. Coupled with a strong focus on collection strategies, these charges have had a positive effect on delinquent payment behaviour, translating into better roll rates and payment profiles.

We continued to leverage our credit expertise and platforms with our controlled expansion to external sources of names, where we acquired 6 000 new customers (amounting to 15% of total new customers and 8% of new disbursements). We are able to apply higher risk cut-offs for these external customers as they supplement our primary source of names from the Retail customer database.

The quality of the debtors' book has improved, as seen in the NPLs, which has enabled a reduction in the debtor provision to 14.0% from 15.5%. We have maintained our very conservative provision-to-NPL coverage ratio at 3.3 times (2016: 3.3 times).

## Can you elaborate on your insurance business?

Launching a personal insurance business was a natural extension of our financial services product offering and a key part of our income diversification strategy. In 2016 we established the infrastructure and processes to manage the business and tested some funeral insurance products.

This year we marketed the products more aggressively, with more than 25 000 policies issued. We kept our focus narrow on just two products – personal funeral and family funeral, while bedding down our sales channels. The contact centre drove the majority of sales and we are still learning how to optimise the digital channels to convert customers from the traditionally "push"-based contact centre sale to the more "pull"-based digital self-service sale.

## 51% of your active customer base is now registered for your mobi site platform. What benefits does this drive?

We have been a digital financial provider to our customers since 2011 when we launched KwikServe®, the USSD platform used by more than 80% of our customers. The mobi site platform offers customers a richer smartphone experience with more functionality.

By registering for mobi, we have empowered customers with 24/7 access to manage their accounts on their phones. Mobi enables self-service sales and customer query resolution and we have seen big shifts in customers choosing to self-serve rather than use our contact centre.

The mobi site now offers a complete end-to-end origination of a customer's first loan. Customers have the ability to apply for a loan, upload their documentation and have it approved, with no interaction with the contact centre. In 2017, 16% of all first-time loans were concluded by self-service.

A third of mobi customers use the site outside of normal working hours – a real convenience for our busy customers.

## Your intent was to extend the loans business into Namibia and Botswana. Have you managed to achieve this?

Doing business in new regions always takes longer than anticipated, adapting to in-country regulations and ensuring that systems and processes are able to handle the local conditions.

The FinChoice Africa team built the systems infrastructure for Botswana and Namibia during 2017 and focused on completing Botswana for the first pilot loans. We successfully commenced selling the first Botswana loans to existing Retail customers in February 2018, and we expect to do the same in Namibia in 2018 and steadily scale the operations in both countries.

## How are you managing customer experience?

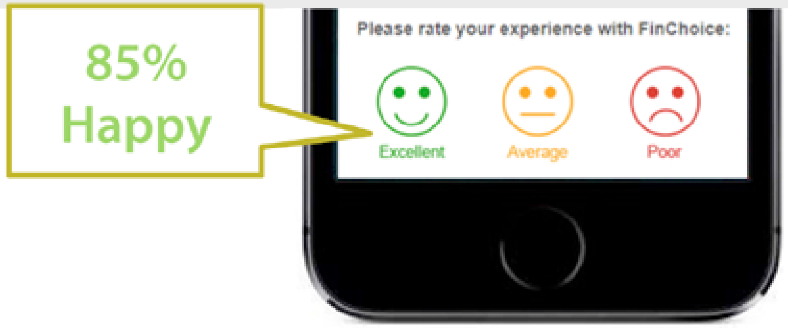
Customer experience is at the core of our group strategy. With more and more of our customer interactions moving to our digital platforms, we have been careful to monitor her engagement and satisfaction levels.

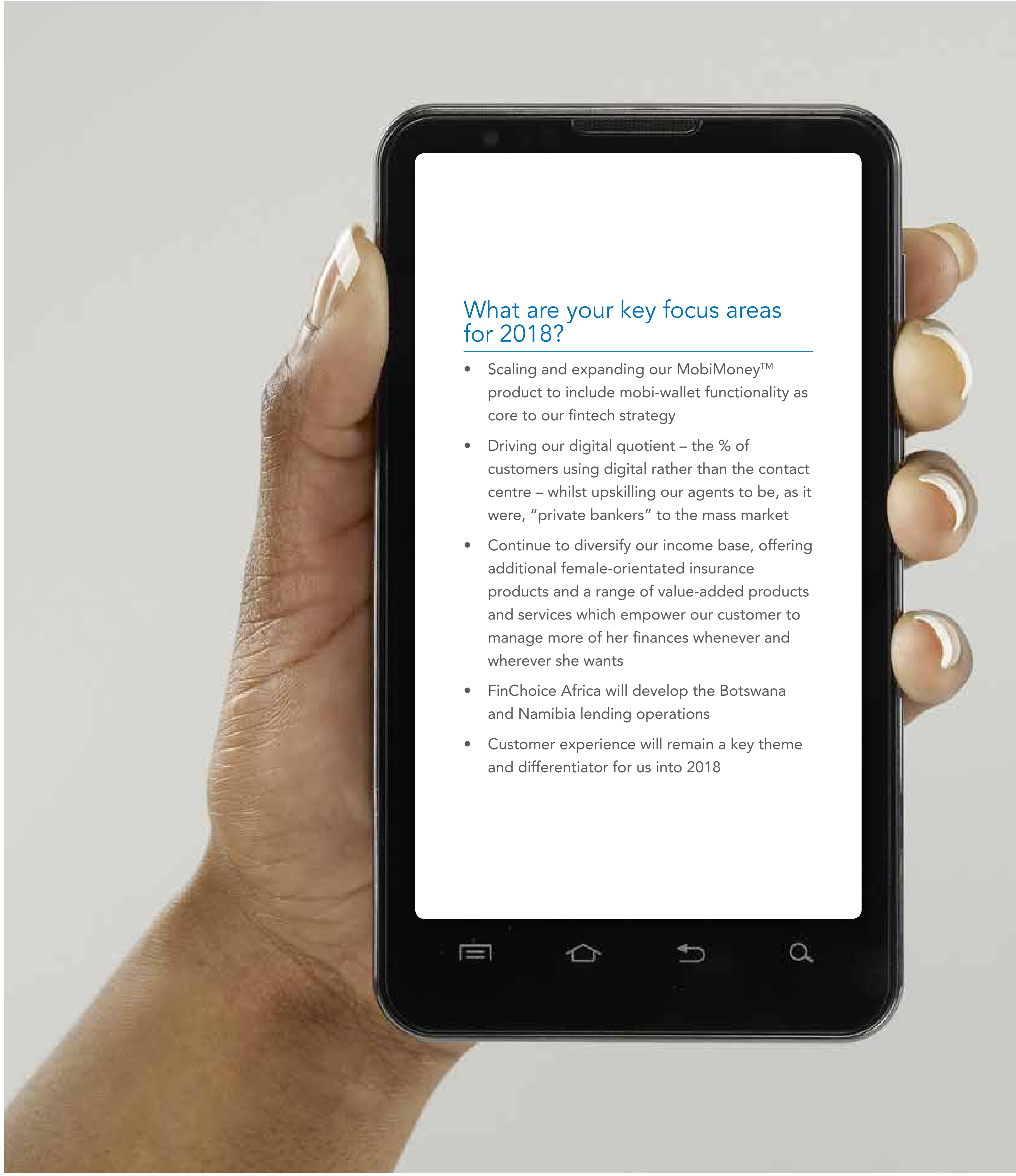
Each step in the customer's digital journey generates data which is tracked, reported and analysed. Cross-functional teams work together to streamline and optimise her experience.

