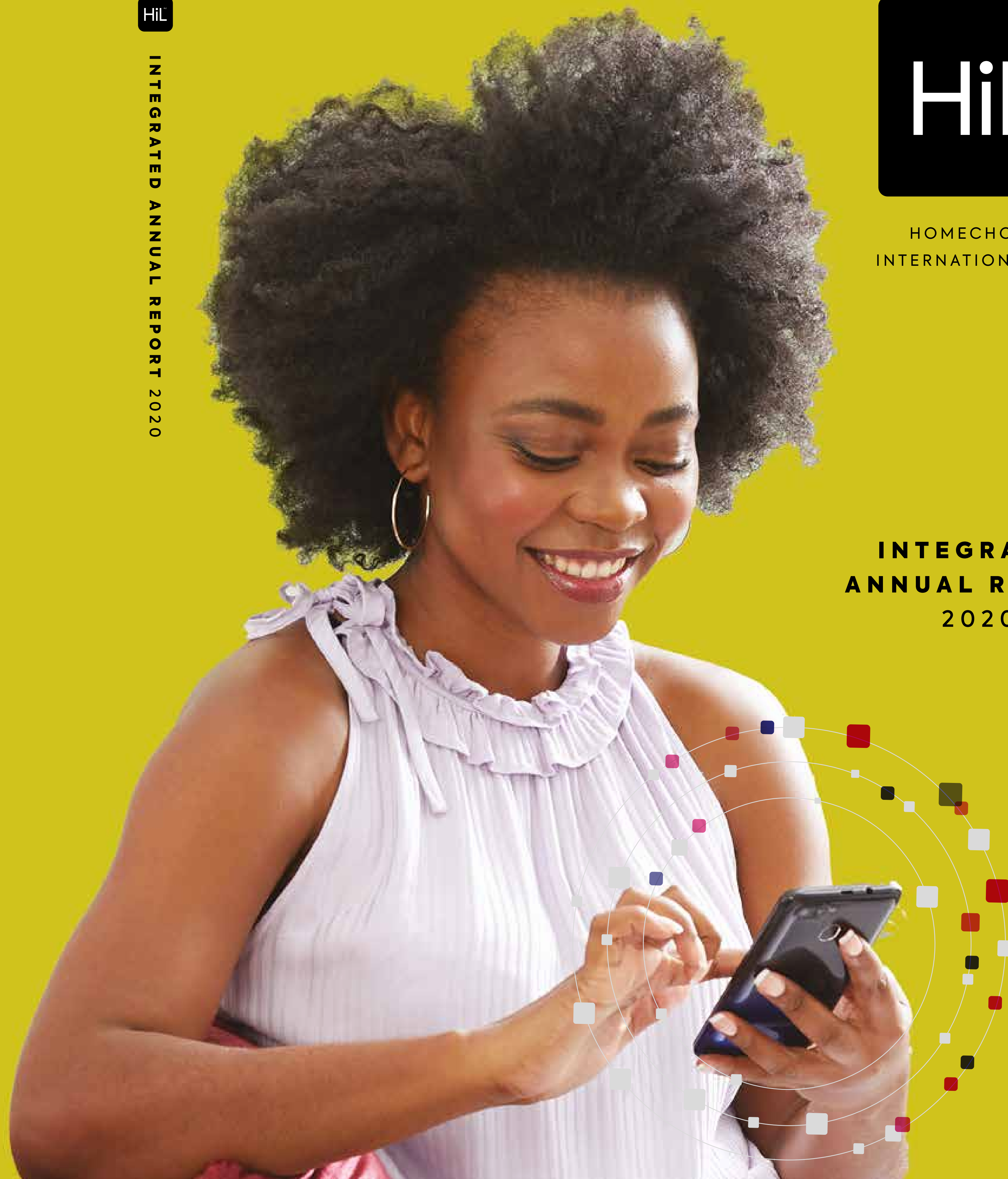
HOMECHOICE
INTERNATIONAL PLC



# INTEGRATED ANNUAL REPORT 2020

INTEGRATED ANNUAL REPORT 2020

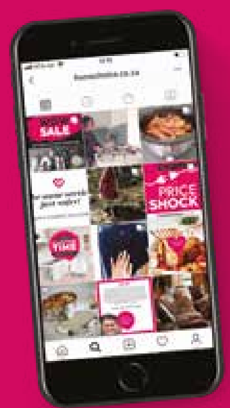
HiL PLC

Investment holding company offering **Retail** and **Financial Services** products to the growing African middle class through digital platforms

## RETAIL

**homechoice**

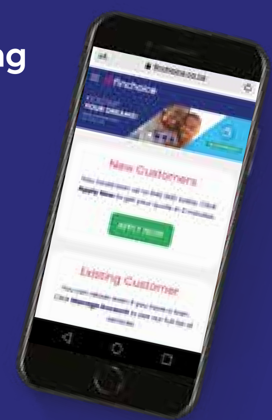
**Omni-channel retailer delivering quality homeware merchandise directly to home**



## FINANCIAL SERVICES

**finchoice**

**Digital FinTech business offering personal lending, insurance and value-added services**

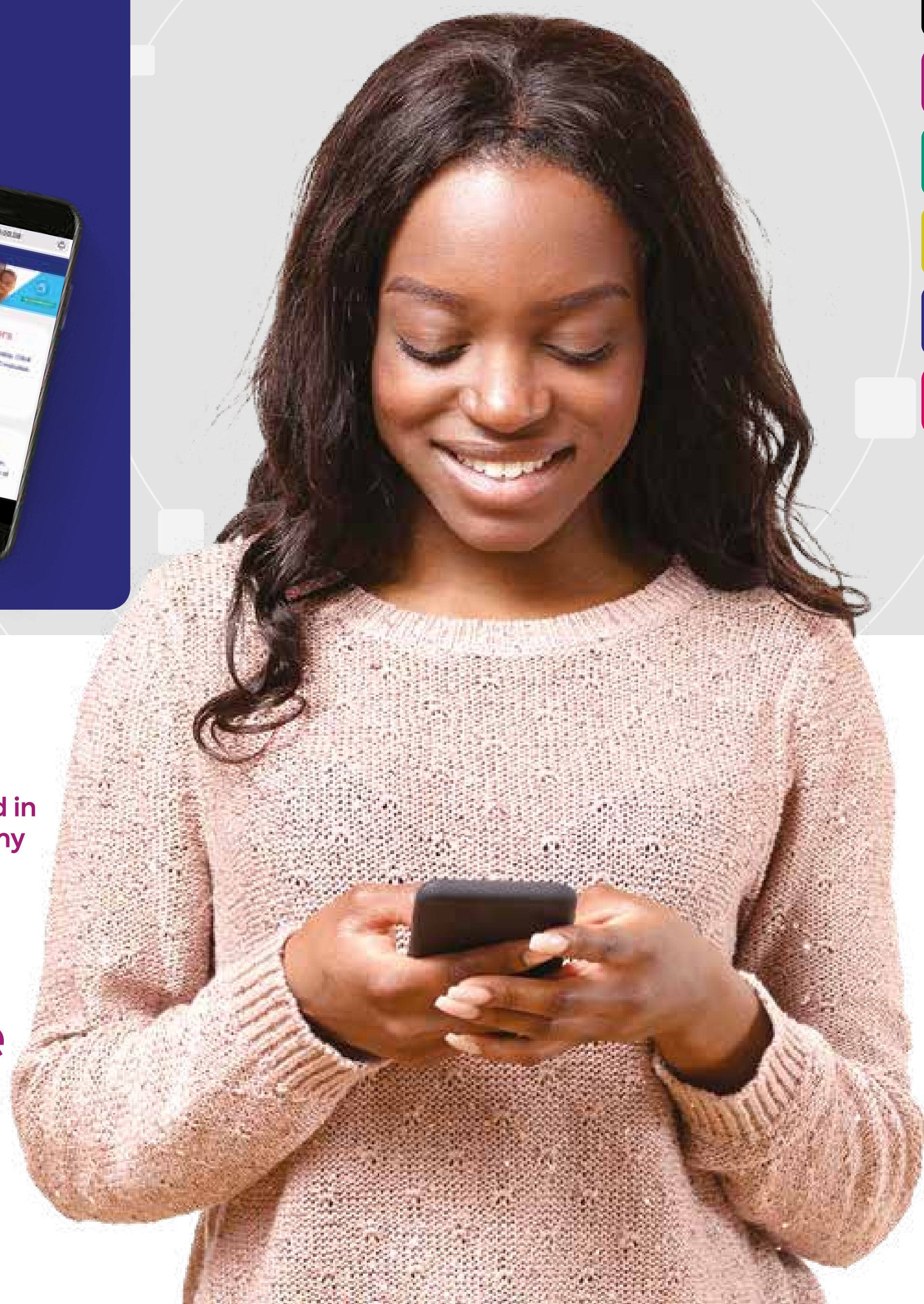


## Digitally led

**customer access anywhere and anytime**


**Predominantly urban based in a growing informal economy**

## Target focused on mass middle market



## **Customers** are at the core of the group's strategy

Attracting new customers and retaining existing ones are critical for the future growth of the group.

**Our strategic pillars:**

- Enhance customer experience
- Innovative product and credit offers
- Data and insight-led customer growth
- Mobi-first engagement and sales
- Diversify into new markets and services
- Drive employee engagement

**Active customers**

# 905 000

2019: 912 000

**80% women**

2019: 82%

# OUR GROUP PERFORMANCE

**Creating value and sustaining strategic direction despite difficult trading performance**

Revenue
**-6.0%**
**to R3.3 billion**
2019: R3.5 billion

Operating Profit
**-60.2%**
**to R270 million**
2019: R679 million

HEPS
**164.2c**
**down 62.3%**
2019: 436.0c

Digital credit extended
**R2.1bn**
**49.7% of total credit**
2019: 40.2%

Gross Profit Margin
**44.9%**
**down 250bps**
2019: 47.4%

Cash on hand
**R415 million**
**up R335m**
2019: R80 million

## COVID IMPACT

Cash up
**+R415m**

Loan disbursements
**-R700m**

Drop in sales
**-R264m**

Higher debtor costs
**+R126m**

Covid related expenditure
**+R22m**

### DECISIVE RESPONSE TO COVID IMPACT

**Protected cash**
- deliberate cut to loan disbursements
- cancelled dividend
- refinanced and increase funding facilities

**Curtailed credit**
- reduced, tightened credit limits
- scorecards adjusted
- focus digital collections

**Accelerated digital**
- pivot to digital marketing
- stopped printed catalogues

**Protected staff**
- health and well-being
- investments in work-from-home

**270 000 new customers**

# OUR INTEGRATED REPORT

**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 our financial stakeholders and the broader stakeholder base.

## REPORTING SUITE

The group makes the following documents available to stakeholders:

- IAR **Integrated annual report**
- AFS **Annual financial statements report**
- AGM **Notice of annual general meeting**
- IP **Investor presentations**
- KING IV **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 HomeChoice International and its subsidiaries (the group) for the period 1 January 2020 to 31 December 2020.

HIL is domiciled in Mauritius. The group conducts it's operations in Mauritius, South Africa and neighbouring countries.

There has been no material change in the comparability of reporting from 2019. During the year, an adjustment was made to the loans receivable write-off point in the Financial Services division. The adjustment was made to more accurately reflect actual credit losses with the expected credit losses as per IFRS 9.

## IIRC Framework

The group aims to adopt the guidelines outlined in the International Integrated Reporting Council's (IIRC) 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 17 to 21.

### Assurance

The group's external auditor, PricewaterhouseCoopers, has provided assurance on the annual financial statements and expressed an unqualified audit opinion on them.

The financial statements have been prepared under the supervision of Paul Burnett CA(SA), the group 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 report has been prepared using the IIRC Framework. The board approved the 2020 integrated annual report for release to shareholders on 29 April 2021.

**Shirley Maltz**
Executive Chair

**Gregoire Lartigue**
Chief Executive Officer



# GROUP OVERVIEW

# OUR HISTORY

Over the past 35 years the group has **grown from a mail order start-up company into an omni-channel retailer and digital financial services group** with operations in southern Africa.

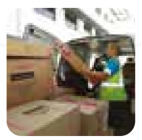
## 1980s

### 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

**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

homechoice development trust

### 2007
FinChoice established to offer financial services products to HomeChoice customers

## 2010s

**402 employees**

### 2011
KwikServe™ USSD digital platform launched

FoneChoice established offering personal technology and computer products

### 2013
200 000 m³ centralised distribution centre completed at investment of R150 million

### 2014
Listed HIL group on the JSE

### 2015
1 000-seat contact centre built at investment of R100 million

FinChoice mobi site launched

First Retail showroom opened

### 2016
Introduction of external brands in Retail

Launched Retail credit facility product – affordable and quick

Started operations in Mauritius

Stand alone insurance products launched

ISO 9000 certification for Cape distribution centre

### 2017
Financial Services launched three-month credit facility product, MobiMoney e-wallet entrenched

Launched group sustainability programme

### 2018
Four showrooms opened

Financial Services expands to Botswana

Value-added services products launched

Two ChoiceCollect container hubs opened

### 2019
Four showrooms and six ChoiceCollect container hubs opened

Cape Town head office awarded 5* green building status

New Retail e-commerce site

FinTech API used for customer acquisition


**2 002 employees**

### 2020
Three showrooms and containers opened

Digital transactions exceeds 50%

Solar panels cover head office roof

FinTech market share growth

# OUR CUSTOMERS

Digital savvy,
urban African woman

HiL

Active customers
**905 000**
2019: 912 000

Appealing to
**80%**
women of all ages with a R10 000 average monthly income

| | |
|---|---|
| 18 – 29: | 11% |
| 30 – 39: | 34% |
| 40 – 59: | 46% |
| 60+: | 10% |

## Digital engagement

**24.2m** Digital visits

**1m** Facebook followers

**75k** HomeChoice app

**4m** Email addresses

**105k** Instagram

Net promoter score

**>70**

RETAIL

homechoice

Active customers
**811 000**
2019: 826 000

FINANCIAL SERVICES

finchoice

Active customers
**218 000**
2019: 202 000

Registered for digital channel:

| homechoice | | finchoice |
|---|---|---|
| 28% | Registered for digital channel: | 92% |

**Her preferred channel:**

| homechoice | | Channel | | finchoice |
|---|---|---|---|---|
| 34% | +12pps | Digital | +3pps | 87% |
| 52% | -9pps | Contact centre | -3pps | 13% |
| 7% | -5pps | Sales agents | | |
| 7% | +2pps | Showroom | | |

**How we acquire her:**

| homechoice | | Channel | | finchoice |
|---|---|---|---|---|
| 23% | +15pps | Digital | +11pps | 58% |
| 63% | -9pps | Contact centre | -10pps | 41% |
| 6% | -8pps | Sales agents | | |
| 8% | +2pps | Showroom | +1pps | 1% |

# DIGITAL FIRST OPERATIONS

## Evolving our business and enhancing **customer experience**

### DIGITAL MARKETING

Digicat - Retail digital catalogue

E-mail and SMS campaigns

Data trigger customer journeys

### MACHINE LEARNING ALGORITHMS

Driving marketing campaign responses

Connecting customers at the right time, with their preferred method

Optimising credit performance

### CLOUD BASED PLATFORMS

Seamlessly linking customers to agents across multiple channels (voice, chat, e-mail, SMS, WhatsApp)

Enabling service bots for customer self-service resolution

Empower agents to support digital engagment

### API SERVICES

Data-driven customer acquisition

Personalised offers using real-time data

Digitally savvy new customers on-boarded

### SOCIAL MEDIA MONETISATION

Engaging customers any time, any place

Harness social media – delivers sales and customer experience

Empowering contact centre to become digital agents

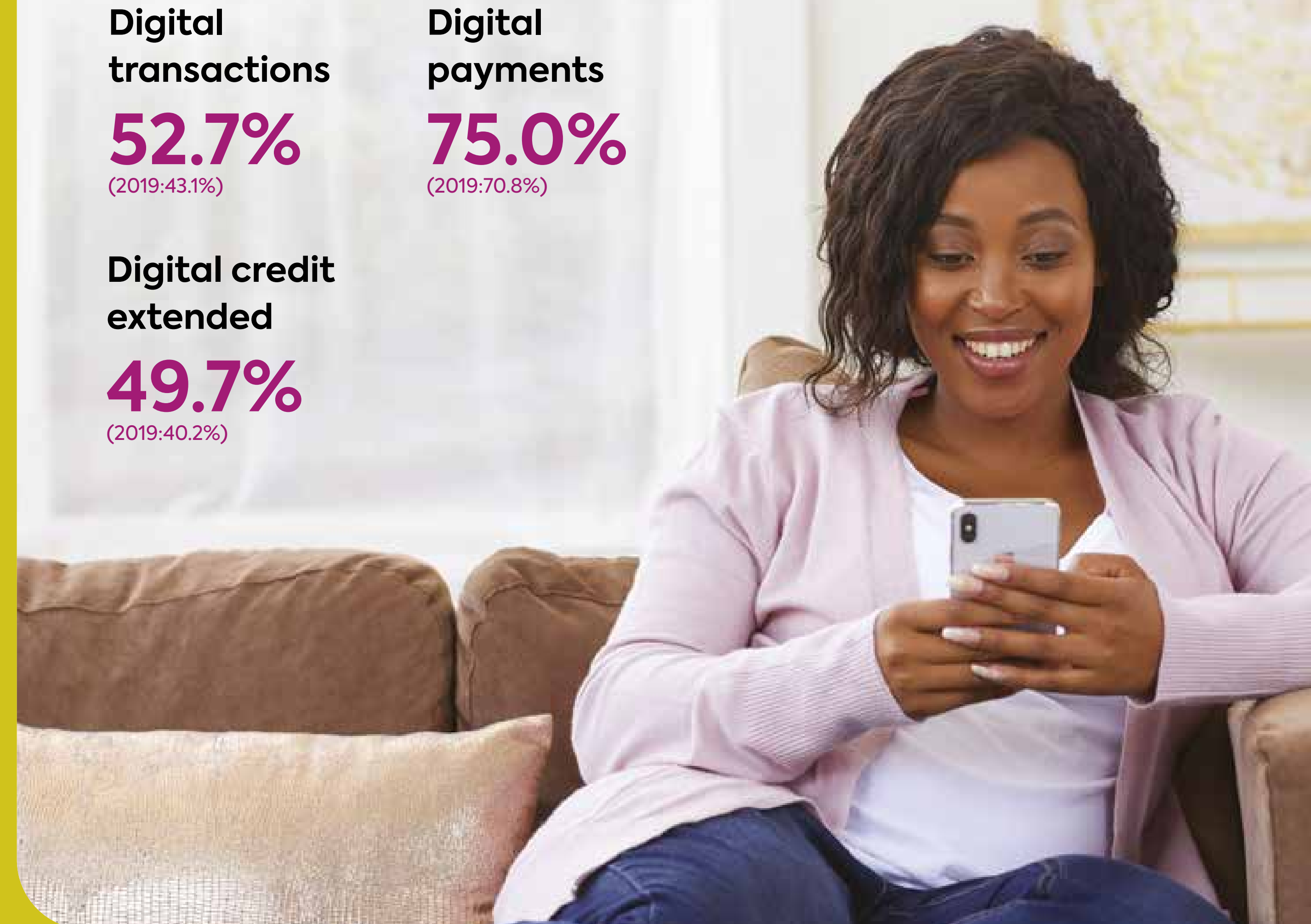
### Group digital transformation

| | | 2020 | 2019 |
|---|---|---|---|
| homechoice | ↑ | 34% | 22% |
| finchoice | ↑ | 90% | 85% |

**Digital transactions**
52.7%
(2019:43.1%)

**Digital payments**
75.0%
(2019:70.8%)

**Digital credit extended**
49.7%
(2019:40.2%)



# EXTERNAL ENVIRONMENT AND MACRO TRENDS

**The external environment in which the group operates, and the manner in which we respond, has a strong bearing on the value-creation process.**

The group considers these macro trends in their strategy formulation process.