For example, in the newly developed loan origination journey on mobi, we track our customer's experience in the moment by requesting her feedback with "smiley faces."

We continue to track key customer experience metrics and satisfaction scores in our contact centre. We also strongly believe that customers must continue to have ready access to our consultants – the human touch plays a significant role in supporting her digital relationship with us.

Our mobi strategy supports the migration in the contact centre towards dealing with more complex customer service queries.



## What are your key focus areas for 2018?

- Scaling and expanding our MobiMoney™ product to include mobi-wallet functionality as core to our fintech strategy
- Driving our digital quotient – the % of customers using digital rather than the contact centre – whilst upskilling our agents to be, as it were, "private bankers" to the mass market
- Continue to diversify our income base, offering additional female-orientated insurance products and a range of value-added products and services which empower our customer to manage more of her finances whenever and wherever she wants
- FinChoice Africa will develop the Botswana and Namibia lending operations
- Customer experience will remain a key theme and differentiator for us into 2018

## FINANCIAL SERVICES PERFORMANCE FOR 2017 AND OPERATIONAL PLANS FOR 2018

### Enhance the customer experience

| 2017 plans and focus areas | Targets met | 2017 achievements |
|---|---|---|
| • Develop customer experience strategy | ✓ | • Customer experience monitored on digital platforms<br>• Additional self-services functionality provided to mobi platform |
| • Define and optimise the key customer service journeys | ✓ | |
| • Improve internal contact centre and back-office processes | ✓ | |
| • Shift more customer interactions to digital platforms to enhance 24/7 self-service experience | ✓ | |

**Plans for 2018**

- Structure teams to optimise cross-functional collaboration on customer journeys
- Implement real-time contact centre responsiveness to customer digital journeys
- Balance digital self-service with human interactions

### Innovative product and credit offers

| 2017 plans and focus areas | Targets met | 2017 achievements |
|---|---|---|
| • Improve loan disbursement growth | ✓ | • Loans disbursements growth of 17.5% to R1.5 billion<br>• Launched MobiMoney™, digital-only credit facility product<br>• Debtor costs as a % of revenue decreased to 23.2% (2016: 28.0%)<br>• Provision for impairment decreased to 14.0% (2016: 15.5%)<br>• Cash collections of R1.9 billion, 19% on 2016 |
| • Introduce new credit product innovation | ✓ | |
| • Launch additional income stream from arrears collections charges | ✓ | |
| • Maintain stable debtor costs and impairment provisions | ✓ | |
| • Develop new provisions and recoveries model | ✓ | |
| • Drive improvement in collections and legal recoveries | ✓ | |
| • Automate credit limit strategies | ✓ | |
| • Drive improvement in cash yield from book | ✓ | |

**Plans for 2018**

- Scale new MobiMoney™ facility product
- Develop and grow fee income from additional value-added financial services
- Maintain focus on shorter terms
- Drive further improvement in cash yield from book

### Insight-led customer growth

| 2017 plans and focus areas | Targets met | 2017 achievements |
|---|---|---|
| • Drive growth in new customer acquisition | ✓ | • New customers up 17% to 41 000<br>• Customer base growth of 11.2% to 158 000<br>• Repeat loan mix of 79.1%<br>• 6 000 external customers acquired (2016: 4 600), 15% of total<br>• Rebranding deferred to 2018 |
| • Maintain repeat loan mix >70% | ✓ | |
| • Continue controlled acquisition of external customers | ✓ | |
| • Review brand positioning and realign marketing | ✗ | |

**Plans for 2018**

- Continue to drive new customer acquisition from Retail database
- Continue controlled acquisition of external customers
- Maintain repeat loan mix >70%
- Refresh Financial Services brand

### Mobi-first engagement and sales

| 2017 plans and focus areas | Targets met | 2017 achievements |
|---|---|---|
| • Increase mobi registration and engagement | ✓ | • 51% mobi registration achieved<br>• Mobi now disbursing more than KwikServe®<br>• Self-service collections added; other features deferred to 2018 with roll-out of MobiMoney™<br>• 16% of initial loans concluded digitally on mobi |
| • Continue support of KwikServe platform with increased migration to mobi | ✓ | |
| • Roll out three self-service features and value-added services on mobi | ✗ | |
| • Full implementation of new customer acquisition on mobi | ✓ | |

**Plans for 2018**

- Develop pilot version of mobi app
- Add additional features and value-added products and services on mobi
- Migration of systems to more agile services-orientated, cloud-ready architecture
- Continue to migrate customers to mobi self-service platform

### Diversify into new markets and services

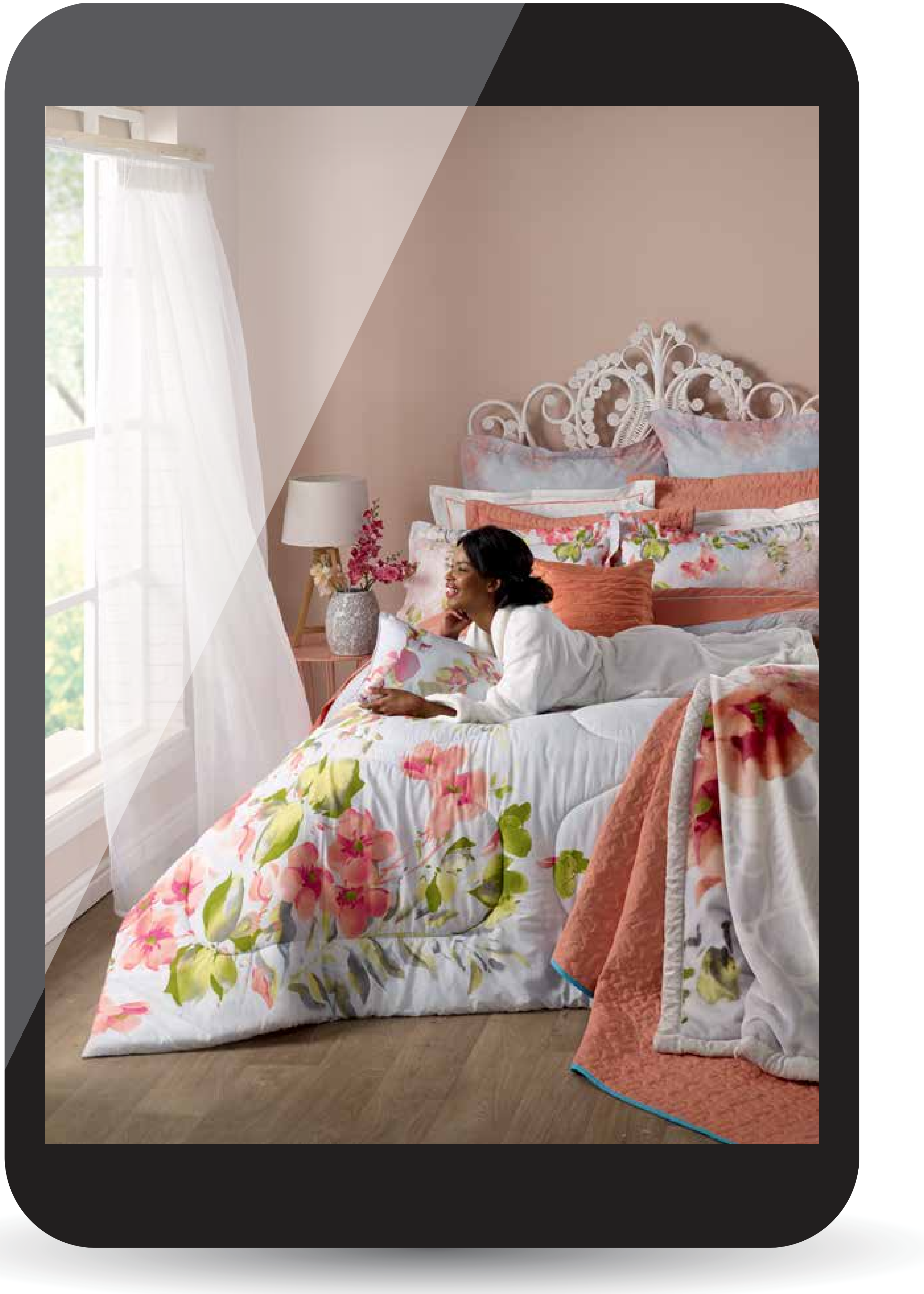
| 2017 plans and focus areas | Targets met | 2017 achievements |
|---|---|---|
| • Grow FinChoice Africa loans business | ✓ | • Piloted lending to South Africa<br>• System infrastructure established for Botswana and Namibia. Pilot for Botswana deferred to February 2018, Namibia to H2 2018<br>• Funeral product extended to family cover; no new products added<br>• Piloted insurance management system; decision deferred to 2018<br>• Additional Retail showrooms deferred to open in 2018 |
| • Pilot lending to Retail customers in Botswana and Namibia | ✗ | |
| • Launch additional new insurance products | ✗ | |
| • Implement insurance management system | ✗ | |
| • Expand Financial Services' presence in Retail showrooms | ✗ | |

**Plans for 2018**

- Continue to grow FinChoice Africa business
- Scale lending in Botswana and pilot in Namibia
- Implement insurance management system
- Introduce additional insurance products
- Include Financial Services' kiosks in new Retail showrooms

# GOVERNANCE

*"the group has committed to apply the King IV Report on Corporate Governance*



# Directors

**Stanley Portelli**
*Independent non-executive director*
Chairman
Chairman of nominations committee, member of remuneration, audit and risk, and social and ethics committees

**Amanda Chorn**
*Independent non-executive director*
Member of audit and risk committee

**Robert Hain**
*Independent non-executive director*

**Rick Garratt**
*Non-executive director*

**Adefolarin Ogunsanya**
*Alternate non-executive director*

**Charles Rapa**
*Independent non-executive director*
Chairman of remuneration, audit and risk committees and member of nominations committee

**Eduardo Gutierrez-Garcia**
*Non-executive director*
Chairman of social and ethics committee, member of remuneration and nominations committees

**Gregoire Lartigue**
*Executive director*
Group chief executive officer

**Shirley Maltz**
*Executive director*
Group chief executive officer – South Africa

**Paul Burnett**
*Executive director*
Finance director
Member of social and ethics committee



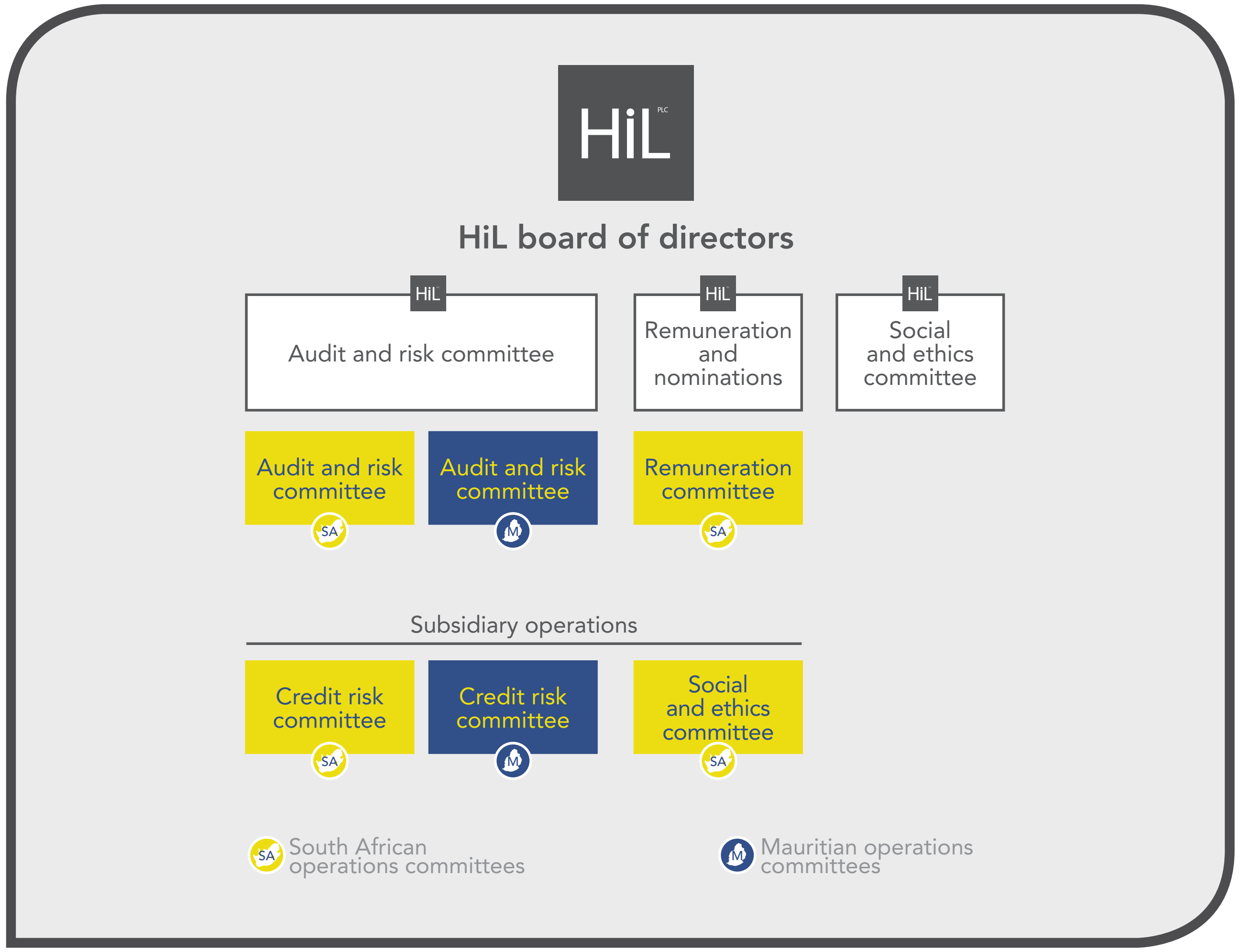


# Governance report

## Introduction

The governance structure of the group has been positioned to provide effective oversight for both the company (HIL) and for the two main operational geographies in which the group operates – South Africa and Mauritius.