## Omni-channel and 21st-century retailing

Consumers are more attracted to retailers who provide multiple channels which they can use to access the brand. Multiple touchpoints provide customers with convenience to choose when and how they engage with the brand. Channel management and delivering a common and consistent brand experience across all channels becomes a critical differentiator.

Online retailers are increasingly finding it important to develop a physical presence in addition to their primary online presence. Pure play online retailers are opening physical stores or showrooms where customers can see and experience their products first-hand. They provide a space for customers to develop an emotional connection with the brand. Customers browse, get advice and assistance with queries from trained consultants and still enjoy the convenience of product delivered to their homes.

## Increased competitor landscape

As more retailers enter the market, the number of available options along cost, service, quality and style to consumers increases. With the shift in the use of digital technology, the number of options becomes exponential. Consumers are also more exposed to international trends and adjust their tastes and expectations of local companies to deliver on those trends at the same time.

A number of start-up FinTech players have, and are entering the local South African market with simple, easy-to-understand, competitively priced products disrupting the well-established traditional financial services industry. The increasing availability of aggregator or comparison sites in the insurance industry makes it easier and simpler for customers to "shop around" for the best deal. In this environment it is critical that companies have brand differentiation and ensure that their total price consideration is competitive in the marketplace.

Customers expect delivery, speed, convenience and good service. They want their transactions to be simpler, faster and easier to use. With the continual innovation in smartphone technology, mobile phones become a key tool in the hands of customers for data-rich communication from companies while providing easy access to information and trends.

## Cybersecurity

Cyber incidents are increasingly being ranked in companies' top risks. It is not only viewed as a critical IT risk but has been elevated to becoming a strategic business risk. Awareness of the cyberthreat has grown rapidly in recent years, driven by increasing reliance on data and IT systems and a number of high-profile incidents both locally in South Africa and internationally.

With increased threats from scammers and hackers, customers are more cautious when providing their personal information online. In some instances, they prefer to have their initial transaction conducted telephonically and then, after trust has been built up, are more comfortable to manage transactions online.

## Social media commerce

Social media has put increased power in the hands of the consumer – to shop, provide feedback and show brand loyalty. Social media offers an easy and low-commitment tool for potential customers to express their interest in a company's products – leads generation. It also serves as a sales channel bringing new customers into the group. Customers expect brands to be accessible on social media to assist them for customer support services.

Social media communication can be positive or negative and many companies are experiencing the result of particularly negative communication, with consequences to their reputation and trust. Tailoring communication is becoming more important and being aware of individual customers' communication preferences is critical to ensure that the communication lands correctly and marketing investments are maximised.

## Data privacy

Consumers are increasingly becoming more aware of privacy of their data provided to and used by companies. They are demanding that corporates protect their access and refrain from taking advantage of their personal data. Customers want to understand what their data is being used for, and the method, process and timing of how companies can contact them.

Data protection regulations are being implemented worldwide, formalising the use of consumers' personal information.
The regulations impacting the group are:

- the EU's General Data Protection Regulations (GDPR);
- the Data Protection Act (DPA) in Mauritius, which is aligned to the GDPR; and
- the Protection of Personal Information Act (POPI) applicable in South Africa.

## Big data

Big data – the collection of data from many sources used by companies to provide valuable insights. Using machine learning tools, predictive modelling and other analytics programmes the accumulated data can be mined relatively quickly to provide useful insights for the group.

This big data, used efficiently and effectively, can deliver a competitive edge as companies are able to make faster and more informed decisions. Companies become more customer-centric by understanding the changing preferences of customers and using their data to predict future requirements.

Technology, tools and data science teams and analysists, are critical resources to leverage the vast databases to deliver valuable insight to create value for the future.

## A new normal post Covid-19

The pandemic has changed the world and will impact how businesses approach their operations.

2021 will be a year of transition - one in which companies can start to look forward to re-shaping their future.

Digitalisation has accelerated and the momentum it has created will drive many business decisions. Remote working and virtual meetings are likely to continue but less intensely than at the peak of pandemic. Managing and motivating a split workforce working remotely and at the office will be an imperative.

# 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 during an annual strategy process and the key business risks are confirmed. The group considered the key business risks and refined them to the seven 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 2021 onwards. More detail on the group strategy can be found on pages 24 to 27.

## MANAGING THE IMPACT OF COVID-19

Covid-19 had a devastating impact on the South African economy. In 2020, more than 2.2 million people lost their jobs in Q2 and unemployment reached 32.5% in Q4, the highest level in 17 years.

The BER consumer confidence reached low levels of -30% and -25% in Q2 and Q3 respectively. This created affordability challenges for customers and an increase in retrenchments. Mortality from Covid-19 resulted in higher levels of death and retrenchment related insurance claims.

Fiscal support was provided by the South African government in the form of the Temporary Employment Relief Scheme, additional social grants and a 300 bps cut in the repo rate. Payment holidays were provided by some credit providers to assist financially constrained consumers. More people working from home gave rise to household upgrades and a demand for those products and services which were not available due to Covid-19 regulations.

### Risks and mitigations

**Ensure the safety of our staff**

- Implement Covid-19 health and safety protocols in head offices
- Set up and enable staff to work-from-home
- Regular communication with staff, and provide wellness support

**Tighten credit granting to more financially stable customers**

- Reduce credit limits
- Curtail new customer acquisition
- Adjust credit scorecards to take into account more up-to-date information

**Conserve cash**

- Deliberately cut loan disbursements
- Focus on collections strategies and processes
- Manage discretionary expenses and delay capital expenditure
- Withhold dividends
- Drive top-line revenue growth
- Accelerate digital transformation to enable customers to transact with the group from the safety of their homes
- Introduce additional product categories to meet changing needs of customers
- Stop printing catalogue - first time in 35 years

# Trading environment in the new normal

## Strategic context and stakeholder needs

While South Africa starts to slowly recover from the impact of Covid-19, trading in a new normal will require careful adjustment to the operational strategies of the group.

We will continue to drive the successes achieved in the pandemic and focus on the areas of improvement particularly in the Retail division of the group.

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 also 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 and in turn they trust us to deliver on their requirements.

### Risks and mitigations

**Inability to deliver targeted financial performance**

- Grow customer base through digital acquisition and data driven retention strategies
- Rebalance product ranges and recalibrate pricing
- Introduction of new retail product ranges and categories
- Diversify into additional insurance products and value-adding services
- Expand the customer base with more external customers
- Use of API integration with affiliate sites to attract more digitally savvy customers

**Opportunities**

- Product innovation in key categories
- Broaden range of external brands appropriate for product categories
- Flexible credit options provide wider choice
- Use of technology to develop more personalised offers driving improved conversion rates
- Build on the new credit scorecard methodology developed during Covid-19
- Grow stand-alone insurance

# Delivery network and customer experience

## Strategic context and stakeholder needs

Operating a direct-to-home delivery network, the quality of the end-to-end customer experience is a key strategy for the group.

Customers expect delivery times to be shorter, drop-off and pick-up points to be more convenient and the product returns processes to be simple and easy.

The Retail business is supported by two distribution centres in Cape Town and Gauteng and two types of delivery providers (couriers, and owner-driver ISPs) to ensure that customers receive their parcels on time.

In 2019 the group reduced its reliance on the South African Post Office (SAPO) for customer deliveries, and this was accelerated during Covid-19. Except for some deliveries to Botswana and Namibia, all deliveries in South Africa are either delivered direct to customers' homes or made available at our 12 retail showrooms and 11 ChoiceCollect containers using the Click and Collect functionality.

Average days for delivery increased in the height of Covid-19 partly due to the backlog created when only essential products could be sold and dispatched and compliance to the health and safety regulations. Significant reductions in delivery times were made in Q4 of 2020.

The printing and distribution of the Retail catalogue was stopped in March 2020 due to the suspension of deliveries by SAPO. Marketing and awareness was created by making a digital version of the catalogue available to customers. We have subsequently reintroduced a quarterly catalogue in 2021 and will make use of additional service providers to reduce the reliance on SAPO for the delivery of them.

Further details on distribution network partners can be found on page 38.

### Risks and mitigations

**Our parcel delivery experience does not meet our customers' expectations**

- Partnering with specialised courier networks in established metropolitan areas
- Independent owner-driver home delivery service with performance tracking and training
- Click and collect options in showrooms and ChoiceCollect containers
- Use of digital technology to provide visibility of the delivery process timing

**Catalogues are not delivered timeously**

- Publish a quarterly catalogue as compared to previous monthly
- Use of additional on-the-street delivery partners
- Roll-out of showrooms and ChoiceCollect containers for catalogue collection points
- Drive collection and validation of customers' street addresses

**Our customer experience does not meet expectations**

- Streamline process from order to delivery
- Provide customers with the ability to select their 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

# Digitalisation

**90%**
**of Financial Services' transactions are concluded on a digital platform**

**25%**
**of Retail sales are digital**

## Strategic context and stakeholder needs

One of the strategic initiatives of the group is to drive mobi-first engagement. This initiative was accelerated during 2020 to mitigate the impact of the pandemic.

Digitalisation provides convenience for the customer and improves efficiencies for the group. 90% of Financial Services' transactions are concluded on a digital platform and 25% 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 anywhere and at any time.

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**

- Implement best-of-breed technology business solutions with mobi-first thinking
- Leverage e-commerce engine
- Drive monetisation of social media
- Develop and roll out customer self-service options on digital platforms
- Drive digitalisation of internal business processes

# Credit risk management and regulatory compliance

**90%**
**of Retail transactions are credit transactions**

## Strategic context and stakeholder needs

In excess of 90% of Retail sales are credit transactions, and our Financial Services business offers unsecured personal loans of a short-term nature.

As a result, the management of the group credit metrics is a material issue for the group.

In-house bespoke scorecards determine and monitor the level of credit granted. Credit bureaux are used to validate customer data in the credit-vetting process. Independent specialists review the scorecards and credit risk models on a regular basis. The group continues to introduce new systems and processes to enhance the origination and vetting of credit applications. New anti-fraud tools and more efficient vetting processes have been designed to minimise credit risk due to digital and account takeover fraud.

Changes to the group's systems and processes are implemented for any changes in credit regulations. All Financial Services and at least 35% of Retail payments are made via debit orders. The implementation of the new debit order protocol, DebiCheck, will be completed in 2021.

Further details on credit risk management can be found on pages 88 to 91.

### Risks and mitigations

**Inability to manage credit within acceptable risk levels and support targeted revenue growth**

- Use of external credit bureaux and in-house scorecards in vetting process
- Real-time vetting tools
- Effective collections strategies – internal and external
- Use of specialised fraud detection technology
- Retail sales growth primarily driven by targeted direct marketing models
- Financial Services' customer base preselected from low-risk Retail customers, with external customers introduced with shorter terms and lower credit limits

**Opportunities**

- In-house scorecards and intellectual capital allow us to build up significant credit history and understanding of the middle mass customer market
- Use of technology, including machine learning and artificial intelligence to automate processes and predictors of risk
- Invest in new best-of-breed credit management system

# 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.

Technology development will take advantage of API services-based methodologies to be deployed rapidly to meet customers' needs.

Technology-driven companies who hold data-rich customer databases, may be more vulnerable to an increased risk of cyberattacks and breaches of their data security. Several international companies have experienced breaches in their information security and had their customer data compromised. Protection of customer's personal information is subject to many regulations already in place or due to be effective.

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
- Implementation of the Data Protection Act in Mauritius and POPIA in South Africa.

**Replacement of legacy systems diverts resources from day-to-day operations**

- Specific capital allocation and resources for redesign of legacy systems
- Focused team for re-platforming legacy systems
- Legacy upgrades to be designed in application services for faster implementation

**Opportunities**

- Use of leading software providers in the suite of technology
- Training to create awareness and understanding and compliance with information security
- Deployment of agile development processes and application services technology



# Talent management

## Strategic context and stakeholder needs

To enable the group to improve customer experience the employee experience and engagement strategy should be developed to achieve that objective.

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.

Further details on employees can be found on page 34 and the Remuneration policy can be found on pages 96 to 101.

### Risks and mitigations

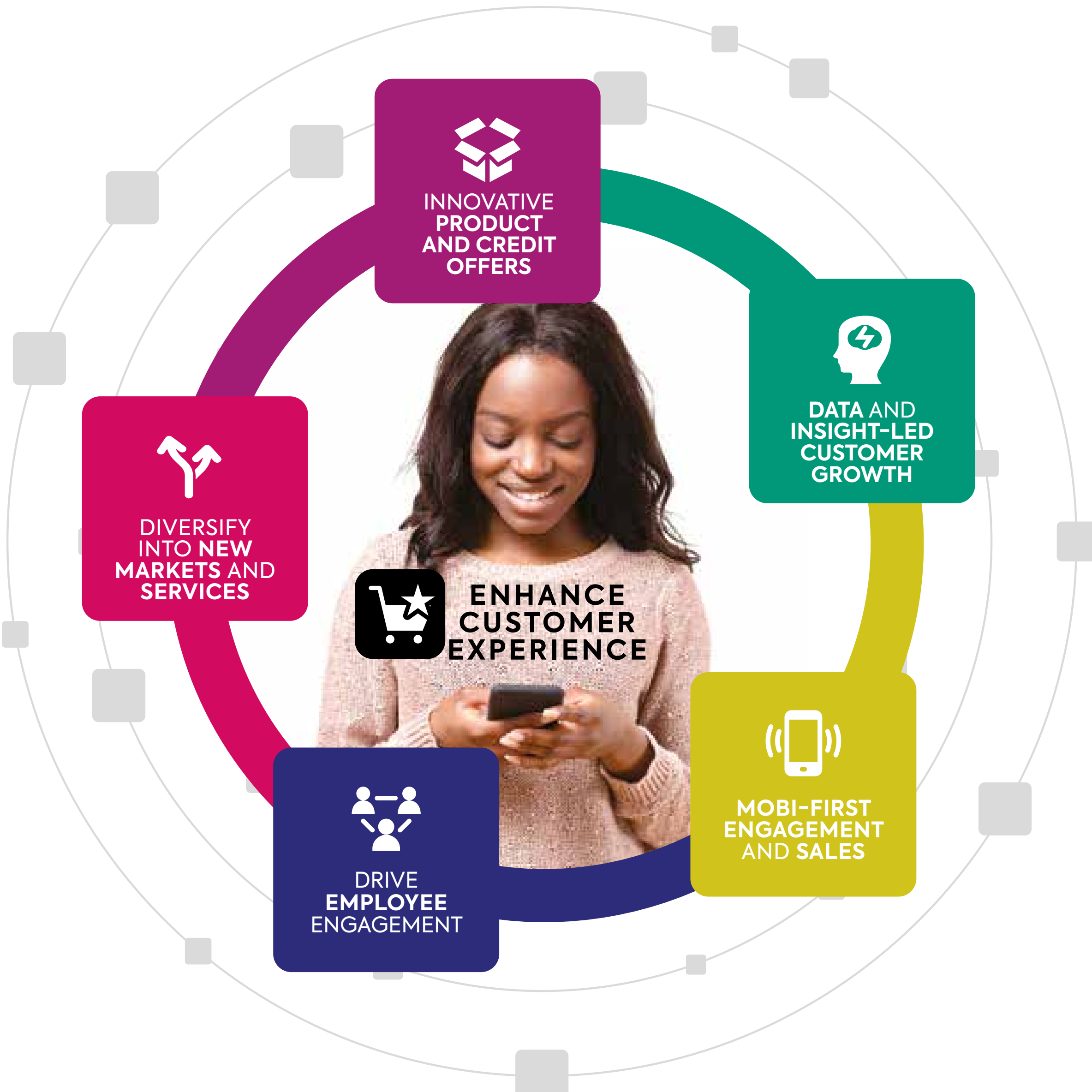
**Inability to attract, retain and develop employees with the necessary skills required by the group**

- Targeted retention strategy formalised, with a focus on leadership
- Regular market benchmarking to ensure competitiveness
- Greater flexibility and remote working processes
- Adoption of best-practice people policies and procedures
- Use of digital HR processes to attract staff with digital expertise

**Opportunities**

- People strategy to be more focused on employee engagement initiatives to deliver enhanced customer experience
- Enhance e-learning training programmes
- Extend the National Certificate in Contact Centre Support up to 100 learnerships
- Adapt culture to develop empowered and engaged employees

# OUR STRATEGY
# CUSTOMERS ARE AT THE CORE OF THE GROUP'S STRATEGY




**1**
We are focused on delivering convenient, easy to navigate and consistent customer experience from order to delivery

**2**
Continuous innovation retains and attract new customers with affordable credit options

**3**
We use data science and analytics to mine our customer database to drive top-line growth

**4**
Our customers mainly use their phones to access digital platforms. Mobi-first is at the core of technology development

**5**
Engaged contact centre employees are critical to deliver consistent customer experience across all channels

**6**
Diversification of complementary products, services and channels deliver sustainable profit growth

## STRATEGY DISRUPTED BY COVID

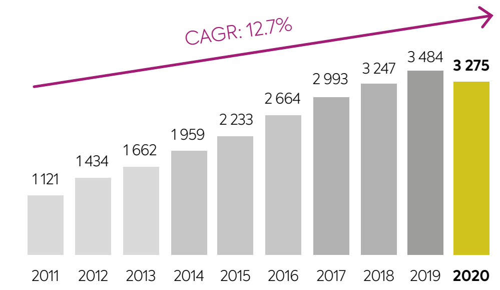
**The Covid-19 pandemic interrupted the delivery of our strategic initiatives for the 2020 financial year.**

Covid-19 regulations reduced our top-line revenue targets and diverted our focus to conserve cash and mitigate the impact on operating profit.

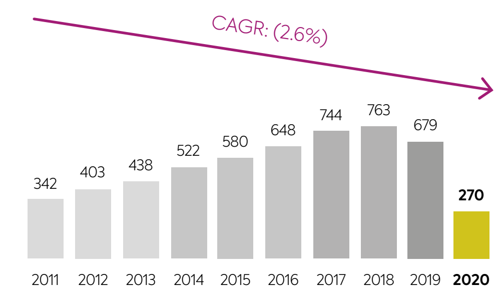
Capital expenditure for diversification into new markets and services was reduced to levels which required us to slow down the rollout of Retail showrooms and ChoiceCollect containers. Expenditure was diverted to support and accelerate digital transformation partuculary in the Retail division. We saw the benefits from this with digiatl sales performing srongly.

New product ranges were introduced to appeal to customers who were forced to spend more of theor time in theor homes be it for work or tp enjoy activities that were unavailable die to lockdown restrictions.

**GROUP REVENUE**
Rand million




**GROUP OPERATING PROFIT**
Rand million




## MEDIUM-TERM TARGETS

| | | Target | 2020 | 2019* | 2018** | 2017*** | 2016 |
|---|---|---|---|---|---|---|---|
| Retail gross profit margin | (%) | 47 – 50 | **44.9** | 47.4 | 49.6 | 51.2 | 49.3 |
| Operating profit margin | (%) | 22 – 27 | **8.2** | 19.9 | 23.5 | 24.9 | 24.3 |
| Return on equity | (%) | 22 – 27 | **5.5** | 16.7 | 20.9 | 23.3 | 22.5 |
| Net debt to equity | (%) | <40 | **20.1** | 30.2 | 27.6 | 28.3 | 28.7 |
| Dividend cover | times | 2.2 – 2.8 | **–** | 2.6**** | 2.6 | 2.6 | 2.6 |
| Digital credit extended | (%) | >60 | **49.7** | 40.2 | 38.7 | 32.4 | 27.4 |
| Customer experience | (delivery days) | <4 | **8.1** | 5.4 | 6.4 | | |
| Net promoter score | (%) | >70 | **>70** | 72 | | | |

* IFRS 16, Leases, *adopted effective 1 January 2019.*
** IFRS 9, Financial Instruments, *adopted effective 1 January 2018. IAS 39 applied for 2017 and prior financial years.*
*** *Restated based on the application of* IFRS 15, Revenue from Contracts with Customers.
**** Dividend cover applied but final dividend cancelled due to Covid-19.