The governance structure is shown below:



**GOVERNANCE REPORT** CONTINUED

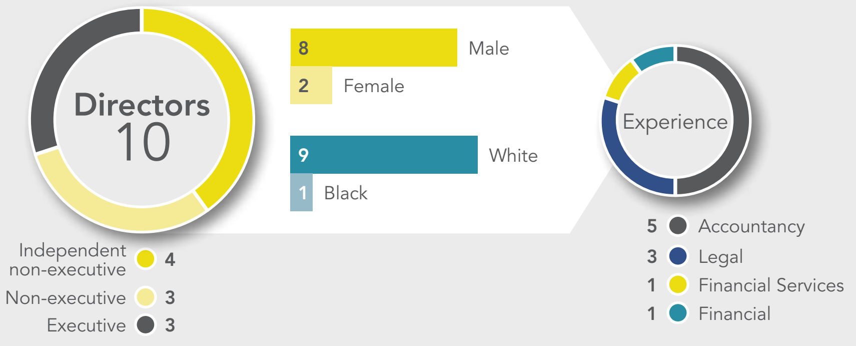
## Governance principles adopted by the board

The board has adopted the principles and framework of the King IV Report on Corporate Governance for South Africa 2016 on an "apply and explain" basis. Application of the principles during 2017 are explained below.

### Board

4 meetings

100% ATTENDANCE




| Topic | Application and key focus areas during the year | Outputs | Outcomes |
|---|---|---|---|
| Leadership | • Board charter incorporates principles of transparency, accountability, integrity and ethical leadership.<br>• Conflicts of interests are tabled at the commencement of each board meeting.<br>• Non-independent directors are recused in matters that may impact them.<br>• No formal performance evaluation was carried out in 2017. This has been planned for 2018. | • Board charter<br>• Register of financial interests | Strong governance and oversight |
| Strategy and performance | • Five-year strategic plan is presented on an annual basis and actual performance is monitored against the one-year operating plan.<br>• Execution of the strategy is delegated to management through the delegation of authority.<br>• Risks and opportunities are considered in reviewing the one-year and five-year plan. | • Five-year strategic plan<br>• One-year operational budget | A common view of where the group is heading, including targets to measure success. |
| Primary role and responsibilities of the governing body | • Meetings are held quarterly and the work plan is managed according to the board charter to ensure that all matters are covered during the course of the year. | • Annual work plan | Clarity of focus areas, based on material issues for the group. Disciplined governance. |
| Appointment and delegation of management | • A delegation of authority was approved by the board, taking into consideration the principles of King IV, and applicable statutory and regulatory requirements.<br>• Reviewed the expertise and competency of the company secretary. The company secretary, George Said, has been in private practice for over 15 years and is a senior partner in a legal practice. | • Delegation of authority<br>• Annual assessment of company secretary | Due consideration for appropriate delegation and oversight to qualified incumbents.<br>Company secretary is qualified, competent and experienced for the group. |
| Stakeholders relationships | • Material stakeholders are considered on an annual basis.<br>• Receives constant feedback from customers, employees and shareholders.<br>• Appropriate processes are in place for engagement with various stakeholders. The group's reputation and its linkage with stakeholder relationships is a regular board agenda item.<br>• Shareholders are encouraged to attend the company's annual general meeting and are given information timeously. | • Material stakeholders defined<br>• Assessment of engagement with key stakeholder groupings | Awareness is created of key concerns from stakeholders and appropriate actions are determined.<br>Annual employee survey gives context to employee satisfaction. |

### Audit and risk committee

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

The finance director, head of internal audit, external auditors and the head of technology attend meetings by invitation.

4 meetings

100% ATTENDANCE

| Topic | Application and key focus areas during the year | Outputs | Outcomes |
|---|---|---|---|
| Reporting | • Approved annual financial statements and interim results and other financial information presented to shareholders.<br>• Approved integrated reporting and considered factors and risks that could impact on the integrity of the integrated report. | • Approved annual financial statements<br>• Approved integrated annual report | Stakeholders can rely on the integrated report to understand how the group creates value for the short, medium and long term and have comfort that all material aspects of the group have been addressed in the report. |
| Risk governance | • Oversees the group's risk management processes.<br>• Reviewing the group's exposure to significant risks and its risk mitigation strategy.<br>• Risk mitigations are considered in the annual internal audit plan. | • Review of top risks and mitigation plans<br>• Material issues facing the group included in integrated report | The risks of the group are fairly reflected and the material issues are those facing the group. |
| Technology and information governance | • IT risk governance is implemented and continuously monitored by management and updates provided at each audit and risk committee meeting by the head of technology.<br>• An executive technology committee regularly reviews the technology initiatives to ensure that they support the group's strategy.<br>• An IT governance charter has been established.<br>• An information security sub-committee reviews and enhances controls over the security and processing of data in the group, while any changes to the IT production environment are formally monitored by a change control committee. | • Data privacy policy<br>• Information security policy<br>• Disaster recovery plans | Appropriate executive focus on a key resource to the business. |
| Compliance governance | • Regular updates on laws, rules, codes and standards relevant to the group's business operations.<br>• Project teams are established to review new legislation and identify any compliance requirements. The group operates within an established compliance framework which includes an annual assessment.<br>• Specialist external resources are engaged to monitor compliance with specific legislation. | • Legislative update | Group complies with applicable legislation. |
| Assurance | • The group has an internal audit function to provide assurance on the adequacy and effectiveness of internal control and risk management practices, and to assist management by making recommendations for improvement.<br>• Monitors the effective functioning and performance of internal audit, ensuring that it operates independently of management and approves the annual audit plan.<br>• An internal audit charter guides the functions of internal audit.<br>• The services of professional audit firms are engaged to assist in evaluating internal control and business risks as and when required.<br>• The internal audit function performs an annual review of the effectiveness of the group's internal control environment, including its internal financial controls, IT controls as they pertain to financial reporting and the effectiveness of its risk management process for the period under review.<br>• Reviewed the assurance on the adequacy and effectiveness of the group's systems of internal financial and operational control, and compliance with laws and procedures.<br>• Nominated the external auditors for appointment, monitored and reported on their independence, approved the terms of engagement and scope of the audit, and fees paid.<br>• The annual financial statements are independently assured by PWC.<br>• Considered the appropriateness of the expertise and experience of the finance director and group's finance function.<br>• The committee reviewed the King IV assessment and gap analysis and approved the implementation plan of significant issues. | • Unqualified audit report received from PwC for FY2017<br>• PwC appointed as external auditors for FY2018<br>• The internal audit manager, as head of internal audit, reports functionally to the chairman of the audit and risk committee<br>• Assessment of the expertise and experience of the finance director and group's finance function<br>• King IV gap assessment and implementation plan | PwC and designated individual partner, is suitable for appointment as external auditors.<br>Shareholders can be satisfied that the external auditors are independent of the group.<br>Shareholders and financial stakeholders can place reliance on the integrity of the annual financial statements.<br>Appropriate oversight of day-to-day operations through internal audit. |

### Remuneration and nominations committee

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

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

2 meetings
100% ATTENDANCE

| Topic | Application and key focus areas during the year | Outputs | Outcomes |
|---|---|---|---|
| Composition of the board | • The composition of the board is reviewed on an annual basis.<br>• An alternate director for the DPI representative on the board was discussed and recommended for appointment to the board.<br>• A gender diversity policy was approved.<br>• It was agreed that given the size and nature of the group, the chairman of the board will continue to be a member of the audit and risk committee. | • Gender diversity policy<br>• Alternate director appointed<br>• Social and ethics committee membership confirmed | Board skills, experience and diversity appropriate for the group. |
| Committees of the board | • Reviewed the governance framework, taking into account the JSE Listings Requirements and King IV. | • Social and ethics committee established | Appropriate oversight through committee structure. |
| Evaluations of the performance of the board | • Performance is reviewed on an informal basis.<br>• Board agreed that it would conduct a formal evaluation in 2018. | | |
| Remuneration governance | • Approved the achievement of short-term bonus performance conditions and subsequent calculations.<br>• Approved the allocations of long-term share scheme.<br>• Approved the vesting of long-term share scheme allocations.<br>• Approved annual guaranteed pay increases for executive directors.<br>• Approved remuneration policy for 2018 and implementation report for 2017.<br>• Approved proposed non-executive directors' fees on an annual fee basis. | • Short-term bonus performance payments<br>• Long-term share allocations and vesting<br>• Remuneration policy<br>• Remuneration implementation report<br>• Non-executive directors' fees proposal | Remuneration policy achieved significant support from shareholders at previous AGM. |

### Social and ethics committee

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

The committee held its first meeting in March 2018. Commentary provided relates to activities conducted by the South African social and ethics committee which is attended by Eduardo Gutierrez-Garcia.

The group human resources executive attends by invitation.

| Topic | Application and key focus areas during the year | Outputs | Outcomes |
|---|---|---|---|
| Group ethics | • Values updated to reflect the current environment and context in which the group operates.<br>• Code of ethics revised.<br>• Values incorporated into annual employee survey | • Values workshop rolled out to the business | Increase in company culture measure in the annual employee survey. |
| Responsible corporate citizenship | • Employment equity strategy reviewed<br>• B-BBEE strategy approved<br>• Sustainability strategy tabled and approved<br>• Learning and development plan | • Employee equity plan<br>• B-BBEE certification<br>• Group sustainability strategy<br>• Specific plans to mitigate the impact of water shortages in Cape Town | Improvements in employment equity.<br>Processes implemented to ensure operational business continuity and support for staff in the midst of water shortages in the Western Cape. |

Additional detail on the group's application of the principles of King IV is available on the group's website at www.homechoiceinternational.com



# Credit risk management

The group uses credit to facilitate merchandise sales which enables customers in the mass middle-income market to purchase products on credit. The Financial Services business grants low-value personal loans to the lowest risk Retail customers. Credit is offered for Retail purchases in South Africa, Botswana, Namibia, Lesotho and Swaziland while Financial Services loans are available to customers in South Africa, and Botswana from early 2018.

A suite of flexible credit products is offered by the group and may be available for use by customers dependent on their previous credit payment behaviour. Credit terms are typically weighted towards shorter periods and lower values.

The average Retail credit account balance is R3 540 (2016: R3 194) with a term of 18.7 months (2016: 19.0); the average Financial Services balance is R10 444 (2016: R9 972) with an average term of 20.0 months (2016: 20.8). The maximum term available is 36 months.

## Credit policy

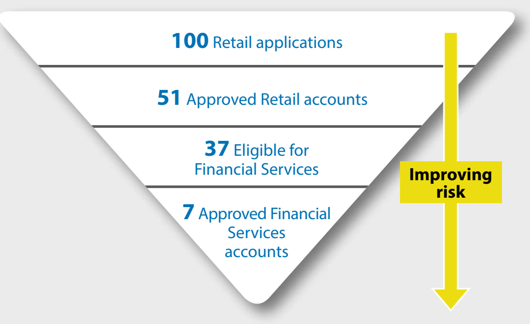
New customers to the group are primarily acquired through the Retail business. Experience has shown that the predominantly female customers, particularly those buying homeware products, have proven to have better credit risk than their male counterparts. The Retail product margin allows the group to accept a higher tolerance of credit risk in the acquisition of potential customers.

The group follows a "low-and-grow" credit limit strategy, as for many new customers this may be the first time that they have had access to credit. This strategy enables customers time to orientate and understand how they should be able to service their accounts within their budget. The group draws on its more than 30 years of experience and knowledge of the mass market customer in determining which customers are most likely to be able to service their debt.

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

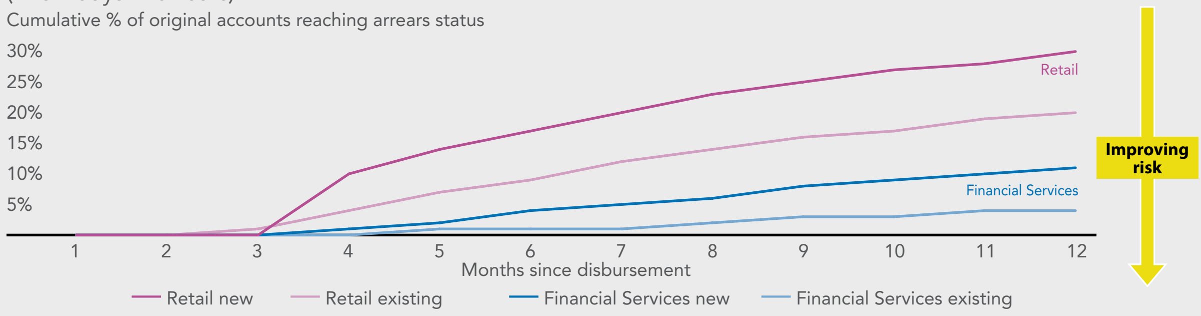
The Retail credit policy and debtors' book are managed independently of the Financial Services book. Although separate teams of analysts monitor the books and develop appropriate credit policies, the full group data on a customer is considered in each credit decision.

### THE RISK-FILTERING PROCESS




### GROUP VINTAGES

(120+ days in arrears)



## Credit origination

| RETAIL | | | | FINANCIAL SERVICES | | | |
|---|---|---|---|---|---|---|---|
| Revolving credit | | Instalment credit | | Short-term credit | Unsecured credit | | Revolving credit |
| **Flexi** 3, 6, 12, 16 months | **Advantage** 24, 36 months | 24 months | 36 months | **Flexi loan** 6 months | **Kwik-advance** 5 – 40 days | **Premier loan** 12, 24, 36 months | **MobiMoney™** 1 – 3 months |

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

The use of television advertising has been very successful in exposing the brand to a wider customer audience, but this channel has, however, required adaptations to the credit origination processes. Through the use of a simple and easy callback mechanism for customers and pre-scoring tools, only those customers who would be eligible for credit are phoned by the contact centre. In this way the group is able to proactively manage the credit risk.

All group data is considered when considering a customer for credit. In this way, a customer in arrears with any group product will not be granted further credit for Retail or Financial Services.

Whilst the primary source of Financial Services customers is through the Retail customer base, it may acquire new customers by using external customer databases. Financial Services' credit risk is managed through a process of continued multiple-level risk filtering as shown below.

## Vetting

In assessing applications for credit, the group follows the NCA affordability assessment regulations. Additional affordability criteria are also applied, based on in-house developed scorecards which are supplemented and strengthened with external credit bureau data. New customers are granted a low credit limit relative to their affordability. This allows the group to monitor payment behaviour with a lower risk exposure. As a customer demonstrates good payment performance and the behaviour scorecards identify her as a better risk, the purchase limit is raised closer to her affordability level.

Behaviour scorecards are used to determine credit extension to existing, good-paying customers, to drive repurchase rates and repeat loans, and reduce average bad debt – approximately 70% of Retail sales is generated from repeat business. 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. During the year the group has redeveloped the scorecards, which has improved the vintages in both businesses.

During the year, significant changes were made to the credit verification processes, to cater for the NCA affordability assessment regulations. Investments were made in both people resources and technology to reduce the onerous process for the group and customers. The use of social media tools, such as WhatsApp, provides more convenient options for customers to submit proof-of-income documentation. Document management systems and processes have helped streamline the processes required to manage the one million documents processed annually. Membership of the Document Exchange Association has enabled a more efficient and quicker process to obtain customers' relevant banking information.