## 1 ENHANCE CUSTOMER EXPERIENCE

**Operating context**

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

A positive customer experience is an important factor to drive strong retention of the customer base.

Customers expect to be able to choose delivery options and track their deliveries.

**Strategic initiatives**

- Provide consistent experience across all channels
- Develop digital processes to empower customers to manage their service requirements
- Reduce days to deliver, enhancing customer experience
- Use of real-time technology to improve customer experience in digital channels

## 2 INNOVATIVE PRODUCT AND CREDIT OFFERS

**Operating context**

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

Customers require affordable and accessible credit options to facilitate their purchases.

**Strategic initiatives**

- Innovation in market-leading bedding and textile categories
- A range of external brands suited to our customers' needs, providing customers choice and convenience
- Reposition the retail credit offering to provide customers with more affordable and flexible options to suit their purchasing requirements
- Accelerate 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

## 3 DATA AND INSIGHT-LED CUSTOMER GROWTH

**Operating context**

We have more than 1.6 million customers on our database and 906 000 active customers.

Our catalogue and digital channels have enabled us to collect richer data than traditional bricks and mortar retailers.

**Strategic initiatives**

- Optimise data analytics and data science teams to develop our customer segmentation models to drive personalisation
- Risk, response and life-stage marketing models to attract and acquire new customers
- Continue to drive the primary customer acquisition channel using the Retail business
- Extend the targeted use of affiliate and aggregator sites to acquire digitally savvy Financial Services customers
- Data allows us to reduce fraud and manage potential financial stress

## 4 MOBI-FIRST ENGAGEMENT AND SALES

**Operating context**

There are a number of new FinTech entrants in the South African financial services sector leveraging digital platforms to expand their businesses at a rapid rate. Online retail shopping has accelerated during the Covid-19 pandemic. Customers want the convenience of being able to access brands whenever and wherever they want to. The number of smartphones in use grows each year and most consumers use their mobile phones as their primary tool to access digital offerings.

**Strategic initiatives**

- Digital mindset and design for mobi-first execution
- Increase digital Retail sales contribution
- Migration of Financial Services customer journeys to mobile self-service
- Migrate from contact centre selling to digital enablement and customer support
- Develop Retail digital-exclusive product ranges
- Use of social media to improve customer experience and generate sales

## 5 DRIVE EMPLOYEE ENGAGEMENT

**Operating context**

We believe that our employees are key assets and enablers in order to achieve our strategic direction and operational plans. Current HR best practice suggests that employees' experience or engagement is a key driver of customer experience. We have therefore developed an employee strategy which specifically addresses our unique relationship with our customers and thereby enhance the experience they have with the brand.

**Strategic initiatives**

- Develop organisational competencies
- Implement HR transformation programme to drive new strategy
- Define HR service delivery model
- Design and implement functional skills development solutions, processes and systems

## 6 DIVERSIFY INTO NEW MARKETS AND SERVICES

**Operating context**

Showrooms provide an opportunity to display the breadth of the product range, providing first-hand experience for customers to touch and feel the product. They also serve as convenient locations for customers to collect their merchandise, deal with queries and, when required, facilitate the returns process.

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

**Strategic initiatives**

- Roll out additional Retail showrooms and ChoiceCollect containers
- Drive expansion into neighbouring countries to South Africa
- Introduce additional insurance products offering and develop new digital sales channels with key partners
- Introduce value-added services which are supported by FinChoice MobiMoney™

# OUR BUSINESS MODEL



## How we create value through our business activities

Homechoice International is a holding company with investments in the retail and financial services markets. We drive value through offering the female mass market innovative products at affordable credit on digital platforms.

### Resources utilised

**Financial capital**
Shareholders and debt funders who have provided the financial capacity to run the business

**Our people**
Skills, experience, competencies and diversity of our employees who are focused on delivering enhanced customer experience

**Knowledge**
Product and credit expertise the group has developed over the past 35 years primarily focused on the mass market urban women of South Africa

**Physical locations**
Sophisticated contact centre, our e-commerce enabled distribution centre, Retail showrooms and ChoiceCollect containers

**Social relationships**
Distribution partners and suppliers who understand and are committed to the business model and the role they play in delivering customer experience

**Natural capital**
Limited usage of energy, water and packaging in our business operations

## Fintech financial services

**Convenient and easy to access**

A suite of unsecured personal loans, stand-alone insurance and value-added services. Entrenched use of digital technology providing customer convenience and operational efficiencies.

## Credit risk management

**Balancing growth and risk**

Full end-to-end credit management processes using in-house scorecards developed for customer target market. Incorporating new technologies and automated decision making.

## Customer analytics

**Enhancing customer experience**

Using data science and analytic tools we are able to mine our extensive customer base. Drives top-line growth and supported by the customer preference centre.

## Mobi-first digital systems

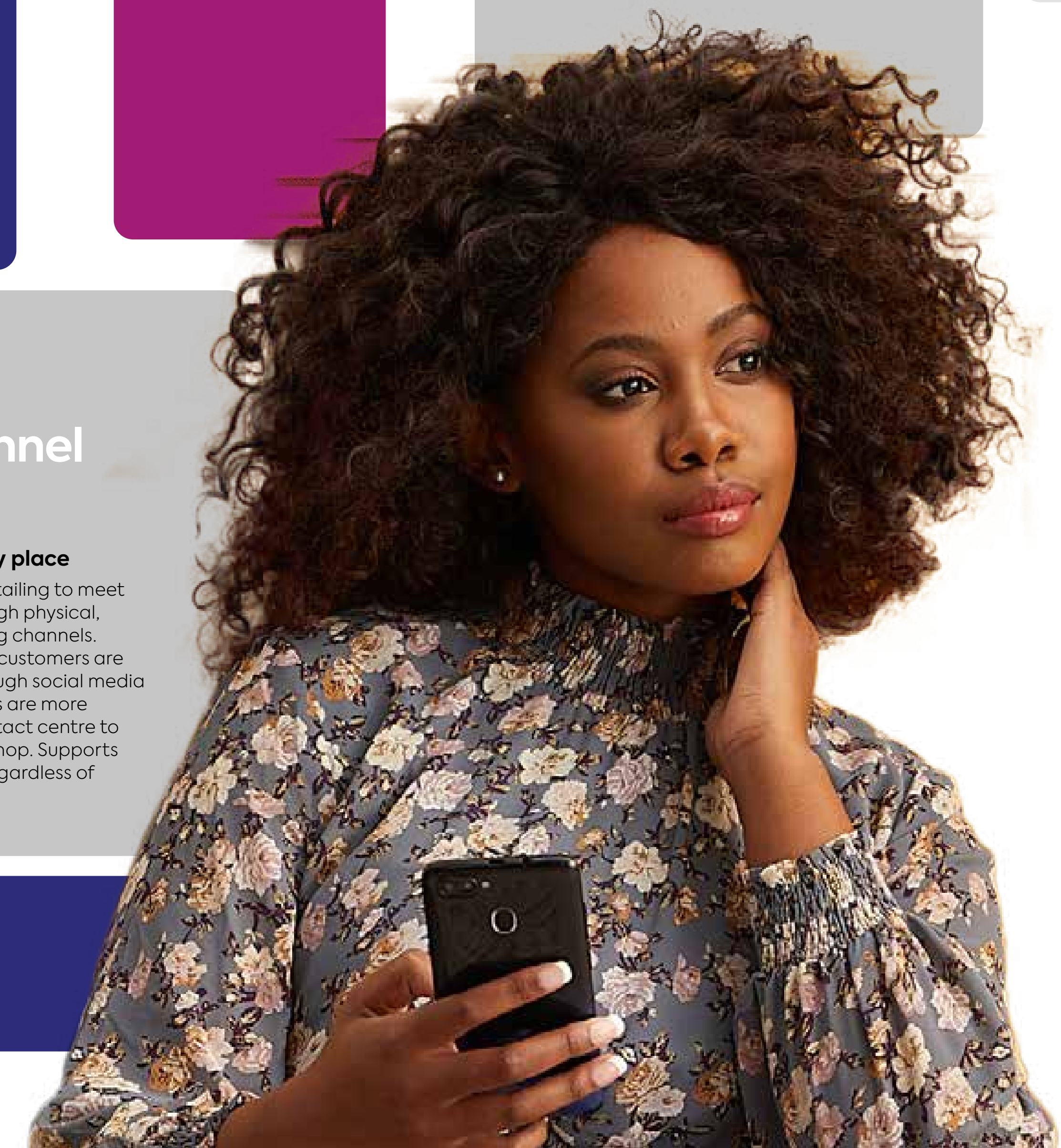
**Putting the brands in customers' hands**

Customers access our digital platforms through their mobile phones. Customer facing technology initiatives are developed using mobi-first thinking, increasing accessibility and convenience.

## Omni-channel retail

**Shopping any time, any place**

Providing omni-channel retailing to meet our customers needs through physical, digital and direct marketing channels. Our digital and tech savvy customers are increasingly shopping through social media platforms. Older customers are more comfortable using the contact centre to guide them through their shop. Supports ability to maintain trade regardless of outside challenges.



## What differentiates us

1. Consistent focus on **female mass market** for more than 35 years
2. Rapidly growing **retail digital channel** leveraged from well-established contact centre
3. Well established **FinTech division** using mobi accessibility
4. **Mobi-first** digital mindset and execution
5. Extensive behavioural, attitudinal and transactional **data-rich customer database**
6. Proprietary customer credit and response **knowledge** and history
7. **Omni-channel retailing** enables customers to shop in the way that they want
8. Integrated single-item direct-to-home logistics **delivery channel**
9. **Entrepreneurial spirit** delivers sustainable organic growth

# HOW WE ADD VALUE

# CUSTOMER EXPERIENCE

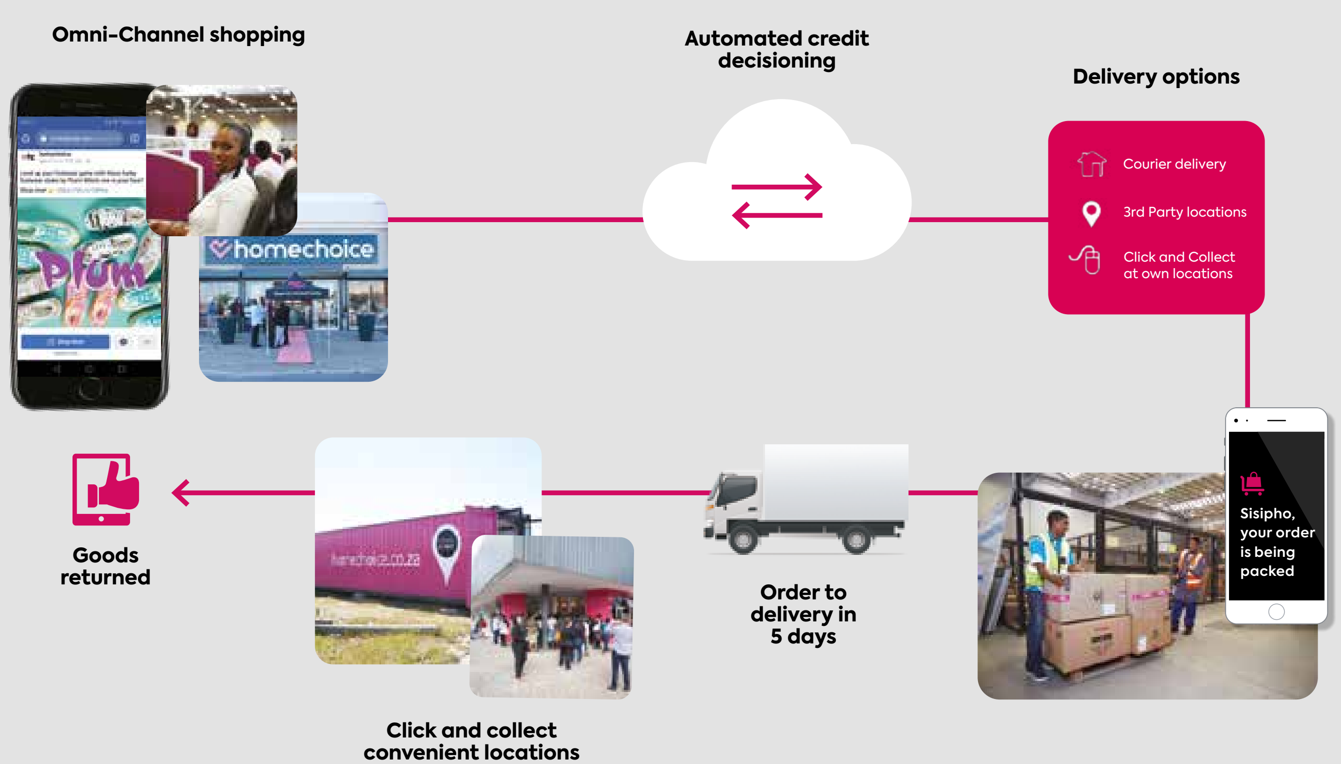
The group's business model has two distinct legs.

## homechoice

The Retail division enables and empowers the urban woman of South Africa to have access to innovative quality merchandise that will enable her to provide a home for her family and friends. Operating omni-channel retail operations with a direct-to-home delivery network. Our customers expect a streamlined ordering process with real-time credit approval. They want delivery times to be shorter, drop-off and pick-up points to be more convenient and product returns processes to be simple and easy.

**NPS score**
**73.5**

### Improving shopping experience

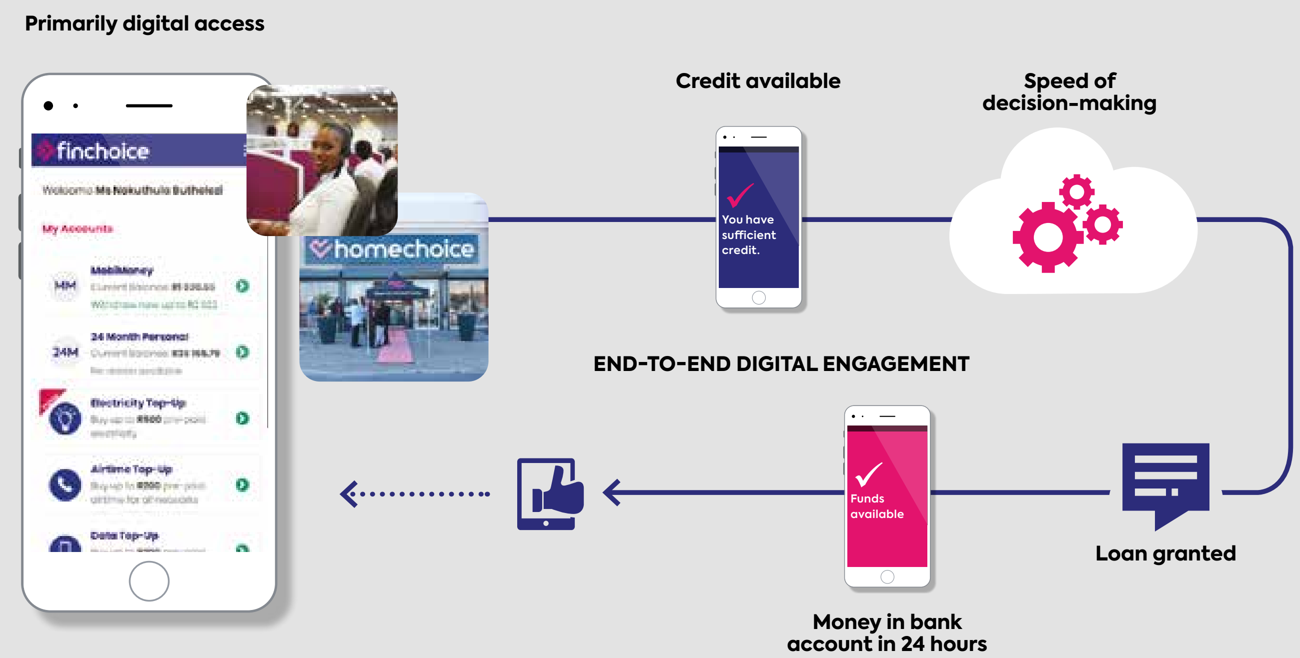



## finchoice

FinTech personal loans, value-added services and stand-alone insurance. Our customers expect end-to-end digital engagement processes that are easy to use and available 24/7/365. They want personalised offers based on real-time data, and seamless access to credit. They want a one-stop-shop for all their personal financial needs.

**NPS score**
**75**

### Her FinTech customer experience



# OUR EMPLOYEES

**We have embarked on a journey to become an Employer of choice, developing engaged and empowered employees to be key agents in enhancing our customer experience.**

### Employer of choice

4 pillars of employee value proposition

Growth | Recognition | Care | Rewards

### Technology-enabled MyLearning portal

**90%+**
employees used digital MyLearning

**22 000**
training interventions
70% conducted digitally
2019: 31 000 interventions, 49% digital

### Developing competencies for the future

**83**
learnership employees
2019: 72

52
Contact centre

31
Generic management

100%
Black

**20**
bursaries awarded

90%
black recipients

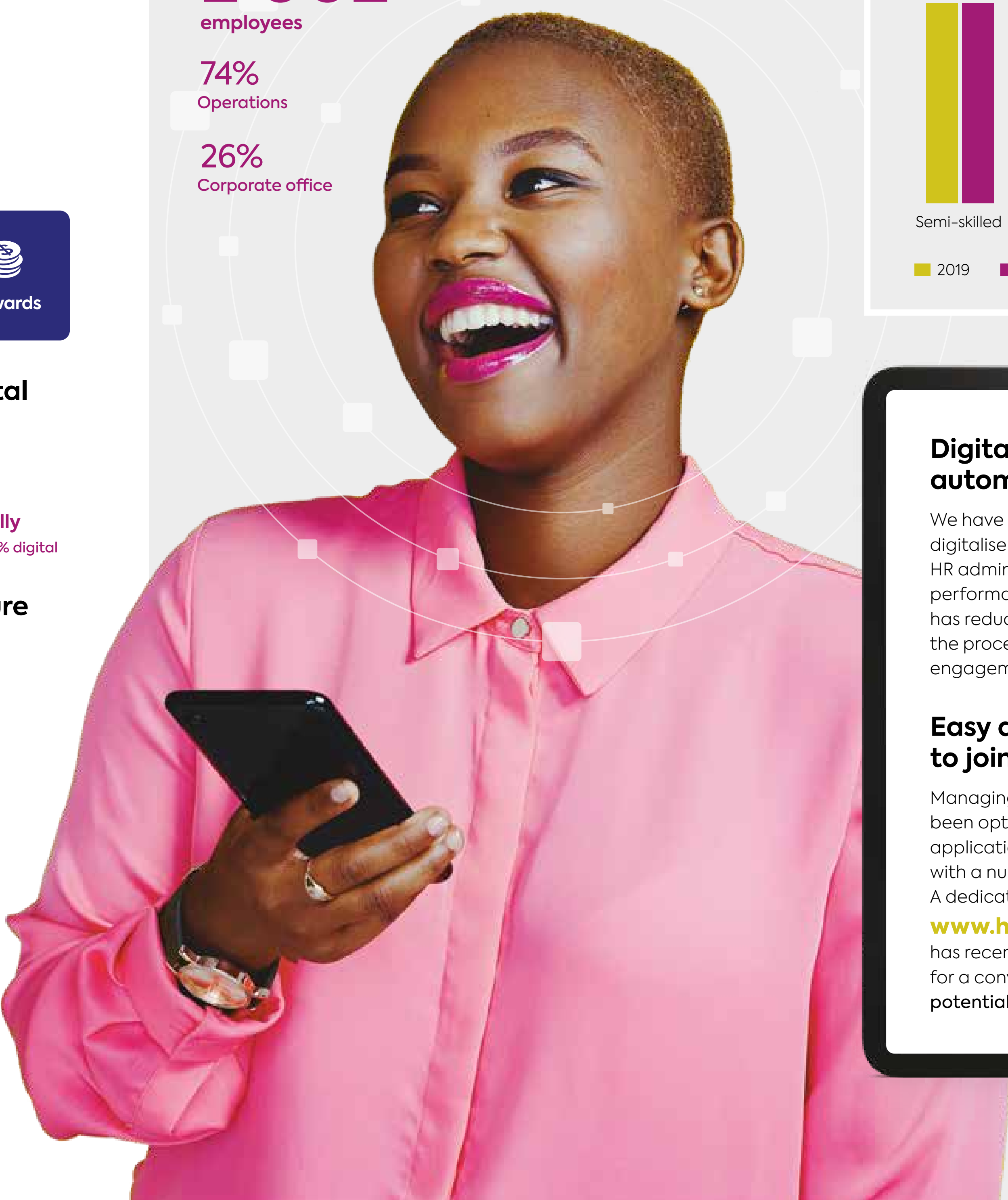
### Leadership capacity

**123**
attendees

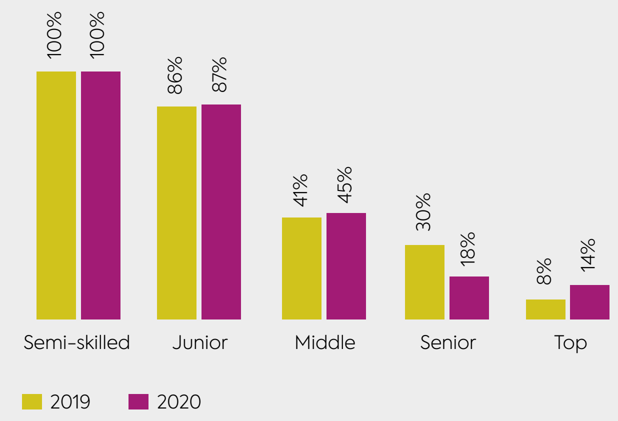
**2 002**
employees

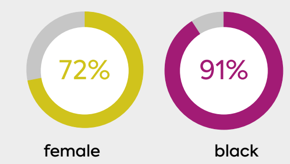
74%
Operations

26%
Corporate office



### Transformation




**Committed to transformation**

Disability audit conducted in readiness for 2021 roll-out

B-BBEE champions appointed

**80%**
promotions from EE employees

### Digitalisation and automation

We have embarked on a programme to digitalise and automate previously manual HR administrative processes. The digital performance management system has reduced the time taken to manage the process and also has improved the engagement discussions.

### Easy and convenient ways to join the group

Managing new employee applications has been optimised with enhancement to our application tracking system and integration with a number of social media platforms. A dedicated careers website, **www.homechoicecareers.co.za**, has recently been launched, which will allow for a convenient and "one-stop shop" for potential employees.

### Easy access to wellness programmes and resources

**Health4Me**

Within the context of a challenging social environment, staff have access to an on-site counsellor in addition to an on-site nurse. A low-cost health insurance now provides staff the option to include their family members on the insurance, providing more financial security to employees and their families. Dedicated wellness days, which include medical, financial and social environmental topics, are run on a regular basis throughout the year.

As a provider of financial services, it is important for our own staff to understand and manage their own finances – dedicated sessions are run in conjunction with our provident fund service provider.

# SHOWROOMS

## ‘**bringing the brand to life** – enhancing customer experience’

Our showrooms showcase the breadth of the group’s product range to customers. Designed to allow customers to experience Retail’s product offering in a physical location, they are able to “touch and feel” and experience the merchandise first-hand. Financial Services’ kiosks are also available in the showrooms to support customers sales and service queries.

Integrating the offline space with digital channels, computer tablets are available in the showroom so that customers can complete their purchase and select the most convenient delivery option for them. Customers then can choose to have their order delivered direct to their homes or use the click and collect option available at the showroom.

Showrooms are conveniently located close to the city’s main transport hubs (taxis, buses and train), to allow customers to pick-up their orders on their way home.

**3**
showrooms opened in 2020

**43**
Created jobs

**1 in 8**
deliveries collected at showrooms

**>30%**
cash sales
***showrooms are a key contributor to Retail’s sash strategy***

**1%**
of Financial Services loans

**7%**
of Retail sales, higher average order values

**30%**
of customers are new to the group


Further **showrooms** in 2021, with **potential for 20+**

**12**
**Showrooms**

**5 provinces**

**Western Cape:** Wynberg, Mitchells plain
**Eastern Cape:** Port Elizabeth, East London, Queenstown
**Gauteng:** JHB CBD, Mamelodi, Maponya Mall(Soweto), Katlehong
**Free State:** Bloemfontein
**Mpumalanga:** Nelspruit


# CONTAINERS

**7 000**
parcels collected, marginally down on 2019

Partnerships with SME’s and sales agents, **empowering and creating entrepreneurs**

Supports our enterprise development strategy, **contributing to our B-BBEE**

**11**
**Containers**


## ‘**bringing the brand closer** to customer’s homes’

ChoiceCollect containers provide a convenient pick-up point for customers to receive their orders at a location close to their home. They serve as a key point in the group’s retail delivery network as well as a digital access point, providing further reach of the brand to potential customers.

Operating in partnership with third parties and sales agents, HomeChoice provides a fully fitted container, support and training which empower and develop these micro-enterprises. The containers are self-sufficient, with energy sources on the roofs ensuring that they have a continuous power supply and access to digital networks. Robust security measures ensure the safety of the container and its immediate surrounds.

We have also uplifted and refurbished surrounding areas around the containers for the benefit of the local community.

Our current containers are located in a close radius of Retail showrooms so as to leverage existing operational management structures. This not only provides support for the owners but also maintains the customer experience philosophy of the group.


Further **containers** in 2021, with **potential for 50+**

**3 provinces**

**Western Cape:** Khayelitsha, Mfuleni, Phillipi
**Eastern Cape:** Butterworth, King Williams Town, Mdantsane
**Gauteng:** Soweto, Alexander, Soshanguve, Spruitview, Hammanskraal

# DISTRIBUTION NETWORK PARTNERS

**An efficient logistics and distribution network capability is a key enabler for digital retailers to provide customers a quick, convenient and efficient process to receive their orders.**

The group uses two main delivery options available to Retail customers – courier deliveries and click and collect.

Enabling the delivery process are third-party courier companies and "owner-drivers" or independent service providers (ISPs). SAPO is now only used for more out-of-town areas and locations where it is more costly for the group to service.

Distribution of the monthly catalogue by SAPO was stopped in the year making way for a digital catalogue and direct marketing. In 2021, we reintroduced a quarterly catalogue, with SAPO the main distribution partner.

Use of the click and collect option continues to increase. It is offered at the Retail showrooms and ChoiceCollect containers. The showrooms provide customers who are working in offices as they find it convenient to pick up their orders on the way home from work.

**>900 000**
deliveries in 2020

**83%**
direct-to-home
2019: 69%

**12%**
click and collect
2019: 10%

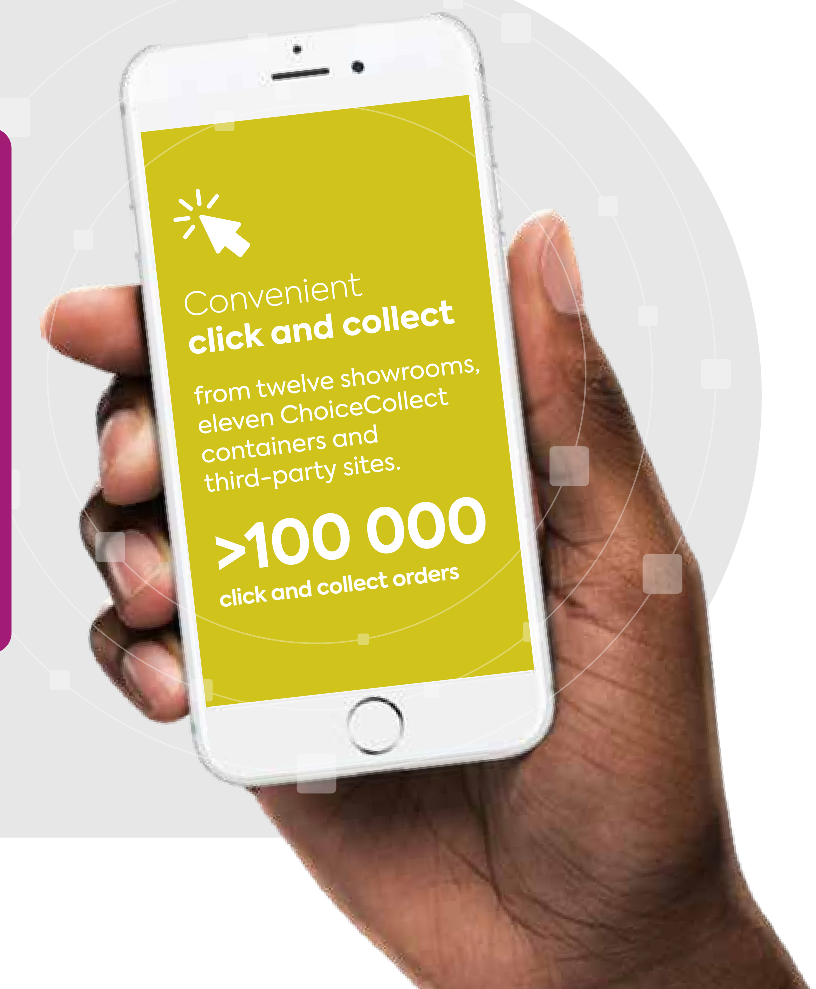
**5%**
Other
2019: 21%

**Independent Service Providers**

**10**
independent service providers with 46 vehicles/drivers

**<245 000**
deliveries

**37%**
of direct-to-home deliveries transported




# DIRECT SALES AGENTS

**Sales agents are based in the field, providing brand visibility in townships and more rural areas. They are our brand ambassadors providing one-to-one interaction with potential customers.**

The sales agent channel provides, mainly women, the opportunity to either earn an additional or secondary income or actively drive their primary income. Our top 10 agents have earned in excess of R1.8 million in 2020 in the form of commission.

In pre-Covid times monthly sales training sessions are held in 12 venues across the country and a further four held in Namibia and Botswana to cater for the more than 200 agents from those countries. The sessions include training on policies and procedures, product training and the "do's and don'ts" of an agent. An additional focus on general life skills training empowers agents with tools for the future and equips them with skills to take back into their communities.

The head office support structure provides agents with benefits and tools to assist them in growing their small businesses. Incentives and marketing material, subsidised demo products and mall activations encourage agents to share the product for their customers to touch and feel. WhatsApp groups allow for consistent and regular communication across the agents. Retail showrooms also provide support to agents operating within their surrounds. Sales agents also have the opportunity to improve their businesses by managing a ChoiceCollect container and expand their ability to earn additional income.

**Delivering better quality orders**

**1 429**
active agents
2019: 3 009

**93%**
based in South Africa

**R1.8m**
commission earned by top 10 agents

Average sales per agent pa R8k


## COVID-19 IMPACT

Unfortunately our sales agents have been badly impacted by the pandemic. Their ability to earn was curtailed by safety protocols and restrictions placed on gatherings and meetings. We also limited the intake of new agents.

# COMMUNITY – HOMECHOICE DEVELOPMENT TRUST

homechoice development trust

**R7.7m**
Donations-in-kind at retail value

**Vision**
To improve the quality of education by providing a safe, nourishing learning environment to preschool children in disadvantaged communities

**Mission**
The upliftment of underprivileged communities through focusing on early childhood development

**R5.4m**
spent during 2020

Educare centres supported
**614**
2019: 507

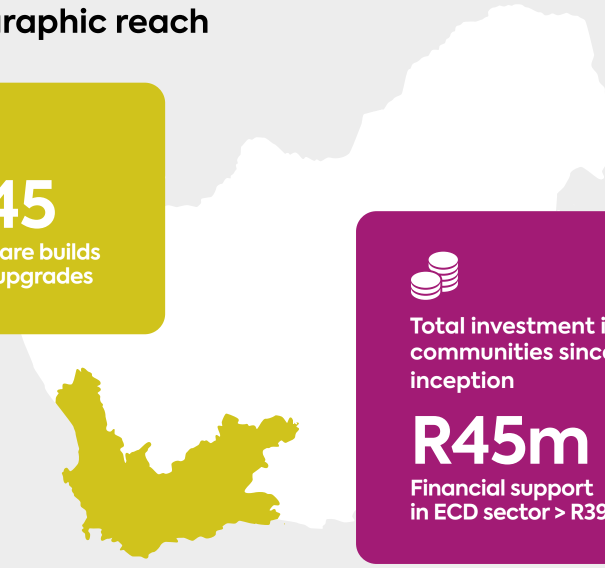
ECD practitioners trained
**2 419**
2019: 1 976

Children under 6 received quality start to education
**33 673**
2019: 27 575

## Homechoice Development Trust

The corporate social responsibility strategy of the group is managed by the HomeChoice Development Trust (HCDT). The Trust's main focus is the upliftment of underprivileged communities in the Western Cape through focusing on early childhood development by building schools, improving educator skills and sustainable operating processes. With the group's main South African operations based in Cape Town, the primary target is the underprivileged community situated in the Western Cape. The Trust has developed and maintains long-standing partnerships with key non-profit organisations who share the Trust's vision and have a sustainable track recorded in the Early Childhood Development (ECD) sector.

## Geographic reach



**>45**
educare builds and upgrades

Total investment in communities since inception
**R45m**
Financial support in ECD sector > R39m

**Core projects**

- Financially supporting early childhood development programmes
- To make a positive impact on the formative learning years of children
- Empowering women – our customers now and in the future – to provide their children with an enriching learning experience

Impact in 2020 — Project spend **R2.0m**

**Care projects**

- Supporting urgent and short-term needs of community in times of crisis
- Provide our employees opportunity to give back to charitable causes in the local community
- Donations-in-kind and volunteer days

Impact in 2020 — Project spend **R3.4m**

## Did you know?

**85%**
of our funding is channelled into infrastructure builds and upgrades of pre-schools in the Western Cape

This is done in order for pre-schools to comply with Government standards which will enable them to register and become self sustainable.

**In 2021 our infrastructure plan includes:**

- the upgrade of 10 pre-schools in Langa
- the build of 2 news centres in Mfuleni
- and the completion of Nourish Educare Centre in Vrygrond

## COVID-19 IMPACT

During 2020, much of the HCDT's activities had to be curtailed as a result of the Covid-19 pandemic. The pandemic presented many challenges and complexities within our communities. We've seen incredible resilience, commitment and resourcefulness in the communities we support. Our NGO partners have continued their work in support of so many important and crucial interventions to assist our ECD centres, the children, principals, teachers and their families during lockdown. Digital communication strategies and safety protocol plans were put in place, communities were visited to provide emergency food relief, staff salary support and emotional support as well as plans to ensure the continuation of out-of-centre learning and playing for the children. Although challenging at times, this period has definitely also presented our partners with opportunities to explore new innovative approaches.

The Early Childhood Development sector in the most vulnerable communities were hit the hardest during the year. They were unable to operate for more than four months with no form of income or financial relief from the Department of Social Development (DSD). Educators were allowed to return to their centres to prepare for the reopening, announced in a High Court ruling on 6 July 2020. The High Court ruled that pre-school centres could reopen, provided they complied with strict health and safety regulations as set out by the DSD.

During July, much of the focus was getting all the centres compliant with the new rules and regulations, training principals and teachers so that they could re-open their doors in August and have the children return.

We were pleased that we opened the doors on two newly built centres in Vrygrond and Overcome areas.

### Nontuto, the principal of Little Lambs said when her centre was opened:

"My heart is filled with joy and happiness. For so many years I have been praying for a new building, I would like to thank HomeChoice for their support and for making this dream a reality. This is a lifetime gift to our children and this community, thank you and may God bless you all."

In partnership with True North, we are also very pleased to launch and release the pre-school registration App on Playstore, 17 September, allowing easy access to all unregistered ECD centres in South Africa. The app guides any pre-school through their registration process, replacing the previous cumbersome manual process.

### Long term partnerships with non-profit organisations that is aligned with the strategy of the Trust

Since 2013
**Starting chance**
**Mfuleni**
- ✓ Infrastructure builds & upgrades
- ✓ Skills development
- ✓ Capacity building
- ✓ Leadership dev
- ✓ Computer training

Since 2012
**True North**
**Vrygrond & Overcome**
- ✓ Infrastructure builds
- ✓ Skills development
- ✓ Capacity building
- ✓ Leadership dev
- ✓ Bursaries
- ✓ Registration App

Since 2017
**Rotary Newlands**
**Langa**
- ✓ Infrastructure upgrades
- ✓ Skills development
- ✓ Capacity building
- ✓ Toy & book libraries
- ✓ Computer training

Since 2013
**Grassroots**
**Across the Western Cape**
- ✓ ECD outreach
- ✓ Playgroup model – Happy Valley area

Since 2013
**Sikhula Sonke**
**Khayelitsha**
- ✓ ECD outreach
- ✓ Infrastructure solutions
- ✓ Mobile toy & book libraries

# OUR 5* GREEN BUILDING JOURNEY

**"It is a great honour to be one of 11 existing buildings in South Africa to achieve a 5* rating"**

78 Main Road, Wynberg, Cape Town is the centre and hub of the group's South African operations. Our journey to becoming one of 11 existing buildings certified a 5* in terms of the Green Building Council of SA (GBCSA) became the catalyst for the group's sustainability programme.

The GBCSA classifies a green building as one which incorporates design, construction and operational practices that will significantly reduce or eliminate the negative impact of the working building on the environment and people. They are also more resource and energy efficient and may result in reduced or lower operating costs. Obtaining a 5* rating for an existing building is more complex and requires more effort to achieve than that of a new build.

The seven pillars of the group's sustainability strategy integrate and align with the nine different categories of GBCSA's scorecard.

Most of the sustainability initiatives to date have been focused on our internal stakeholders – employees. Going forward in 2021 we will extend the initiatives to be more inclusive of our external stakeholders, the largest of which are our customers.

It is our long-term intent to achieve a 6* rating for the head office building and a 5* rating for the Cape-based distribution centre. This encourages us to continually enhance and commit to further improve our environmental practices.

## COVID IMPACT

**The Covid-19 pandemic disrupted the achievement of the focus areas for 2020.**

Our focus was diverted to ensuring the health and wellbeing of our staff when they were in a position to return to work in the group's offices. Personal protective equipment and sanitisation stations were installed throughout the buildings. Social distancing was put in place with many contact centre employees located on different floors of the office buildings. Additional space for more than 90 contact centre agents was made available in the Cape Town distribution centre.

## ACHIEVED IN 2020

- Installation of **solar panels** on the roof
- Installation of additional **water tanks** to harvest rainwater run-off from roof
- Completed **LED lighting** roll-out

## 1 OF ONLY 11 EXISTING 5* BUILDINGS AS RATED BY GBCSA



# THE YEAR UNDER REVIEW

# EXECUTIVE CHAIR AND GROUP CEO REPORT



**I believe that our ability to demonstrate ongoing strategic traction in these trying circumstances, reflects the quality and commitment of our staff, the resilience and adaptability of our systems, and the strength of our brands and products.**

**Gregoire Lartigue**
**Shirley Maltz**

## Introduction

The HomeChoice group's target market is the discerning, urban, African, female, middle-income mass market. We have for 35 years been providing our close to one million customers in this market segment, with carefully curated homeware and financial services. Our passion is to assist 'her' to create a beautiful, inviting home for her family, and to manage her financial affairs conveniently and smartly. Our products, operations, and investments are aligned to deliver on this promise. Our HomeChoice and FinChoice brands have attracted generations of loyal customers who have embraced the quality and convenience of our product ranges and services.

The past year has possibly been one of the most challenging in the history of our company, and the impact thereof is evident in our financial results. I believe that our ability to demonstrate ongoing strategic traction in these trying circumstances, reflects the quality and commitment of our staff, the resilience and adaptability of our systems, and the strength of our brands and products.

## COVID-19 PANDEMIC

The pervasive impact of the Covid-19 pandemic in the past year has taken centre stage for corporates and citizens alike. The most immediate and significant focus areas for the group have been on employee and customer safety, accelerating and further entrenching our digital offerings, curtailing credit risk, and conserving cash.