With limited face-to-face interactions with customers, it is paramount that the group uses a number of advanced fraud detection tools and predictive models to manage application fraud. Mobile device detection tools, link analysis, fraud databases and in-house developed fraud models identify potential fraudulent applications or account takeover activities. These are then either automatically declined or reviewed by a team of fraud specialists. We are currently in the process of implementing new fraud software to give us improved capabilities in detecting fraud.



## Collections

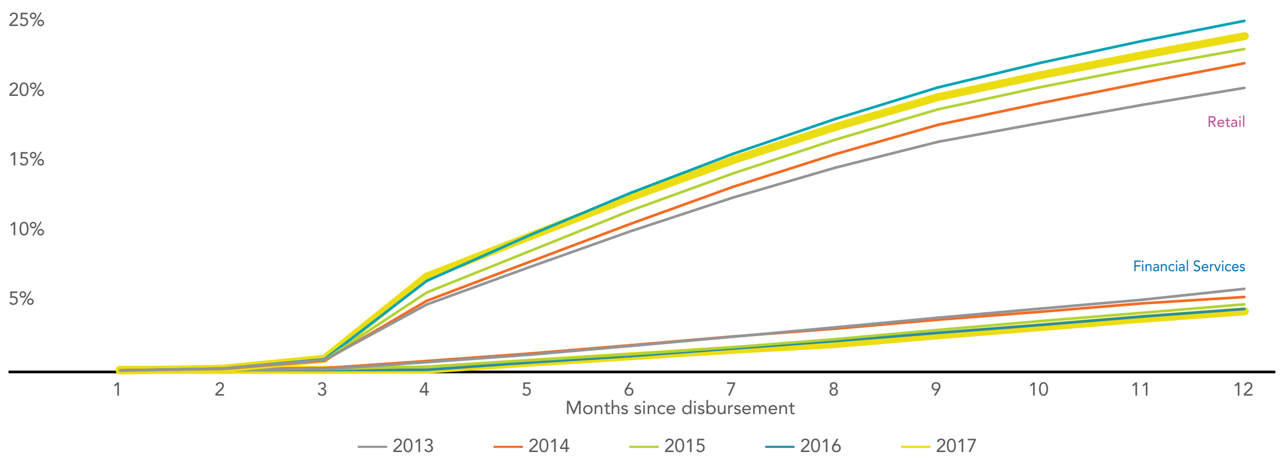
The group has an in-house collections team predominantly focused on the Retail business. Retail customers are able to make payments on their accounts at more than 6 000 payment points throughout South Africa and neighbouring countries. The convenient payment points include selected retailers, SAPO, banks and electronic options. The use of proprietary telephony technology enables the collections team to be more efficient in when and how they contact customers to request payments.

Payments made against a Financial Services loan must be carried out by way of debit order payments. This reduces the need for a large collections team, relying on technology between the group and the banks to process customers' payments.

The introduction of penalty charges if a customer's account goes into arrears, has improved the roll rates of accounts and improved collections in the Financial Services business. It is anticipated that this process will be implemented in the Retail business in 2018.

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

### RETAIL AND FINANCIAL SERVICES VINTAGES BY YEAR
(120+ days in arrears)
Cumulative % of original accounts reaching arrears status




## Profitability management

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

The group maintains conservative debtors' impairment provisions which are determined and regularly reviewed during the year. The impairment provision is considered by the external auditors as a "key audit matter" and the way the audit addressed the determination of the reasonableness of this provision is explained in the Report of the external auditors on pages 6 to 11 in the annual financial statements. The auditors provided an unqualified opinion on the annual financial statements.

# Remuneration report

## Section 1: Report from the chairman of the remuneration committee

The committee has adopted King IV principle 14 "… the organisation remunerates fairly, responsibly and transparently so as to promote the achievement of strategic objectives and positive outcomes in the short, medium and long term." Application of the recommended practices will be phased in as the structure matures and develops.

The committee discussed the following key matters during the year:

- Approved the annual guaranteed pay adjustment for the Chief executive officer - South Africa based on external publicly available data.
- The committee considered a proposal to adjust the percentage contributions employees can elect to contribute to the Provident Fund. The range of available contributions was adjusted to between 6% – 20% from 12% – 18% of pensionable salary, bringing it in line with market-related norms.
- Reviewed and approved the group EBITDA trigger for the short-term performance incentive scheme, and individual business areas' financial and non-financial performance indicators. As highlighted in the Finance director's commentary, the group performed well and exceeded the threshold groups' EBITDA trigger of R760 million for 2017.
- Reviewed the share schemes available for long-term variable remuneration and agreed the following:
  - the Alternative Employee Share Ownership Scheme would not be utilised for share allocations in the foreseeable future;
  - the Employee Share Ownership Scheme (ESOS) would be utilised for annual rolling allocation for selected management employees; and
  - the Forfeiture Share Plan (FSP) scheme would be the primary share scheme for executives.
- Agreed to award an initial allocation of FSP shares to directors and senior executives of the group to drive the long-term strategy of the group. The initial allocations did not attract any performance conditions. It was agreed that the FSP would be the main scheme utilised for annual rolling allocations awarded to executives and all future allocations would attract performance conditions.
- Considered internal comparisons and external benchmarks to reflect the appropriateness and fairness of remuneration levels within the group. No independent external consultants were used to advise on remuneration matters during the period.

At the last annual general meeting shareholders gave a positive non-binding advisory vote of 99.1% for the 2016 Remuneration policy. In line with King IV, shareholders will be requested to vote on the Remuneration policy and the 2017 Implementation report at the annual general meeting to be held on 11 April 2018.

The proposed remuneration for non-executive directors' fees was discussed by the committee. The committee agreed to maintain a maximum annual fee of Euro 40 000 to be tabled for shareholder approval.

The committee intends to conduct an extensive review of the remuneration policy during 2018 with changes expected to be applied from the 2019 financial year.

> *"employees are critical in meeting business objectives and contributing to the sustainability of the business*





## Section 2: Remuneration policy

The group recognises that employees are critical in meeting business objectives and contributing to the sustainability of the business. The group's remuneration policy is aimed at ensuring that the group attracts, motivates and retains exceptional talent, drives a high-performance culture which is closely aligned with the group's business objectives and strategy, and achieves the following objectives:

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

### Shareholder voting

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

If shareholders do not approve the Remuneration policy or the Implementation report by more than 75% the Board will institute a formal engagement process with interested shareholders to assess their views and steps that they expect the company to take.