Our employees' health was a key priority for us. Staff were provided with the necessary personal protective equipment, health and safety protocols were implemented and computer equipment was distributed to allow staff to work from home. Our specialist staff continue to work from home, and a new contact centre has been set up in the Cape Town distribution warehouse to enable appropriate social distancing for a team of some 90 people.

Covid also had a massive impact on our customers. Our customer acquisition strategy had to take a backseat under these circumstances. It is therefore pleasing to note that, notwithstanding the lockdowns and a reduced ability to trade, the Retail business succeeded in attracting 241 000 new customers, while 55 000 new customers were acquired by the Financial Services division.

To manage credit risk and conserve cash, loan disbursements were significantly reduced in the initial months of lockdown, credit limits were lowered for existing customers and loans to new customers were stopped, resulting in a reduction of R700 million in disbursements. Credit-granting criteria were tightly managed and lower credit limits allocated. We have maintained a strong focus on encouraging and incentivising customers to make payments.

Many of our strategic initiative resources had to be pivoted into Covid-related expenditure. Capital investment in showrooms and containers were slowed down.

The Retail division responded by pivoting its marketing spend from print to digital. After 35 years of producing a monthly catalogue, the printing and distribution of the catalogue were halted and all the marketing effort was focused on making the digital space more alive, exciting, and convenient for customers to shop from, with the digital catalogue becoming a key marketing vehicle. While digital adoption within Retail has accelerated well beyond our expectations, we have restarted the printing of our trusted catalogue on a quarterly basis, to provide customers with a convenient platform to choose their products, particularly in the homeware space.

## Current year performance

We present a subdued set of results that reflects the impact that Covid-19 has had in terms of reduced trading, increased costs culminating in lower operating profit.

Group revenue decreased by 6.0% to R3.3 billion resulting from a 8.1% reduction in retail sales and loan disbursements down 15.3%.

Operating profit reduced to R270 million, weighed down by a lower top line reduction in gross profit and increased costs. Headline earnings per share decreased by 62.3%% to 164.2 cents per share.

We are very pleased that we have managed our cash during the pandemic. Cash on hand is up more than 100% to R415 million (2019: R80 million). We also successfully renegotiated our banking facilities during the pandemic. The facilities were increased to R1.05 billion, evident of our banking partners commitment to support our strategy for the future. The Board considered it prudent not to declare a dividend in the current context.

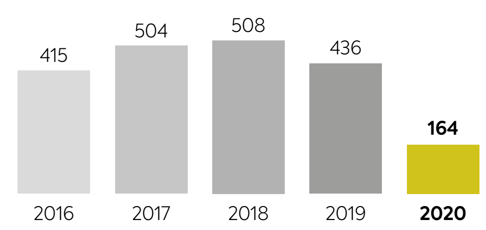
## Regulatory environment

The South African regulatory environment continues to add more complexity and additional costs into business operations. We have been focussed on the two key pieces of legislation implemented during the year.

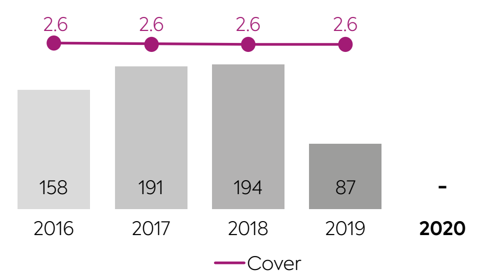
### Protection of Personal Information (POPIA)

POPIA aims to ensure that customer data is adequately protected, and customer engagement is managed fairly and transparently. POPIA was enacted on 1 July 2020, and will be enforceable, effective 1 July 2021. The protection of our customer database and managing their communication preferences goes to the heart of the group's operations. Our POPIA implementation project is well underway, with completion to be finalised by 30 June 2021.

**HEADLINE EARNINGS PER SHARE**
Cents per share




**DIVIDENDS PER SHARE**
Cents




### DebiCheck

To reduce abuse in the current debit order system, the South African Reserve Bank, and Payments Association of South Africa requires companies using debit orders to migrate to DebiCheck (also known as the Authenticated Collections) which empowers customers to authorise debit order mandates directly with their bank. We have started with the migration and transfer of debit orders from NAEDO to DebiCheck. Unexpectedly we have seen some improvements in collections but anticipate there may be challenges when all customers are required to self-manage DebiCheck authentications and amendments.

## Progress with our strategy

The principal pillars of our strategy, with the customer at the centre of everything we do, have remained consistent for several years now and are discussed in broader detail on pages 26 and 27 of this report. I wanted to highlight a few of the initiatives that we believe will have a notable impact on our growth prospects in future. These include:

### Digital transformation

This has been a highlight for the group in this pandemic year. We reached a significant milestone where 52.5% of our customer transactions took place on digital platforms. Our Financial Services business increased their digital transactions from 85% to 90% while Retail improved from 22% to 34%. Pleasingly Retail digital sales contribution has almost doubled from 13.7% to 25.4%. Our digital channels are well entrenched in the business and customers are enjoying the convenience of them being able to transact with the group from the safety of their homes.

### Credit risk management

During the early stages of the pandemic, using data driven analysis, credit scorecards were adapted to identify industries who were severely impacted by their ability to trade. This enabled us to proactively manage our credit risk by granting credit to more financially stable customers.

With a key imperative to conserve cash, we had a strong focus of our collections processes. Additionally, digital received significant attention, providing customers increased ways to pay their accounts digitally. Our customers have reacted positively to this and we were very pleased with the level of collections achieved. This had a positive impact on our high cash conversion rate of 177% (2019: 58.2%).

### Innovative product

We are constantly looking at ways to ensure that our brands and products continue to resonate with customers.

In the past year, we have added several new retail product categories, to cater for the need of customers spending more time at home. Financial Services have added depth to their range, with Family insurance now covering up to 19 dependents on a single policy. They introduced further insurance affiliates with end-to-end digital offerings and their Mobi platforms have been refreshed with improved origination and acquisition flows to enhance the customer journey.

### Investing in growth

To conserve cash amidst the Covid-19 uncertainties, we have limited our capital expenditure to essential investments in key strategic growth initiatives, with R117 million spent on three additional showrooms and ChoiceCollect containers, equipment for remote working, and new technology systems. In 2021, investments in best-of-breed technology and infrastructure will be accelerated, with further investments in our credit engines and Financial Services platforms, and more showrooms and containers.

## Governance

### Mauritius re-domiciliation

HIL completed the re-domiciliation from Malta to Mauritius during the year. The group has grown it's management presence in Mauritius, supporting developments and operations there. We had anticipated to further increase our presence during 2020, but given the differing territorial lockdown regulations, and the strict travel requirements in Mauritius we were unable to achieve this. We will progress this in 2021 when Covid-19 restrictions are eased.

### Changes to the board and management team

Following the re-domicile, changes made to the board were as follows:

- Stanley Portelli (board chair) and Charles Rapa, both Malta-based directors, resigned effective 31 May 2020
- With the resignation of the board chair, the Nominations committee agreed to appoint Shirley Maltz as the Executive chair from 1 June 2020. It was felt appropriate that she was in the best position to steer the group in the next phase of it's strategy
- Considering King IV principles, Pierre Joubert, was appointed as the Lead independent director effective 1 June 2020
- After year-end, Marlisa Harris was appointed as an independent non-executive director effective 22 February 2021. Marlisa is based in Mauritius and brings a wealth of financial services experience to the board. In due course she will become chair of both the audit and risk, and remuneration committees

The board thanks both Stanley and Charles for their significant contribution to the group and Stanley for his sound leadership of the board over the past five years.

In addition, changes were made to the senior executive team management team. Gerhard Hayes succeeded Leanne Buckham as the CEO of the Retail division early in 2020. He subsequently resigned from the group effective 28 February 2021 because of a non-alignment of Retail's forward strategy with the board.

Chris de Wit has been appointed the new Retail CEO. Chris has extensive retail and financial services experience having previously worked for Truworths and RCS.

### Board diversity

We are committed to developing a diverse board in all aspects. In particular we are working hard to achieve a 30% target for both gender and race targets for the board. Pleasingly, with the appointment of Marlisa, we have achieved our gender target and still have some way to go to achieve our race target. Adefolarin Ogunsanya is an alternate non-executive director who participates in all HIL board meetings and therefore is included in our targets. Whilst Adefolarin is Nigerian, he does not meet the South Africa's B-BBEE definition of black, but given that our board comprises international directors, we believe that it is appropriate to classify him in our diversity assessments.

**4 000**
**solar panels were installed**

**95 000**
**litres of water storage provided**

**R40.3m**
**of donations invested to meet young children's developmental needs**

## Building a business for future generations

We believe that for staff, community, and nature to thrive, we need to create a healthy and welcoming work environment while minimizing our environmental footprint. In support of this belief, the group commenced pro-active management and nurturing of its natural resources some years ago. Our sustainability programme has been ongoing since 2017.

Two key projects were completed in 2020 to mitigate the ongoing load-shedding by Eskom and reduce the need to use municipal water. Over 4 000 solar panels were installed on the rooftop of our South African head office, to reduce electricity consumption by up to 30%. Additional water tanks were also installed to provide storage of 95 000 litres, fed from rain and roof condensation.

Our sustainability efforts have been externally recognised, earning HomeChoice a 5-Star Green Star 'Existing Building Performance V1' accreditation from the GBCSA.

### Transformation

Transformation remains a critical rebalancing force in our unequal society and we are committed to playing our role in this process.

Our total employment complement is reflective of our target market, with more than 90% of our employees from designated groups. Transformation at top management advanced to 14% this year, while middle management representation improved to 45%. We lost some ground at the senior management level through resignations.

With the need to reduce expenditure during Covid-19, some of our plans to advance our BBBEE score had to be delayed. We achieved a level 8 rating, for 2020 but due to the lower expenditure in some pillars we were deemed to be non-compliant.

### HomeChoice Development Trust

The Group's social investment strategy is managed through the HomeChoice Development Trust and is designed to promote early childhood development (ECD) in underprivileged communities in the Western Cape.

The Trust receives an annual donation from the group, and together with NGO partners undertakes a number of ECD related projects relating to infrastructure and training. Much of the focus in 2020 was providing support by way of donations-in-kind to those communities most impacted by the Covid-19 pandemic. We did manage to complete the building of two new educare centres which will provide support in the communities of Vrygrond and Khayelitsha.

The Trust has received donations from the group to the value of R60.2 million since its inception in 2005. To date, R39.5 million of these funds has been invested to meet young children's developmental needs by building schools, improving educational standards, and increasing educator skills. We maximise the impact of our programmes through collaborative partnerships with non-profit organisations that have strong track records in the ECD sector. Since 2011, we have supported 614 Educare centres, trained 2 419 Educare practitioners, and provided quality education to more than 33 000 children under the age of six years, among others.

## Outlook

The Covid-19 pandemic and related lockdown restrictions continue to weigh significantly on the movement of people and goods and to impact on livelihoods and cause job losses. The limited capacity of the South African economy to provide a social safety net, is expected to further contribute to constrained consumer spending.

The health and safety of our employees and customers will remain a key priority while the pandemic continues. We know that our customer loves our products, and we will continue to find opportunities to deliver value and a great experience to her, regardless of this muted economic outlook. We will continue to drive the digital momentum achieved in financial services. Our Retail business will take on a number of initiatives to regain the lost ground from 2020 and drive the digital transformation further.

Our balance sheet is strong with a debt-to-equity ratio of 20.7% and significant undrawn facilities. Cash balances are healthy. With this as a strong foundation, we remain well-positioned to capitalise on improvements in the environment.

## Appreciation

Our employees demonstrated a keen ability to adjust to rapidly changing conditions and to thrive in an uncertain environment. Your loyalty and commitment are greatly appreciated. We acknowledge that our management team had to utilise every ounce of their experience and ingenuity to adapt to this new, unknown territory and we remain thankful for their dedication.

We thank our board for the valued guidance and our customers, shareholders, suppliers, and other stakeholders for their support and continued interest in the HomeChoice International group.

# GROUP FINANCE DIRECTOR'S REPORT

**In a year heavily impacted by the outbreak of Covid-19 and the lockdown measures introduced by the Mauritius and South African governments to curb the spread of the virus, the group had a challenging year.**

**Paul Burnett**

## 2020 performance

In a year heavily impacted by the outbreak of Covid-19 and the lockdown measures introduced by the Mauritian and South African governments to curb the spread of the virus, the group had a challenging year.

Group revenue decreased by 6.0% to R3.3 billion, gross profit margin declined to 44.9% (2019: 47.4%), debtor costs increased by 21.9% impacted by Covid-19 and trading expenses grew by 7.3%. Consequently, operating profit was disappointing at R270 million, a 60.2% decrease from 2019.

Despite the poor operating profit, the balance sheet has been resilient during the pandemic. Trade and other receivables books are 5.1% lower, stock is down 9.7% and the group closed the year with a strong cash balance on hand of R415 million (2019: R80 million). Net debt:equity is 20.1% – well within the medium-term target of <40%.

## Performance review and targets

| | | 2020 | 2019* | 2018** | 2017*** | 2016 |
|---|---|---|---|---|---|---|
| Revenue | (Rm) | **3 275** | 3 484 | 3 247 | 2 993 | 2 664 |
| Growth in revenue | (%) | **(6.0)** | 7.3 | 8.5 | 12.3 | 19.3 |
| Retail sales | (Rm) | **1 792** | 1 951 | 1 860 | 1 749 | 1 498 |
| Growth in retail sales | (%) | **(8.1)** | 4.9 | 6.3 | 16.8 | 25.1 |
| Gross profit margin | (%) | **44.9** | 47.4 | 49.6 | 51.2 | 49.3 |
| Operating profit | (Rm) | **270** | 679 | 763 | 744 | 648 |
| Growth in operating profit | (%) | **(60.2)** | (11.0) | 2.6 | 14.8 | 11.7 |
| Operating profit margin | (%) | **8.2** | 19.5 | 23.5 | 24.8 | 24.3 |
| EBITDA | (Rm) | **356** | 751 | 821 | 793 | 701 |
| Growth in EBITDA | (%) | **(52.6)** | (8.5) | 3.6 | 13.1 | 11.0 |
| Cash generated by operations | (Rm) | **630** | 437 | 474 | 359 | 277 |
| HEPS | Cents | **164.2** | 436.0 | 507.7 | 503.8 | 414.6 |
| Growth in HEPS | (%) | **(62.3)** | (14.0) | 0.7 | 21.5 | 6.6 |
| Dividend cover | times | **–** | 2.6**** | 2.6 | 2.6 | 2.6 |
| Net debt to equity | (%) | **20.1** | 30.2 | 27.6 | 28.3 | 28.7 |
| Return on equity | (%) | **5.5** | 16.7 | 20.9 | 23.3 | 22.5 |

* IFRS 16, Leases *adopted effective 1 January 2019.*
** IFRS 9, Financial Instruments *adopted effective 1 January 2018.*
*** *Restated based on the application of* IFRS 15, Revenue from Contracts with Customers. *IAS 39 applied for the 2017 financial year.*
**** Dividend cover applied but final dividend cancelled due to Covid-19.

### COVID-19 IMPACT

At the onset of the pandemic, decisive action was taken to control business risk in each of the territories. In Mauritius, we experienced tough lockdowns and harsh travel restrictions for much of the second half of the year, while in South Africa restrictions eased into the second-half.

This included ensuring the health and wellbeing of our staff, reducing loan disbursements by R700 million, curtailing access to new credit – particularly in H1 and accelerating our digital platforms. Retail sales were negatively impacted by R264 million, and debtor costs worsened by R126 million from higher bad debts and increased provisions. R22 million of operating and capital expenditure were incurred to protect the staff and enable the business to trade throughout the harshest lockdown levels.

This proved effective in managing the business risk of the group and conserving cash.

## Statement of profit and loss

| | 2020 Rm | % change | 2019 Rm |
|---|---|---|---|
| **Revenue** | **3 275** | (6.0) | 3 484 |
| Retail sales | **1 792** | (8.1) | 1 951 |
| Finance income | **1 038** | (5.0) | 1 093 |
| Fees from ancillary services | **445** | 1.1 | 440 |
| Cost of Retail sales | **(987)** | (3.9) | (1 027) |
| Gross profit | **805** | (12.9) | 924 |
| **Other operating costs** | **(2 020)** | 13.2 | (1 785) |
| Credit impairment losses | **(874)** | 21.9 | (717) |
| Other trading expenses | **(1 146)** | 7.3 | (1 068) |
| Other net gains and losses | **(8)** | >100.0 | (1) |
| Other income | **10** | 25.0 | 8 |
| **Operating profit** | **270** | (60.2) | 679 |
| Interest income | **5** | 25.0 | 4 |
| Interest expense | **(93)** | (7.9) | (101) |
| **Profit before taxation** | **182** | (68.7) | 582 |
| Taxation | **(15)** | (88.2) | (127) |
| **Profit and total comprehensive income for the year** | **167** | (63.3) | 455 |
| **Earnings per share (cents)** | | | |
| Basic | **160.4** | (63.2) | 436.0 |
| Diluted | **158.6** | (63.0) | 428.7 |
| **Headline earnings per share (cents)** | | | |
| Basic | **164.2** | (62.3) | 436.0 |
| Diluted | **162.4** | (62.1) | 428.7 |

## Revenue

Revenue for the group decreased by 6.0%, compared with the five-year compound annual growth rate (CAGR) of 5.3%. At a segmental level, revenue generated from the more defensive division of the group, Financial Services, maintained a 25% contribution to total group revenue.

### COVID-19 IMPACT

Covid-19- related operational and capital expenditure of R22 million was incurred during the year. Ensuring the health and well-being of our staff meant that costs were incurred for personal protective equipment, health and safety protocols were implemented in the group's offices, and additional computer equipment and data packages were purchased to enable staff to work from home.

**70%**
**Digital sales growth**

### Retail sales

Retail sales decreased by 8.1%. Sales started 2020 strongly with a 11.7% growth in Q1 and then was negatively impacted by the pandemic, falling 29.8% in Q2. H1 sales declined by 10.1%. With a more aggressive approach to drive top-line growth, sales in H2 were more positive and resulted in only a 3% decrease.

Pleasingly digital sales for the year grew by 70% as Covid-19 further accelerated our digital transformation. Digital sales contribute 25.4% (2019: 13.7%) to total sales and is becoming firmly entrenched in our Retail business.

### Finance income

Finance income earned declined by 5.0% to R1.0 billion. The South African Reserve Bank reduced the repo rate by 300 bps between April and July 2020 to give some relief to consumers. However, this negatively impacted our ability to earn interest on outstanding credit balances, from H2 onwards.

Retail's finance income decreased by 2.9%, marginally higher than the 1.2% decrease in the trade debtors book – driven by the lower sales.

Financial Services finance income decreased by 6.7%. Loan disbursements were 15.3% lower to R1.9 billion, with a 30% decrease in H1 improving to level business with 2019 for H2.

### Fees from ancillary services

In line with the diversification strategy, the group continues to grow their non-interest-bearing products to reduce our reliance on finance income earned. Fees from ancillary services increased 1.1% to R445 million (2019: R440 million).

The stand-alone insurance product offering is the main driver to diversify revenue. Fees earned from insurance increased by 9.5% to R169 million. Policies in force were up 13%. Ancillary services also include service and delivery fees, charged in line with the NCA, and have increased in proportion to the number of active accounts.

### Gross profit

We were disappointed with the drop in gross profit margin from 47.4% to 44.9%. The margin declined to 40.0% in H2 after strong performance of 50.9% in the first half. This was due to rapid growth in the appliances and electronics categories and a below expectation performance in bedding. Actions have already been taken to address this decline and we are now achieving a much-improved margin.

### Debtor costs

Group debtor costs increased by 21.9% to R874 million. Covid-19 negatively impacted debtor costs with R126 million worsening from higher bad debts and increased provisions. Early actions were taken to tighten credit criteria by reducing limits and shortening terms. Provisions were increased to reflect a deterioration in the books' performance. The most recent vintages indicate an improvement to pre-Covid-19 levels.

### Other trading expenses

Trading expenses increased by 7.3%.

A move to digital marketing and the suspension of the printed catalogue reduced marketing expenses by 1.8%. However, continued investment in staff and future-focused projects resulted in staff and technology costs increasing by 9.5%. Insurance costs increased by 49.3% due to Covid-19- related retrenchment and funeral claims and higher provisions raised in anticipation of claims arising from the second wave.

## Statement of financial position

| | 2020 Rm | % change | 2019 Rm |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | **476** | 1.1 | 471 |
| Intangible assets | **210** | 24.3 | 169 |
| Right-of-use assets | **60** | (10.4) | 67 |
| Financial assets at fair value through profit or loss | **34** | 41.7 | 24 |
| Deferred taxation | **45** | >100.0 | 2 |
| | **825** | 12.6 | 733 |
| **Current assets** | | | |
| Inventories | **315** | (9.7) | 349 |
| Taxation receivable | **13** | >100.0 | 1 |
| Trade and other receivables | **3 024** | (5.1) | 3 188 |
| Trade receivables – Retail | **1 517** | (4.0) | 1 581 |
| Loans receivable – Financial Services | **1 493** | (5.7) | 1 583 |
| Other receivables | **14** | (41.7) | 24 |
| Cash and cash equivalents | **415** | >100.0 | 80 |
| | **3 767** | 4.1 | 3 618 |
| **Total assets** | **4 592** | 5.5 | 4 351 |
| **Equity and liabilities** | | | |
| **Equity attributable to equity holders of the parent** | | | |
| Stated and share capital | **1** | – | 1 |
| Share premium | **3 014** | 0.1 | 3 010 |
| Reorganisation reserve | **(2 961)** | – | (2 961) |
| | **54** | 8.0 | 50 |
| Treasury shares | **(33)** | 83.3 | (18) |
| Other reserves | **47** | 42.4 | 33 |
| Retained earnings | **3 048** | 5.8 | 2 881 |
| **Total equity** | **3 116** | 5.8 | 2 946 |
| **Non-current liabilities** | | | |
| Interest-bearing liabilities | **933** | 73.7 | 537 |
| Lease liabilities | **48** | (15.8) | 57 |
| Deferred taxation | **69** | 35.3 | 51 |
| Other payables | **4** | – | 4 |
| | **1 054** | 62.4 | 649 |
| **Current liabilities** | | | |
| Interest-bearing liabilities | **39** | (90.0) | 391 |
| Lease liabilities | **22** | 22.2 | 18 |
| Taxation payable | **12** | (25.0) | 16 |
| Trade and other payables | **349** | 23.3 | 283 |
| Bank overdraft | **–** | (100.0) | 48 |
| | **422** | (44.2) | 756 |
| **Total liabilities** | **1 476** | 5.1 | 1 405 |
| **Total equity and liabilities** | **4 592** | 5.5 | 4 351 |

### Interest paid

Interest paid of R93 million decreased by 7.9% from 2019. We were able to manage the level of interest-bearing liabilities with a strong focus on cash management.

### Property, plant and equipment and intangible assets

Investment in key strategic initiatives continued at similar levels to manage cash resources – R117 million (2019: R116 million) was allocated to capital expenditure in 2020, with more than half focused on new information technology systems and infrastructure. We continued to invest in the Oracle Commerce Cloud engine to improve the customers' online shopping experience and drive digital Retail sales. We also commenced with the implementation of a merchandise planning tool to improve the visibility of stock and planning processes.

A further three showrooms were opened in the year, bringing the number of showrooms across South Africa to twelve. ChoiceCollect containers located in township suburbs provide convenient collection points for customers to receive their orders. Based on good customer response to these containers, an additional three were installed in 2020. It is our intention to have 20+ retail showrooms and 50+ ChoiceCollect containers over the next five years.

In a drive to minimise the impact of Eskom's load shedding on the South African head office operations, R7 million was invested in energy reduction initiatives. Solar panels have been installed on the roof of the head office and more energy efficient lighting replaced older lighting that used higher levels of electricity.

### Profit for the year

The impact of lost revenue, higher debtor costs and a lower gross profit margin resulted in operating profit decreasing by 60.2% to R270 million.

Headline earnings per share decreased by 62.3% to 164.2 cents.

### Inventories

Stock has decreased by 9.7% to R315 million (2019: R349 million), in line with the Retail sales decrease of 8.1%.

As a result of the ongoing impact Covid-19, a detailed assessment of the net realisable value of stock was performed. This resulted in higher-than-normal (82%) stock levels transferred to obsolete status, which attracts a higher obsolete stock provision rate. The additional provision for obsolete stock as at 31 December 2020 amounts to R11 million.

**COVID-19 IMPACT**

Capex on laptops, other computer equipment and safety equipment amounted to R4 million.

### Trade and loans receivables

Gross trade and loan receivables decreased by 2.6% to R3.7 billion, primarily due to the curtailment of loan disbursements and lower sales. Group debtor costs increased by 21.9% to R874 million. Covid-19 negatively impacted debtor costs with R126 million worsening from higher bad debts and increased provisions. The credit books are healthy with vintages for both Retail and Financial Services now below pre-Covid-19 levels.

### Change in accounting estimate relating to debtor write-off point

IFRS 9 requires companies to consider that expected credit losses should more accurately align with actual credit losses. A review of the Financial Services credit losses necessitated a R31 million favourable adjustment to debtor costs as a result of changing the write-off point from month four to month six. This has had the effect of reducing the Financial Services debtor costs percentage of revenue from 41.8% to 38.1%. A similar review of the Retail credit losses was performed with no adjustment required.

### Retail

Debtor costs increased by 28.7% to R556 million, R71 million attributable to Covid-19.

A controlled approach to customer acquisition was managed by tightening credit-granting criteria, reducing credit limits and cutting acceptance rates. These restrictions were eased in over time and credit limits were increased to proven repeat customers. Terms were shortened to manage risk, resulting in a decrease from 16.9 months to 16.1 months. There was a strong focus on collections, particularly digital payments via debit orders. Debit order collections have increased to 35% (2019: 29%).

Impairment provisions were increased to 21.1% of gross receivables to reflect book performance at December 2020. Stages 2 and 3 loans cover have increased to 56.4% (2019: 50.2%).

### Financial Services

Debtor costs increased by 11.6% to R318 million, R55 million due to Covid-19. The required IFRS change in the write-off point (WOP) from month four to month six reduced debtor costs by R31 million but increased the provision for impairment. Credit to new customers was curtailed in H1 and subsequently opened up to new customers working for proven employers and stable employment sectors. The average disbursement term was reduced from 14.2 months to
12.2 months and a reduction of credit limits reduced the average balances to R7 100 (2019: R8 628).

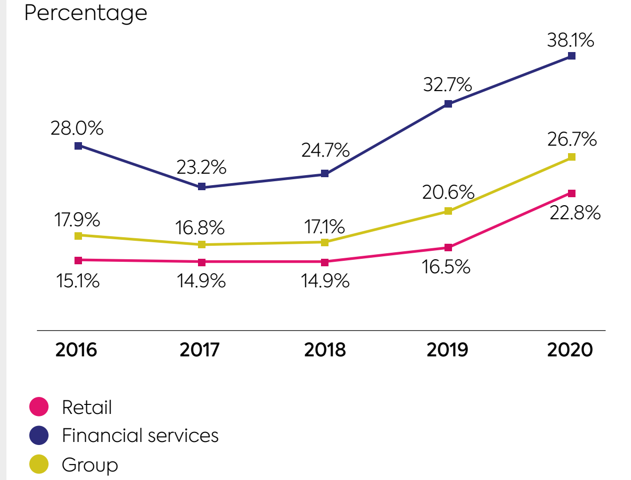
The provision for impairment has decreased marginally to 15.3% (June 2019: 15.5%), pre-WOP 13.6% reflecting the improved quality of the debtor book. Stages 2 and 3 loans cover have increased to 71.4% (2019: 57.6%).

Credit performance for the period is summarised below:

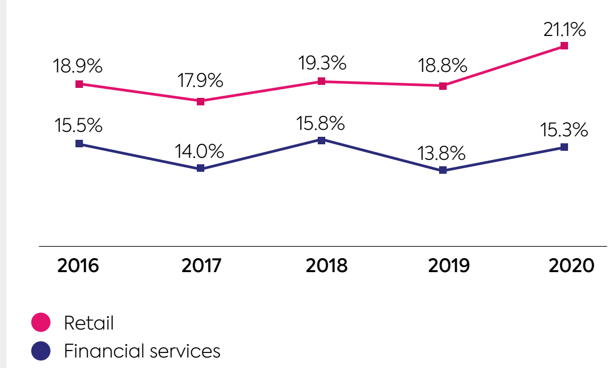
| | | **31 Dec 2020** | % change | 31 Dec 2019 | 31 Dec 2018* |
|---|---|---|---|---|---|
| **Group** | | | | | |
| Gross trade and loans receivable | (Rm) | **3 685** | (2.6) | 3 784 | 3 464 |
| Debtor costs as a % of revenue** | (%) | **26.7** | | 20.6 | 17.1 |
| **Retail** | | | | | |
| Gross trade and loans receivable | (Rm) | **1 923** | (1.2) | 1 947 | 1 865 |
| Debtor costs as a % of revenue | (%) | **22.8** | | 16.5 | 14.9 |
| Provision for impairment as a % of gross receivables | (%) | **21.1** | | 18.8 | 19.3 |
| **Financial Services** | | | | | |
| Gross trade and loans receivable | (Rm) | **1 762** | (4.1) | 1 837 | 1 599 |
| Debtor costs as a % of revenue | (%) | **38.1** | | 32.7 | 24.7 |
| Provision for impairment as a % of gross receivables | (%) | **15.3** | | 13.8 | 15.8 |

* IFRS 9, Financial instruments *adopted effective 1 January 2018.*
** Debtor costs include bad debts written off net of recoveries, as well as movements in provisions.

**DEBTOR COSTS* AS A % OF REVENUE**
Percentage




**PROVISION FOR IMPAIRMENT AS A % OF GROSS RECEIVABLES**
Percentage



# R665m

**to support future growth and protect against any further shocks from Covid-19**

## Cash management

My group finance team manages the treasury function in Mauritius. I am pleased with the way the teams have executed our cash and treasury policies.

The result of early decisive actions in the initial lockdown and a deliberate focus on cash management delivered a cash conversion rate of 177.0% (2019: 58.2%) and a very healthy cash balance of R415 million at year-end (Dec 2019: R80 million).

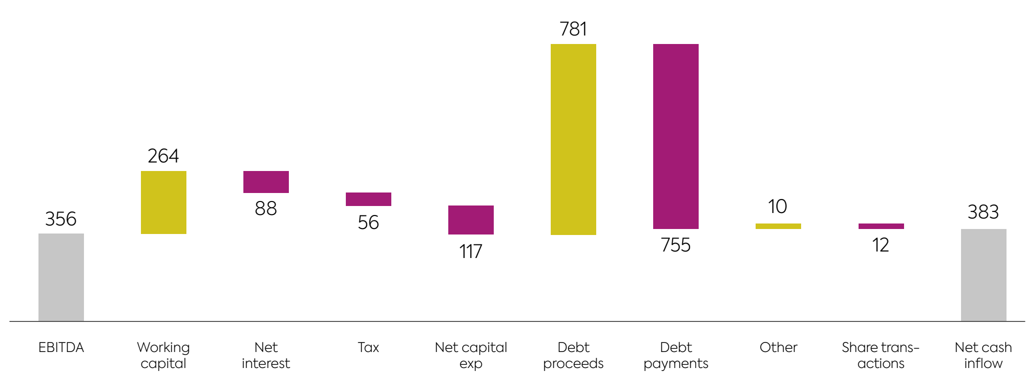
Taxation paid reduced significantly in 2020 to R56 million, a 67.8% decrease from 2019 on the lower profitability. A lower effective tax rate will provide additional reductions to payments in 2021.

Against a background of ongoing uncertainty around the impact of Covid-19, no dividends were declared or paid during the year. The board agreed to reinvest the strong closing cash balance in the group to take advantage of attractive growth opportunities in the year ahead.

Our net debt (excluding group-owned properties) has reduced to R332 million (2019: R512 million) and the net debt:equity ratio (excluding property) stands at 10.7% (2019: 18.1%). This provides the group opportunity to accelerate growth when economic circumstances are more favourable.

The group's banking facilities were successfully refinanced and upsized during the lockdown period to R1.05 billion. Unutilised facilities of R655 million are available to support future growth and protect against any further shocks from Covid-19.

**CASH UTILISATION**
Rand million

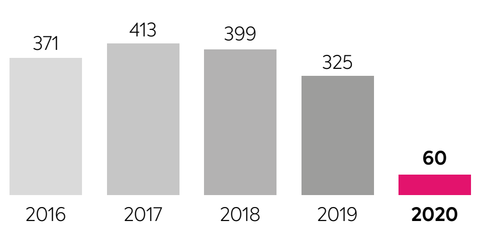



homechoice

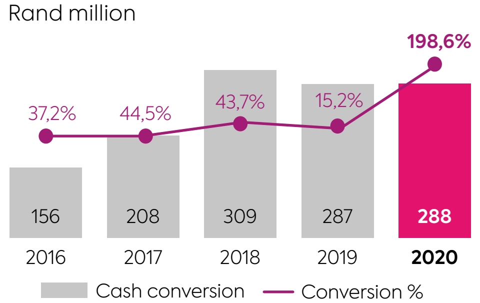
# Q&A WITH RETAIL

> **We have developed robust strategies and a five-point recovery plan to regain the profitability of the Retail business.**
>
> Chris de Wit – incoming CEO

**RETAIL OPERATING PROFIT**
Rand million




**RETAIL CASH GENERATED FROM OPERATIONS**
Rand million




## How did the Retail business perform in 2020?

Performance in Retail was challenging, negatively impacted by Covid-19 and exacerbated by a misalignment in product strategies to drive top-line growth.

Sales declined by 8.1%, but a higher proportion were at lower margins and this resulted in a 250 bps decrease in gross profit margin to 44.9%. Debtor costs increased by 28.7% mainly driven by the impact of Covid-19. We did not proactively manage our trading expenses which increased by 0.2%. This resulted in operating profit decreasing by 81.5% to R60 million.

### OUR FIVE-POINT RECOVERY PLAN

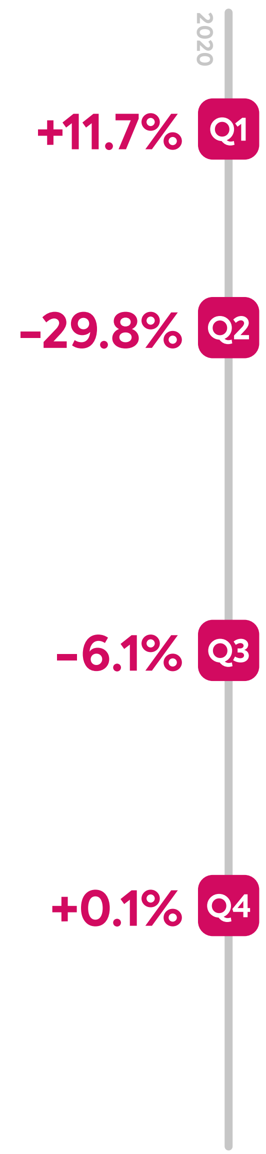
**Innovate merchandise range**
- Optimise product margin categories
- Bedding refocus

**Grow customer base**
- Data-driven behavioural attrition model
- Digital acquistion

**Expand credit offers**
- Instalment credit
- Flexible credit system implementation

**Reset the cost base**
- Process optimisation
- Digitisation

**Drive digital and customer experience**
- Digital shopping
- NPS >70




## Can you expand on the Retail sales performance?

**The sales performance is best explained when we look at a quarterly timeline.**

The year started strongly with double-digit sales growth in the first 10 weeks of the year. Our stock buy was based on the good trading performance and its projection for the rest of the year. The gross profit margin was tracking to be above levels achieved in 2019.

Covid-19 arrived in South Africa and harsh level 5 regulations were put in place by the Government at the end of March. Movement was restricted and only those products classified as 'essential' could be sold and delivered. This was a small portion of our Retail product offering. We stopped the printing and distribution of the Retail catalogue as SAPO were unable to deliver it and pivoted our energy using digital channels to both market and sell our products.

A sharper recovery post the initial lockdown was anticipated, but this did not materialise. To stimulate demand and drive top-line sales growth, price cuts in appliances and electronics categories were actioned. However, this strategy damaged our core bedding sales and whilst overall sales improved this was not aligned to our stock holding and required subsequent discounting to clear.

We continued to pursue appliance and electronic sales, which trade at lower gross profit margin, but volumes sold were not sufficient to offset the low margin. Consequently, the gross profit margin deteriorated significantly, to 40%. Top line growth continued to be the key focus, marketing spend became less effective and high absenteeism in the contact centre from the second wave meant that productivity was impacted.

Our product strategies were not well executed. Plans have been implemented in Q1 2021 to rebalance the product mix and recalibrate prices to deliver more profitable sales.

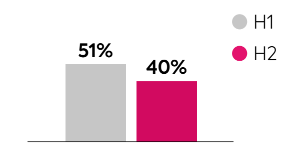
## What are your plans to improve the gross profit margin?

As acknowledged earlier, pursuing a strategy focused on appliances and electronics at the expense of our core bedding product led to the decline in the gross profit margin by 250 bps to 44.9%.

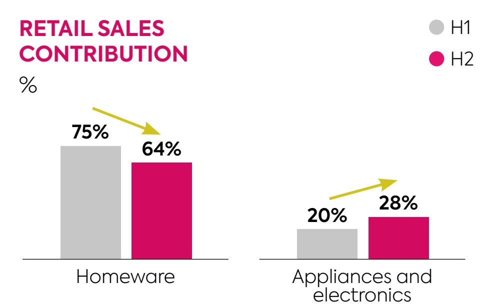
We shifted to the appliances strategy too quickly with no clear plans to balance the impact of higher sales of lower margin products. To provide customers with choice, we will continue to offer appliances and electronics, however the strategy will be moderated by recalibrating prices and margins. In addition, the absence of a printed catalogue made it difficult for customers to shop the bedding ranges due to the multiple combination and options available.

Our bedding ranges will be reinvigorated and the price architecture will be reviewed to ensure that customers have a spread of price points to suit their budgets. We will introduce premium and plain bedding ranges and build on the successful baby and kids ranges. Products and solutions will be offered for the new normal and where appropriate ranges and brands will be extended.

**RETAIL GROSS PROFIT MARGIN**
%




**RETAIL SALES CONTRIBUTION**
%




**A quarterly catalogue has been reintroduced, which supports the omni-channel strategy and supports customers to shop digitally or make use of the contact centre.**

## 241 000 new customers were acquired in 2020, with a marginal decline in the base to 811 000 customers. Are you happy with this?

Despite the challenges caused by Covid-19 we are pleased that there was only a 3% decline from 2019. At the onset of the pandemic, we took a cautious approach to customer acquisition in order to manage our credit risk. During the second half of the year, using our data science models, we released demand to customers with acceptable credit risk.

A greater use of digital marketing on social media platforms and increasing the use of emails and SMS's has changed the shape of how we acquire new customers. Customer acquisition from digital platforms showed a huge shift with 28% (2019: 8%) of new customers brought on board digitally. In addition to being a more cost-effective acquisition channel, it has an added benefit of acquiring customers who are very comfortable shopping digitally.

Pleasingly, we saw a successful growth of cash customers. New cash customers increased by 30% culminating in an overall growth of 14% to 54 000 customers. While still a relatively small proportion of the overall customer base, cash only customers assist in cash conversion and decrease the level of credit risk in the division. Cash sales contribution increased to 7.1% (2019:5.2%).

Plans to arrest the decline of the customer base include improving new customer onboarding processes, improve the retention of existing customers through anti-attrition data science models and streamlining and maximising the digital channel's customer journeys.