### Components of remuneration

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

The monetary remuneration structure is made up of three components:

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

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

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

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

### Employee value proposition

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

| REWARD FAIRLY (Remuneration) | RECOGNISE | MANAGE FAIRLY | GROW | CARE | LEAD |
|---|---|---|---|---|---|
| – Guaranteed pay<br>– Related benefits<br>– Short- and long-term incentive schemes<br>– Robust commission schemes | – Biannual performance reviews<br>– Discretionary recognition awards | – Annual employee Pulse survey<br>– Communication sessions<br>– Employment equity and skills development forums | – Talent management framework<br>– Career mapping<br>– Bursary programme | – ChoiceCare wellness programme<br>– Ergonomically designed workplace<br>– "Green" building<br>– ISO 9000 certification | – Vision and values<br>– Leadership model and programmes<br>– Transformation to drive diversity |

## Executive remuneration structure

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

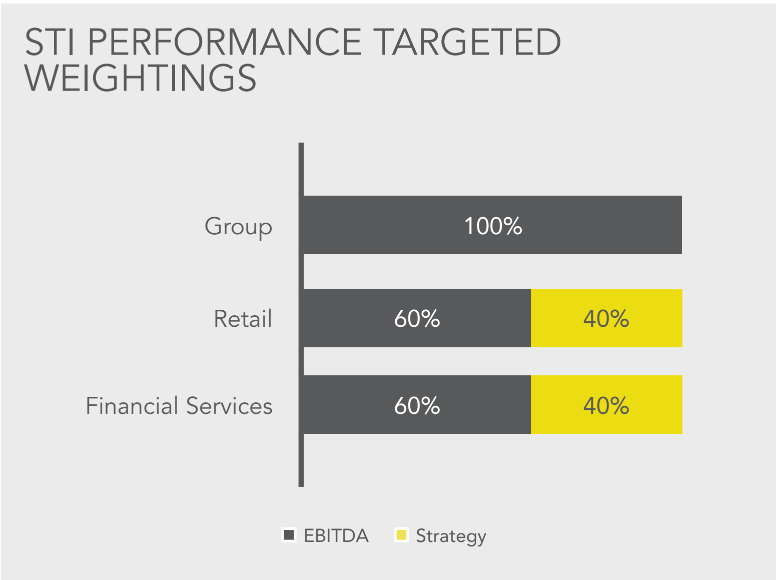
The details of each component of the remuneration structure applied in the 2017 financial year are shown in the tables below.

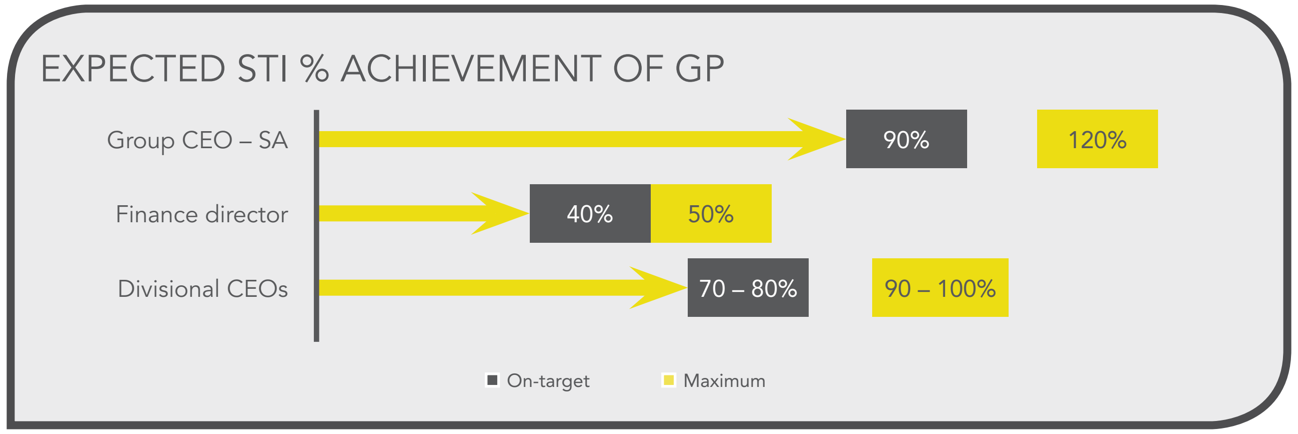
### Guaranteed pay

| | Executives (including executive directors) | Management levels | Operations |
|---|---|---|---|
| Rationale | Salary is based on competitive market value and adjusted in accordance with performance and contribution. A market-related suite of benefits is made available, which is included in the cost-to-company basis. | | |
| Basic salary | Reviewed annually, benchmarked against the market and assessed against prevailing economic metrics.<br>Annual increases are granted on 1 March. | | |
| Benefits: | | | |
| • Provident Fund | Defined contribution provident fund is compulsory for all South African employees.<br>Employees have the flexibility to elect from 6% to 20% of pensionable salary. | | |
| • Medical aid | Membership of a medical scheme is encouraged, but is not compulsory. | | Staff may join an affordable medical scheme with relevant benefits. |
| • Discount | Product discount on merchandise sold by the group. | | |
| • Other | Expatriate staff in Mauritius receive additional benefits appropriate to the nature of their contract.<br>Certain inclusions in guaranteed pay are dependent on in-country legislation. | | |
| Long-service award | Long-service awards are made on each five-year anniversary. | | |
| Contracts and notice periods | The notice period is at least three months for executives.<br>Key executives have contracts that include restraint of trade conditions.<br>No agreements provide for ex-gratia or other lump sum payments on retirement or severance from the group. | Market-related norms. | |

### Short-term variable remuneration

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




| Scheme | Rationale | Participants | Allocations | Performance: Period | Performance: Conditions | Other |
|---|---|---|---|---|---|---|
| Short-term performance bonus | Rewards performance for short-term financial and non-financial performance.<br>Non-financial metrics are aligned to the five strategic focus areas. | Executives and management levels | On-target % of guaranteed pay:<br>• Group CEO – SA: 90%<br>• Group FD: 40%<br>• Divisional CEOs: 70% – 80%<br>Maximum % of guaranteed pay:<br>• Group CEO – SA: 120%<br>• Group FD: 50%<br>• Divisional CEOs: 90% – 100% | One year | Trigger: group EBITDA<br>Threshold performance: >95% group EBITDA<br>Weightings for divisions:<br>• Divisional EBITDA performance: 60%<br>• Divisional non-financial performance: 40%<br>Individual annual performance assessment rating will modify overall % bonus. | Target agreed annually in advance.<br>Remuneration committee retains discretion on whether to award a bonus, and the quantum.<br>Payments made in cash post year-end. |
| Commission | Drive and reward performance against targets. Includes sales, loan disbursements, collections. | Operational employees. | | Monthly | Achievement of pre-agreed targets. | Payments are made monthly in cash. |

**Long-term variable remuneration**

The remuneration committee agreed that allocations from the Employee Share Option Scheme, from 2017 allocations onwards, would be the primary scheme for management employees. Executives would be awarded allocations from the Forfeiture Share Plan.

***Employee Share Option Scheme (ESOS)***

The scheme aims to reward senior employees for the creation of shareholder value over the medium to long-term. Allocations have a four-year vesting period and do not have any performance conditions attached to them.

***Forfeiture Share Plan (FSP)***

This scheme is utilised to attract, motivate, reward and retain employees who can influence the performance of the group. Allocations are primarily made to executives and have a four-year vesting period. The physical shares are held in escrow until the vesting date. Participants are entitled to receive dividends and have voting rights. The committee is currently reviewing the requirement for allocations from this scheme to have performance conditions attached to them.

*Shares available for long-term incentive schemes*

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

The number of shares available for the long-term incentive schemes as at 31 December 2017 is 12 481 450. This represents 11.9% of the issued share capital.

## Non-executive directors' remuneration

The table below sets out the remuneration policies applied by the group for the 2017 financial year for non-executive directors. These policies are also applicable for the 2018 financial year and form the underlying basis for the fees tabled for shareholder approval.

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



## Section 3: Implementation of Remuneration policy

The implementation of the Remuneration policy for the 2017 financial year is shown below.

**Executive remuneration**

Details of the remuneration paid to executive directors can be found on page 82.