**25.4%**
**Sales contribution**
(2019: 13.7%)

**28.0%**
**Digital customers**
(2019: 16.2%)

**+54.5%**
**Mobi and web traffic increasing**
23 million sessions

**+140%**
**increase in sessions**
Social media monetised


## Digital sales grew by an impressive 70% in the year – can you elaborate on this?

A key highlight for the Retail division was the acceleration of our digital transformation, a journey we have been on for some years. The need to mitigate restrictions imposed to curb the spread of the virus, meant that we accelerated digital more quickly than anticipated. Digital sales now contribute 25.4% (2019: 13.7%) to total sales and as part of our omni-channel strategy is becoming firmly entrenched in our Retail business. Products, which are only available on-line have proved very popular with customers who are looking for unique and different products.

We continue to have good success with social media monetisation. Our customers are very comfortable with social media and enjoy the convenience of experiencing our product offering from these platforms. We also launched a HomeChoice App to support our e-commerce website. Traffic to our website is up 54.5% with 23 million sessions during the year. Our social media platforms have 1 million Facebook followers, 105 000 Instagram followers and 75 000 users on the App.

Customers engaged via Instagram are up 100% and those from Facebook are 12% higher. Specific marketing targeted to social media, email and SMS campaigns and date triggered customer journeys have all had good results.

## Enhanced customer experience is one of the group's strategic pillars. How did the pandemic impact this?

We achieved a NPS score >70, demonstrating that customers are positive about their experiences with the brand. This is a commendable achievement amid the challenges and restrictions imposed by the pandemic.

We believe that our overall business model of being an omni-channel retailer using a direct-to-home delivery process is a key enabler to maintain a high NPS score. A key metric we use to measure our customer experience is the number of days from order to delivery, with a target of less than 4 days. We only managed to achieve 8.9 days, unfortunately much higher than the 5.4 days for 2019. Delays were highest during Q2 and early Q3, when businesses were getting to grips with the lockdown regulation requirements for moving products around the country and to customers' homes. We are pleased, that in Q1 2021 we are back below the target days, achieving 4.6 days.

83% of our products are now delivered directly to customers' homes, up from 69% in 2019, using courier partners and our independent service providers. Customers have also responded positively to the convenience and flexibility of our Click and Collect delivery option. Products can be fetched from city-based showrooms and our ChoiceCollect containers located in township suburbs. Click and collect increased by 122%, with a 12.1% (2019: 4.8%) contribution of deliveries made.

## How is your Retail showroom and ChoiceCollect container roll-out progressing?

The roll-out was slowed down during the year, as capital expenditure was diverted to Covid-related requirements.

Three showrooms were opened in Queenstown, Mitchells Plain and Katlehong. This brings the total to 12 showrooms located in most of the large regional hubs in the country. Showrooms now account for 9% of Retail sales.

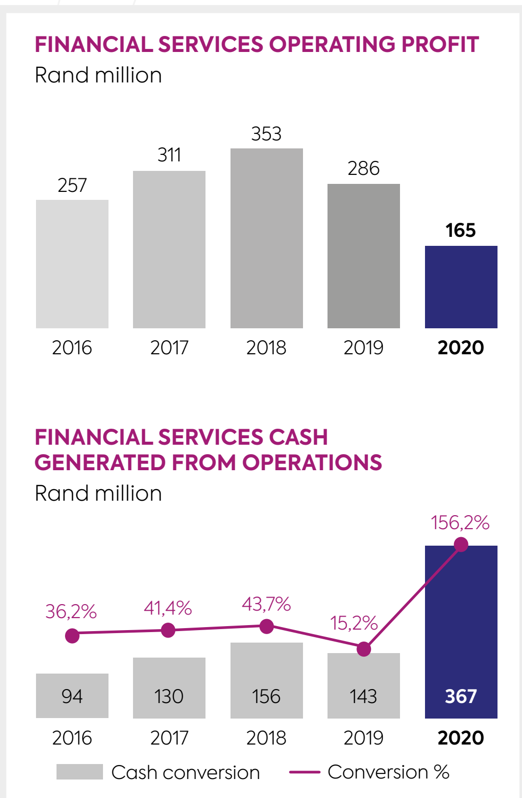
Another three containers, located in Butterworth, Spruitview and Hammanskraal opened in partnership with black entrepreneurs from those areas.

These 'bricks-and-mortar' channels are very much part of the omni-channel offering and we will look to open more in 2021.

finchoice

# Q&A WITH FINANCIAL SERVICES

> Over the past five years we have seen a dramatic shift with transactions now 90% digital and 10% contact centre driven.
>
> Sean Wibberley – Financial Services CEO




## How did the Financial Services division perform in 2020?

Our growth momentum was disrupted by the pandemic and a deliberate decision to curtail loan disbursements to conserve cash for the group.

Reduced levels of disbursements and the impact of the 300 bps drop in the repo rate meant that revenue declined by 4.1% to R835 million. Higher Covid-19-related insurance claims, combined with the operational costs of our continued investment in arrears collections and second-half customer acquisition recovery, resulted in trading expenses increasing 23.8% (13.4% excluding insurance). Debtor costs increased by 11.6% (post the previously mentioned write-off point adjustment) and 22.5% pre the WOPA due to higher bad debts arising from Covid-19.

As a result, operating profit decreased by 42.3% to R165 million.

## Loans were deliberately cut by R700 million to conserve cash and protect the book. Can you elaborate?

Loans to new customers were stopped entirely from end March to May, and credit limits for existing customers were reduced and terms shortened. Our half-one disbursements declined 30% to R804 million.

We solicited feedback via our transactional mobi site from over 80% of our customers on their employment status and the lockdown impact on their household finances. This complementary data provided us with important industry and employer-based information, enabling us to make a more precise credit risk decisions relevant to the situation created by Covid-19. From June we resumed the granting of new and existing credit to financially stable customers with greater levels of confidence.

Consequently, loan disbursements in the second half of the year were at the same levels against the same period in 2019 and resulted in us only being 15.3% down for the full year to R1.9 billion.

It was pleasing to note that despite the cuts we increased our market share of disbursements of up to 36 months in tenure from 4.9% to 6.0%, based on data from the National Credit Regulator.

## 55 000 new customers were acquired in the year. This is an achievement in times of Covid-19.

We are very pleased with the continued quality demand for our financial services and stand-alone insurance products. 67% of new customers – 37 000, were brought on board in the second half.

Previously Financial Services' new customers came solely from leveraging the Retail customer base, offering loans to their good-paying customers. In the last three years we have had increasing focus and success sourcing lending customers who are external to the group. The proportion of external customers increased from 30% to 36% in 2018 and 2019 respectively. Now in 2020, 53% of new customers are external.

In line with the group's credit risk strategy of "low and grow", initial offers made to our externals are at a lower maximum credit limit and focused on our shorter-term products to manage the intake risk for the book. Credit performance from our external customers is within our risk tolerances.

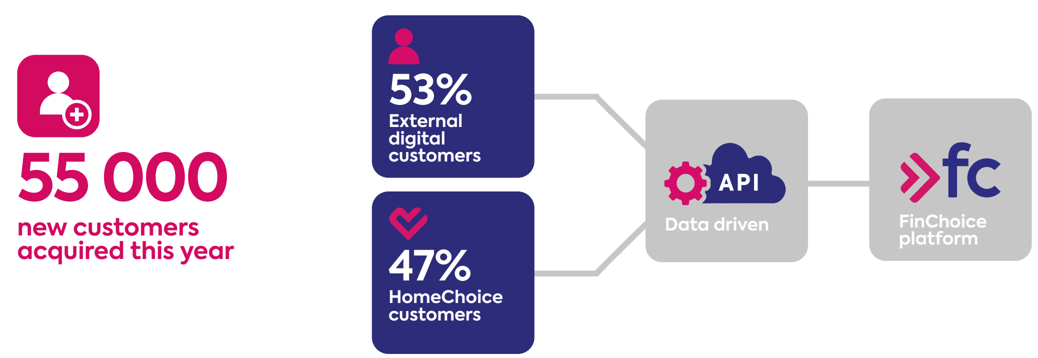
We source these customers via online channels that interface with our lending platform through our API technology. We are able to curate personalised lending offers to prospective customers, improving take-up and conversion rates in our end-to-end digital origination flows.

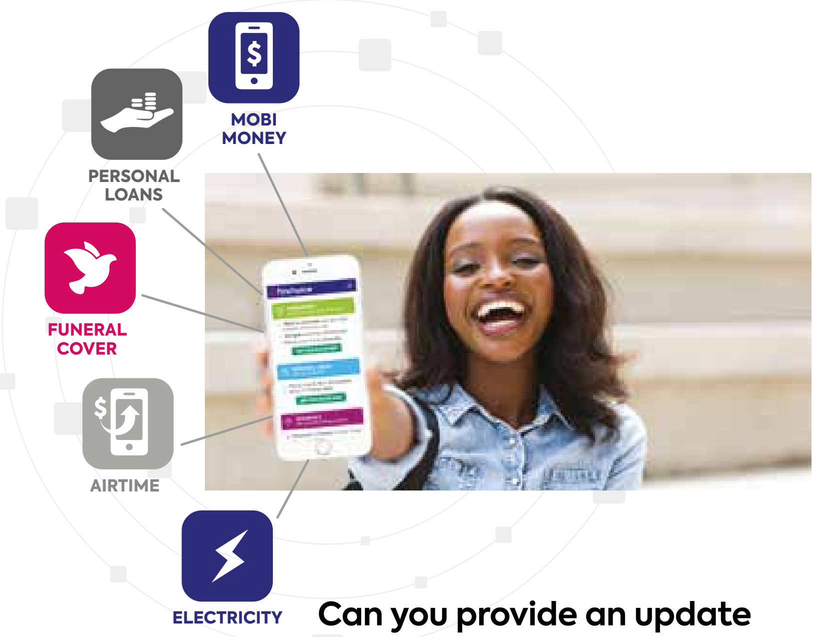
## One third of all your loan disbursements were made using the FinChoice MobiMoney™ product. Where does this product feature in your strategy?

MobiMoney is our digital-only, three-month facility product. It is increasingly becoming a cornerstone product for the division. Active MobiMoney accounts increased by 44% in the year to 121 000 customers and 33.4% of disbursements are from these accounts, up from 29.2% in 2019.

This product delivers strong cash conversion and results in the average disbursed term for the financial services business reducing from 14.2 months to 12.2 months. MobiMoney drives our high digital engagement, which now sits at 90% of repeat business conducted online.

We intend to expand the MobiMoney wallet functionality to include a suite of convenient payment options. With 84% of our customers already registered on our Mobi-site platform, we are excited to be developing a smartphone app to improve the speed, responsiveness and overall user experience for our customers.

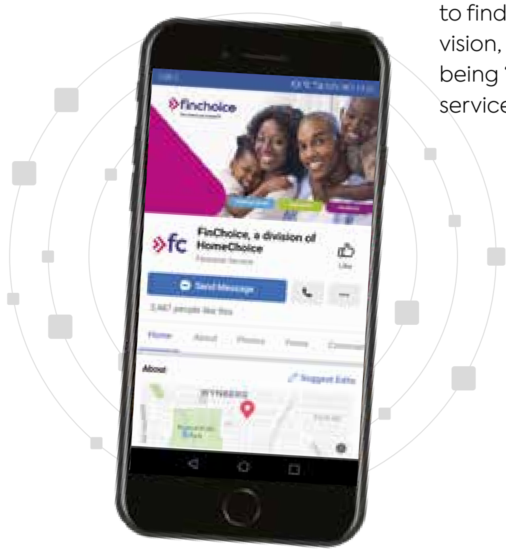





## Can you provide an update on your standalone insurance product offering?

We continue to grow our stand-alone personal insurance business with funeral insurance policies in force up 13% and the addition of 42 600 new customers. Acquisition remains largely through our contact centre channels, though we are seeing pleasing growth in sales made via our digital channels.

As experienced in the rest of the market, we have seen a jump in the number of Covid-19-related retrenchment and death claims of 86% and 135% respectively. We have retained conservative provisions in anticipation of higher claims in 2021 from the second wave and potentially a third wave.



## 96% of your customers agree that "Finchoice is your favourite digital financial services provider". Can you provide more context?

Five years ago, we set ourselves the vision to become our customers' favourite digital financial services provider.

The financial services business had already been digital since 2011, the year in which we launched our USSD platform, which we trademarked KwikServe™. Making use of simple phone technology available on even basic handsets, our customers were able to use their phone to transact on their Finchoice loan accounts 24/7 and not be reliant on the contact centre to assist them. In April 2016 we launched www.finchoice.mobi – our Mobi-site platform. With richer functionality on offer, customers were encouraged to migrate from KwikServe to our Mobi-site. By end 2016, our transaction mix was 64% digital and 36% contact centre, with 50% of digital still occurring on the heritage USSD platform.

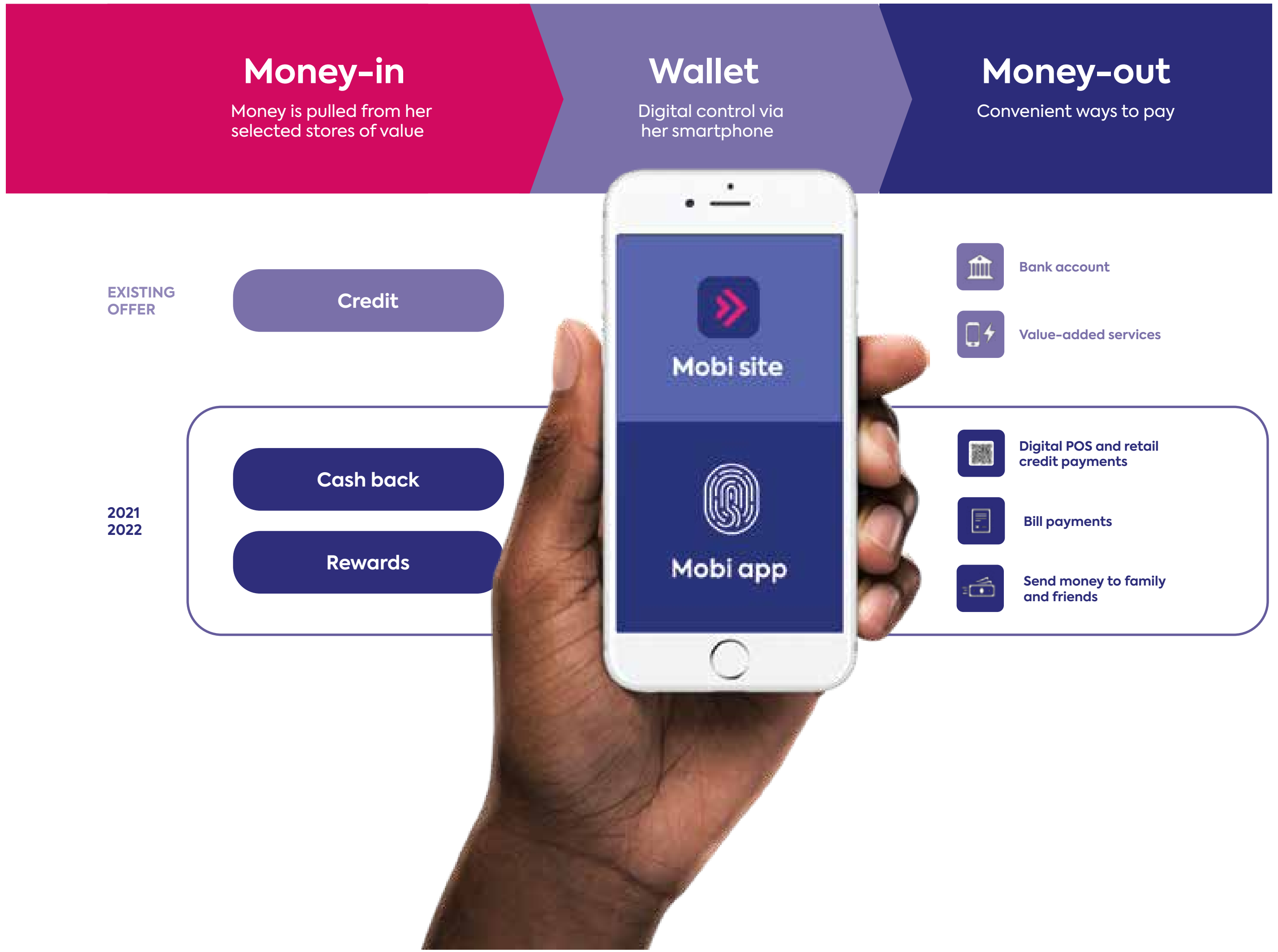
Over the past five years there has been a dramatic shift. Our digital transactions mix is now at 90%, with our Mobi-site at 72% and KwikServe at 18%. Customers registered for digital access increased from 83% in 2016 to 92% in 2020 with mobi-site registration up to 84% in 2020 from 35% in 2016.

During 2020, we commissioned customer research to find out how we were performing against our vision, and we are pleased with the 96% rating for being "our customers' favourite digital financial services provider".