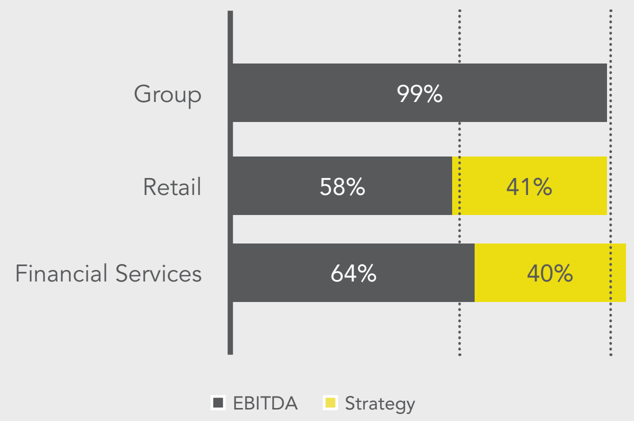
**Guaranteed pay**

The remuneration committee agreed a 6.0% inflationary-linked increase to guaranteed pay.

**Short-term variable remuneration**

The remuneration committee approved the payment of short-term performance bonuses as the group EBITDA trigger was achieved at a 99%. An amount of R30.8 million was approved to executives and management levels. Operational staff earned R34.8 million in monthly commission payments during 2017.

STI PERFORMANCE TARGETED ACHIEVED




**Long-term variable remuneration**

***2013 vesting***

The vesting of 2013 allocations made in terms of the legacy option scheme was agreed for all participants still in the employ of the group at the vesting date. There were no additional vesting requirements.

***2017 allocations – Employee Share Option Scheme***

Annual rolling allocations of 238 000 for 2017 were approved to 60 management level participants. Allocations have a four-year vesting period and no performance conditions.

***2017 allocations – Forfeiture Share Plan***

An initial allocation of 950 000 shares was made to 13 executives for the purposes of retention. Shares have a four-year vesting period and participants must be in the employ of the group at the end of the four-year period to be entitled to receive the shares.

## Non-executive directors' remuneration

Details of the remuneration paid to non-executive directors can be found on page 82.

| Component | Details |
|---|---|
| Fees | The proposed fees for the non-executive directors were tabled by the executive directors for consideration by the remuneration committee.<br>The board approved a fee of a maximum of Euro 40 000 per annum for the financial year ended 31 December 2019.<br>Amanda Chorn received non-executive fees from HomeChoice Holdings. |
| Contracts | Rick Garratt has a consultancy agreement with the South African operating company and was remunerated for services and related benefits provided in terms of the agreement. |
| Other | No non-executive directors received any payments linked to the group's performance and did not participate in the long-term share option incentive schemes. |

The committee is satisfied that the remuneration for 2017 has been applied in accordance with the Remuneration policy.

## Directors’ remuneration and shareholding

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

| | | | | 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 |
| **2017** | | | | | | | | | |
| **Executive directors** | | | | | | | | | |
| Gregoire Lartigue | | – | – | 161 | – | – | 161 | – | – |
| Shirley Maltz | | – | – | 3 325 | 338 | 3 528 | 7 191 | 1 097 | 3 843 |
| Paul Burnett | | – | – | 1 490 | 679 | 579 | 2 748 | 167 | 840 |
| | | – | – | 4 976 | 1 017 | 4 107 | 10 100 | 1 264 | 4 683 |
| **Non-executive directors** | | | | | | | | | |
| Stanley Portelli | | 161 | – | – | – | – | 161 | – | – |
| Amanda Chorn | 3 | 106 | 174 | – | – | – | 280 | – | – |
| Richard Garratt | 3 | – | 10 000 | – | – | – | 10 000 | – | – |
| Eduardo Gutierrez-Garcia | 4 | – | – | – | – | – | – | – | – |
| Robert Hain | | 106 | – | – | – | – | 106 | – | – |
| Charles Rapa | | 129 | – | – | – | – | 129 | – | – |
| | | 502 | 10 174 | – | – | – | 10 676 | – | – |
| **Total remuneration** | | 502 | 10 174 | 4 976 | 1 017 | 4 107 | 20 776 | 1 264 | 4 683 |
| **2016** | | | | | | | | | |
| **Executive directors** | | | | | | | | | |
| Gregoire Lartigue | | – | – | 162 | – | – | 162 | – | – |
| Shirley Maltz | | – | – | 3 050 | 366 | 3 059 | 6 474 | 311 | 1 936 |
| Paul Burnett | | – | – | 1 485 | 664 | 518 | 2 668 | 72 | – |
| | | – | – | 4 697 | 1 030 | 3 577 | 9 304 | 383 | 1 936 |
| **Non-executive directors** | | | | | | | | | |
| Stanley Portelli | | 162 | – | – | – | – | 162 | – | – |
| Amanda Chorn | 3 | 117 | 179 | – | – | – | 296 | – | – |
| Richard Garratt | 3 | – | 8 146 | – | – | – | 8 146 | – | – |
| Eduardo Gutierrez-Garcia | 4 | – | – | – | – | – | – | – | – |
| Robert Hain | | 117 | – | – | – | – | 117 | – | – |
| Charles Rapa | | 130 | – | – | – | – | 130 | – | – |
| | | 526 | 8 325 | – | – | – | 8 851 | – | – |
| **Total remuneration** | | 526 | 8 325 | 4 697 | 1 030 | 3 577 | 18 155 | 383 | 1 936 |

*Notes*

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

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

| Director | Scheme | 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 | Option | 23 June 2012 | 23 June 2016 | 375 000 | – | 10.64 | 180 000 | 195 000 |
| | Option | 27 August 2013 | 27 August 2017 | 50 000 | – | 11.00 | – | 50 000 |
| | ESOS | 31 March 2014 | 31 March 2018 | 100 000 | – | 14.44 | – | 100 000 |
| | ESOS | 20 March 2015 | 20 March 2019 | 40 500 | – | 33.70 | – | 40 500 |
| | ESOS | 1 May 2016 | 1 May 2020 | 52 000 | – | 28.00 | – | 52 000 |
| | FSP | 4 May 2017 | 4 May 2021 | – | 150 000 | – | – | 150 000 |
| | | | | 617 500 | 150 000 | | 180 000 | 587 500 |
| Paul Burnett | Option | 27 August 2013 | 27 August 2017 | 40 000 | – | 11.00 | 40 000 | – |
| | ESOS | 20 March 2015 | 20 March 2019 | 12 000 | – | 33.70 | – | 12 000 |
| | ESOS | 1 May 2016 | 1 May 2020 | 12 000 | – | 28.00 | – | 12 000 |
| | FSP | 4 May 2017 | 4 May 2021 | – | 20 000 | – | – | 20 000 |
| | | | | 64 000 | 20 000 | – | 40 000 | 44 000 |

# Administration

Country of incorporation
Republic of Malta

Date of incorporation
22 July 2014

Company registration number
C66099

Company secretary
George Said
gsaid@maltatransportlaw.com

Registered office
93 Mill Street
Qormi
QRM3012
Republic of Malta

Auditors
PricewaterhouseCoopers
Republic of Malta

Corporate bank
Deutsche Bank International Limited
Channel Islands

JSE listing details
Share code: HIL
ISIN: MT0000850108

Sponsor
Rand Merchant Bank, a division of FirstRand Bank Limited

Transfer secretaries
Computershare Investor Services Proprietary Limited

# Shareholders' diary

Financial year-end
31 December

Annual general meeting
11 April 2018

Distributions to shareholders
April and September

Reports and profit statements
Publication of integrated annual report: March
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