> **Our MobiMoney e-wallet will continue to drive our digital offerings adding value and convenience to customers. We will launch a full-suite MobiMoney wallet, expanding our existing offer with new innovative products and services.**
>
> **Sean Wibberley**

**Active MobiMoney accounts increased by**
**44.0%**

### Launch full-suite MobiMoney wallet





# GOVERNANCE

# OUR DIRECTORS

## International board

CHAIR

**Shirley Maltz (49)**
Appointed Chair Nov 2020
Executive chair

**Amanda Chorn (62)**
Appointed Nov 2014
Independent non-executive director

**Pierre Joubert (55)**
Appointed May 2019
Independent non-executive director

**Robert Hain (68)**
Appointed Nov 2014
Independent non-executive director

**Eduardo Gutierrez-Garcia (53)**
Appointed Nov 2014
Non-executive director

**Adefolarin Ogunsanya (35)**
Appointed Mar 2018
Alternate non-executive director for Eduardo Gutierrez-Garcia

GROUP CHIEF EXECUTIVE OFFICER

**Gregoire Lartigue (48)**
Appointed Nov 2014
Executive director

GROUP FINANCE DIRECTOR

**Paul Burnett (45)**
Appointed Nov 2014
Executive director

## Mauritius board

CHAIRMAN

**Roderick Phillips (47)**
Appointed Mar 2015
Independent non-executive director

**Paul Burnett (45)**
Appointed Mar 2015
Executive director

## South Africa board

CHAIRMAN

**John Bester (74)**
Appointed Nov 2018
Independent non-executive director

**Nkosinathi Solomon (51)**
Appointed Nov 2018
Independent non-executive director

STRATEGY

**Leanne Buckham (54)**
Appointed Mar 2015
Executive director

## Chief executive officers

FINANCIAL SERVICES

**Sean Wibberley (50)**

RETAIL

**Chris de Wit (41)**

**Marlisa Harris (47)**
Appointed Feb 2021
Independent non-executive director

### Composition

| | |
|---|---|
| Executive chair | 12.5% |
| Executives | 25% |
| Non-Independent Non-Executives | 12.5% |
| Independent Non-Executives | 50% |

### Board experience

| |
|---|
| Leadership |
| Corporate governance |
| Financial Services |
| Human Resources and Legal |
| International Retail |
| Finance and accounting |

### Tenure

| | |
|---|---|
| 0–3 years | 25% |
| 3–5 years | 0% |
| 6–9 years | 75% |

Average of five years

### Demographics

| | |
|---|---|
| Female (Target 30%) | 33% |
| Race (Target 30%) | 11% |

Average Board attendance 100%

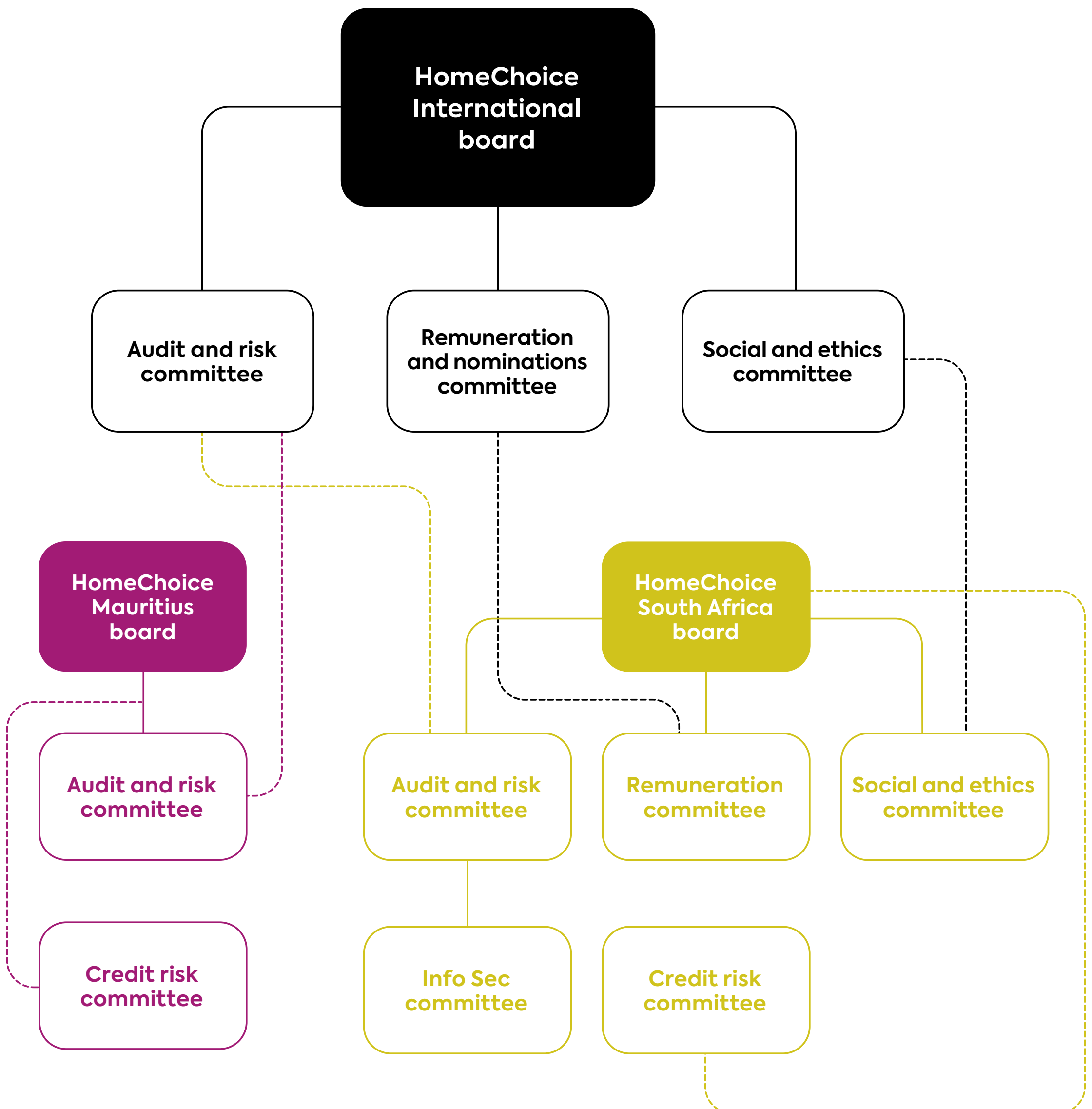
- Nominations committee
- Remuneration committee
- Audit and risk committee
- Social and ethics committee
- Chairman
- Lead independent director

# GOVERNANCE REPORT

## Our approach to corporate governance

The group has adopted the King IV Report on Corporate Governance for South Africa 2016 (King IV™) to guide and direct the governance of the group.

We understand that adhering to the highest standards of corporate governance is fundamental to the sustainability of our business. Our business practices are conducted in good faith, in the interests of the company and all its stakeholders with regard for the principles of good corporate governance.




The company is an investment holding company of two main operating investments held in South Africa (HomeChoice South Africa or HSA) and Mauritius (HomeChoice Mauritius or HCM). The governance framework of the group is shown in the graphic on the left.

HSA and HCM are separate legal entities, with their own board of directors operating according to their memorandum of incorporation and board charters.

As the Mauritian operations are scaling and will continue to grow, the board agreed that it was in the best interest of the business to redomicile HiL from Malta to Mauritius. Shareholders approved the redomiciliation on 27 August 2019 and which took effect on 9 April 2020. As a result of the redomicilaition, the composition of the board had been reviewed again in order to bolster the appropriate diversity, skills and expertise and to manage and provide oversight for the operations.

In conjunction with the nominations committee, and in response to the redomiciliation of HiL, the board accepted the resignation of the Chairman of the board, Stanley Portelli, and the chairman of the audit and risk committee, Charles Rapa with effect on 31 May 2020.

Shirley Maltz, executive director, had been appointed as Chair of the board with effect from 1 June 2020 and which appointment was confirmed by shareholders at the annual general meeting held on 30 April 2020. Shirley will retain executive duties within the Group and cannot be classified as an independent non-executive director. The JSE Listings Requirements and King IV™ require that the Chairman of the board should be an independent non-executive director and failing that a lead independent director must be appointed. The board recognises that her appointment as Executive chair is not aligned to governance best practice, however, believes that her experience and knowledge of the retail and financial services industry and the Group is critical to the role of chairmanship and the continuation of the strategic direction of the Group.

In line with King IV™ and the JSE Listings Requirements, Pierre Joubert was appointed lead independent director.

The HIL board and its committees have delegated the oversight relating to the implementation of group policies to the subsidiary operating boards. Group policies are prepared with input from both the Mauritius and South African operations. The group committees have approval of matters which impact the group. They rely on the operational board and committee structure to ensure that the oversight of the South African and Mauritius operations is in line with group policy. The independent non-executive chairman of the HSA committees provides detailed feedback to the HIL group committees and is available during the meetings to provide additional input if so required.

## Board process

The board meets at least four times a year to consider the business and strategy of HIL and its subsidiaries. It reviews reports of the chief executive officer, group finance director, divisional chief executives and other senior executives, chairmen of committees and independent advisers. The board charter and delegation of authority ensures that no one director has unfettered powers of decision-making.

Agendas for board meetings are prepared by the company secretary in consultation with the chairman. Information provided to the board is compiled by senior management and include reports on safety, health, sustainable development, risk, finance, governance and legal matters likely to affect HIL.

During the year, the retail and financial services divisions each held a two-day strategy break-away session wherein targets, forecasting, strategy and the impact of COVID-19 were rigorously discussed. These strategies were then presented by senior management to the board and, after much deliberation, approved by them.

Ad hoc meetings were held throughout the year by the respective divisions and by the board to consider the impact of COVID-19 on the business and the appropriate response measures. Senior management also held a number of "townhall" meetings within their divisions to engage with senior employees on how best to progress the business goals set by the board.

## Advice and information

There is no restriction on a director's access to company information, records, documents and property. Non-executive directors have access to management and regular interaction is encouraged. All directors are entitled to seek, at the company's expense, independent professional advice on the affairs of the company.

## Term of office, rotation and retirement

Each year, one third of the non-executive directors are subject to retirement by rotation. Subject to continued eligibility and directors making themselves available for re-election, the nominations committee recommends re-election by shareholders after due consideration is given to the director's attendance at meetings and their performance.

The following board members will stand for re-election at the 2020 annual general meeting:

- Robert Hain
- Pierre Joubert

Both independent non-executive directors have served a term less than nine years.

## Board evaluations

In line with the company's policy, board and committee assessments are conducted biennially as recommended by King IV™ and includes the following steps:

- Questionnaires are sent to all board members to evaluate the performance of the board and its committees;
- The results are collated and passed on to the Chairperson;
- Where applicable, the Chairperson will conduct one-on-one interviews with directors to discuss any concerns raised;
- The Chairperson provides feedback to the board or any actions arising from the evaluation process;
- The outcomes of the actions are then managed during the in the intervening year.

This formal process was undertaken in 2019 for the HiL board and 2020 for the HSA board.

This process was followed again at the beginning of 2021 for both the HiL and HSA boards. The results indicated that the performance of the HiL board and committees were considered as being strong. Certain areas were highlighted for improvement for which an action plan around these concerns were put together and approved by the Chairperson and, subsequently, by the board.

## Board composition, independence and conflict of interest

As at 31 December 2020, the board comprises three independent non-executive directors, one non-executive director and his alternate and three executive directors. All independent non-executive directors remain classified as independent following the independence assessment conducted this year. On an annual basis, the directors table a register of their personal financial interest and a director is recused for matters that may impact them.

Non-executive directors have no fixed terms and the performance of all directors and the respective committees is subject to an evaluation process.

The board is satisfied that there is a balanced distribution of power in respect of membership across committees so that no individual has the ability to dominate decision-making.

## Board meetings

Decisions made that enhance and support the group's value-creation process:

- Closely monitored the impact of the COVID-19 pandemic on the group's operations in Mauritius and South Africa and implementing the appropriate response measures
- In response to the uncertainty brought by Covid-19, the board approved the cancellation of the payment of the 2019 final dividend and did not declare an interim 2020 dividend in order to preserve cash in the business
- Expedited the development of a more engaging digitally enabled business model whilst implementing several initiatives to enhance the achievement to digital transformation
- Oversaw the refinance of the group funding facilities and monitoring of capital allocations
- Continued review of the group's financial position to ensure capital preservation, liquidity and to reposition the group to ensure long-term shareholder value
- Oversaw the redomiciliation of HiL from Malta to Mauritius and the subsequent appointment of Shirley Maltz, executive director, as Chairperson of the board and Pierre Joubert, independent non-executive director, as lead independent director
- The board reviewed its broader diversity, including the gender and race diversity targets. The board is committed to achieve the targets. However, the board maintains its view that the company benefits from a depth of understanding of the business that a stable board provides. The policies will, however, be given affect during the further review of the board giving the scaling operations in Mauritius
- Reviewed the non-executive directors' fees. In doing so the committee agreed that to attract the experience and calibre of non-executive directors that the company needs, fees would remain at a maximum of $40 000 per annum.

## Board meetings

### HomeChoice International

**Members**

- 1 executive chair
- 3 independent non-executive directors
- 1 non-independent non-executive director
- 1 alternate non-executive director
- 2 executive directors

**Meetings** 4

**Attendance** 100%

| | Female | | Male |
|---|---|---|---|
| Gender | 33% | | 67% |
| Race | 11% | | 89% |
| | Black | Target 30% | White |

**Other invitees**

Divisional CEOs, SA finance officer

**Board skills and experience**

| | |
|---|---|
| Financial services | 73% |
| Retail | 45% |
| Business leadership | 100% |
| Financial | 91% |
| Governance | 64% |

### Outcomes

- Strong governance and oversight
- Clarity of focus areas based on material issues for the group
- A common view of where the group is heading, including targets to measure success
- Appropriate delegation and oversight to qualified incumbents

### HomeChoice South Africa

**Members**

- 2 independent non-executive directors
- 3 executive directors

**Meetings** 4

**Attendance** 95%

| | Female | | Male |
|---|---|---|---|
| Gender | 40% | | 60% |
| Race | 20% | | 80% |
| | Black | Target 30% | White |

**Other invitees**

SA finance officer

The non-executive directors come from diverse backgrounds in commerce, service and retail and have extensive South African experience. This enables them to provide sound, independent and objective judgement in decision-making that is in the best interests of HSA.

The board is ultimately responsible for the performance of HSA and its long-term sustainable growth. Decisions made by the HSA board that enhance and support the group's value-creation process:

- The board spent a great deal of time debating how best to overcome the Covid-19 challenges facing both the retail and financial services industries in the year under review.
- Reviewing the everchanging and onerous legislative environment. In particular, the introduction of debt relief in terms of the National Credit Amendment Act no 7 of 2019 and the impact on the debtors metrics and the new debit order legislation referred to as DebiCheck.
- Ensuring compliance with the Protection of Personal Information Act is implemented prior to 1 July 2021
- Approving non-executive director fees for approval by HiL

### HomeChoice Mauritius

**Members**

- 1 independent non-executive directors
- 1 executive directors

**Meetings** 4

**Attendance** 100%

| | | | Male |
|---|---|---|---|
| Gender | | | 100% |
| Race | | | 100% |
| | | Target 30% | White |

**Other invitees**

–

Roderick Phillips is the independent non-executive chairman of HCM and chairman of the audit and risk committee. He was appointed a director on the inception of HCM in March 2015.

Decisions made by the HCM board:

- approving the three-year strategy and one-year budget; and
- approving non-executive director fees for approval by HIL the approval of the purchase of a financial services business in South Africa
- considered and discussed strategies for business to overcome Covid-19 challenges, Debicheck and Debt Relief, Debt Relief
- oversight to the POPI project

## Our committees

The board has established committees to assist with fulfilling its responsibilities in line with the provisions of its charter, promote independent judgement and ensure a balance of power.

The board acknowledges that delegating authority to these committees does not detract from its responsibility to discharge its fiduciary duties to the company. Each committee is chaired by an independent non-executive director and has its own committee charter and annual planner.

The audit and risk committee report can be found on pages 2 and 3 in the annual financial statements report. The remuneration and implementation report can be found on pages 94 to 107. The social and ethics committee report can be found on pages 108 and 109.

### 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 financial controls.

Decisions made that enhance and support the group's value-creation process:

- External auditors
  - Recommended the appointment of PwC Mauritius post the redomiciliation
  - Agreed they are independent of the group; the provision of non-audit services was within the allowed percentage of external audit fee and therefore did not impact their independence
  - In line with paragraphs 3.84(g)(iii) and 22.15(h) of the JSE Listings Requirements, reviewed the external auditors' suitability pack for the annual appointment of audit firm and designated individual partner. It was agreed that PwC is qualified and experienced to conduct the audit for the 2020 financial year and should be reappointed
- Financial statements
  - Approved that the interim and annual financial statements accurately reflect the financial position of the group
  - Adequately reflect that the group is a going concern, and the solvency and liquidity test indicated the ability of the group to pay shareholder dividends
  - The dividend cover is appropriate to provide an acceptable return to shareholders and allow capital reinvestment in the business. As a result of Covid-19, no dividends were declared during the year
  - The committee is satisfied that it has had access to the financial statements of all companies in the group structure
- Internal audit
  - The material issues fairly reflect the risk profile of the group and the environment in which it operates
  - The internal audit charter provides guidance and direction for the responsibilities of the internal audit department
- Finance function
  - The group finance director has the appropriate qualification, expertise and experience for the group's requirement and is suitably qualified to oversee the preparation of the financial statements
  - The group FD is supported by a well-functioning, appropriately resourced and qualified financial team in both the South African and Mauritius operations
  - There are appropriate financial reporting procedures which are operating effectively
- Integrated annual report
  - The IAR reflects a balanced view of the business, the material issues and value-creation process of the group
- Information technology
  - The group is supported by a well-functioning information technology team that operates against an approved technology charter
  - Received feedback from the information security committee to support the audit and risk committee's deliberations
- Legal
  - Reviewed the ever-changing and onerous legislative environment, in particular the introduction of debt relief in terms of the National Credit Amendment Act No. 7 of 2019 and the impact on the debtors metrics and the new debit order legislation referred to as DebiCheck.
  - Considered that the company had complied with the laws of Mauritius and the Memorandum of Incorporation

#### HomeChoice International

**Members** 3 independent non-executive directors

**Meetings** 3 **Attendance** 100%

**Other invitees**
SA finance officer, group finance director and member of HCM audit and risk committee, head of internal audit, external auditors, chairman of HSA audit and risk committee, head of technology and legal

#### HomeChoice South Africa

**Members** 2 independent non-executive directors

**Meetings** 3 **Attendance** 100%

**Other invitees**
Group finance director, SA finance officer, head of internal audit, external auditors, senior members of finance team, head of technology and legal

#### HomeChoice Mauritius

**Members** 1 independent non-executive directors; 1 executive director

**Meetings** 2 **Attendance** 100%

**Other invitees**
External auditors

#### Outcomes

- 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
- Group complies with material legislation
- Shareholders can be satisfied that the external auditors are independent of the group
- Shareholders and financial stakeholders can place reliance on the integrity of the annual financial statements

## 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 and divisional chief executive officers attend by invitation and are recused for all matters involving themselves.

Decisions made that enhance and support the group's value-creation process:

- Remuneration
  - Considered the impact of Covid-19 on the remuneration policy
  - Approved the targets and performance conditions for the 2020 short-term bonus scheme and subsequent adjustments as a result of Covid-19
  - The trigger performance conditions for the 2020 short-term performance bonus were partially achieved, the Financial Services division qualified for a payment
  - Approved the vesting of the LTI awards
  - No annual salary increase
  - The disclosure of both executive directors' and non-executive directors' remuneration is in accordance with King IV and IFRS
- Nominations

  Following the redomilicilation recommended the following appointments:
  - Shirley Maltz as executive chair
  - Pierre Joubert as lead independent director
  - Accepted the resignations of Stanley Portelli and Charles Rapa
  - Recommended the appointment of a new independent non-executive director, Marlisa Harris
- Noted the non-achievement of the HiL board race and race policies and the medium-term targets to progress transformation
- Composition, charter and membership of the board committee members are effective for the requirements of the three group sub-committees
- Confirmed that the group is supported by the company secretary, Sanlam Trustees International (who are duly competent and suitably experienced), and supporting subsidiary company secretaries who all are competent, qualified and experienced
- The directors available for re-election at the annual general meeting and that of the group audit and risk

### HomeChoice International

**Members**
- 2 independent non-executive directors
- 1 non-independent non-executive director

**Meetings** 3 **Attendance** 100%

**Other invitees**
Group chief executive officer – South Africa, divisional CEOs, group finance director, head of corporate finance

### HomeChoice South Africa

**Members**
- 2 independent non-executive directors
- 1 executive director

**Meetings** 2 **Attendance** 100%

**Other invitees**
Group chief executive officer – South Africa, divisional CEOs, SA finance officer, head of corporate finance

### Outcomes

- Board skills, experience and diversity appropriate for the group
- Appropriate oversight through committee structure
- Remuneration policy achieved significant support from shareholders at previous AGM
- Ensuring fair balance between fixed and variable remuneration within the group's financial constraints

## Social and ethics committee

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

Decisions made that enhance and support the group's value-creation process:

- Transformation
  - The committee discussed the movement from a compliant B-BBEE rating in 2019 to a non-compliant rating in 2020 and understood that the outcome was impacted by COVID-19 and the need to imminently appoint alternative suppliers compliant with the COVID-19 regulatory requirements as set out by the government in the first half of 2020. The 2021 targets were also reviewed and clear guidelines were redefined for each of the five pillars of the B-BBEE scorecard in order to reach a compliant rating in 2021
- Sustainability
  - That adequate water contingency plans continue to be in place for the group's Western Cape operations
  - In light of the energy crisis the South African economy is facing, the committee reviewed and continues to monitor a load-shedding mitigation plan to ensure that the South African operations and, in particular, its contact centre, is capable of operating during load-shedding stages
  - Approved the installation of a 622 kWp Solar Photo Voltaic system which will offset approximately 1 million kWh of the South African's head office electricity consumption on an annual basis
- Social responsibility
  - The operations of the HomeChoice Development Trust (HCDT) continue to partner with key NGOs with the intent of the advancement of early childhood development
- Ethics
  - The tip-offs line is managed by an independent external party and is being regularly used by employees. Five tip-offs were reviewed by the committee and all were resolved. The committee is satisfied that none of the tip-offs were of a material nature.

### HomeChoice International

**Members**
- 1 independent non-executive directors
- 1 non-independent non-executive director
- 1 executive director

**Meetings** 2 **Attendance** 100%

**Other invitees**
Group head of human resource, Legal and B-BBEE personnel, Head of customer experience

### HomeChoice South Africa

**Members**
- 2 independent non-executive directors
- 1 executive director

**Meetings** 4 **Attendance** 100%

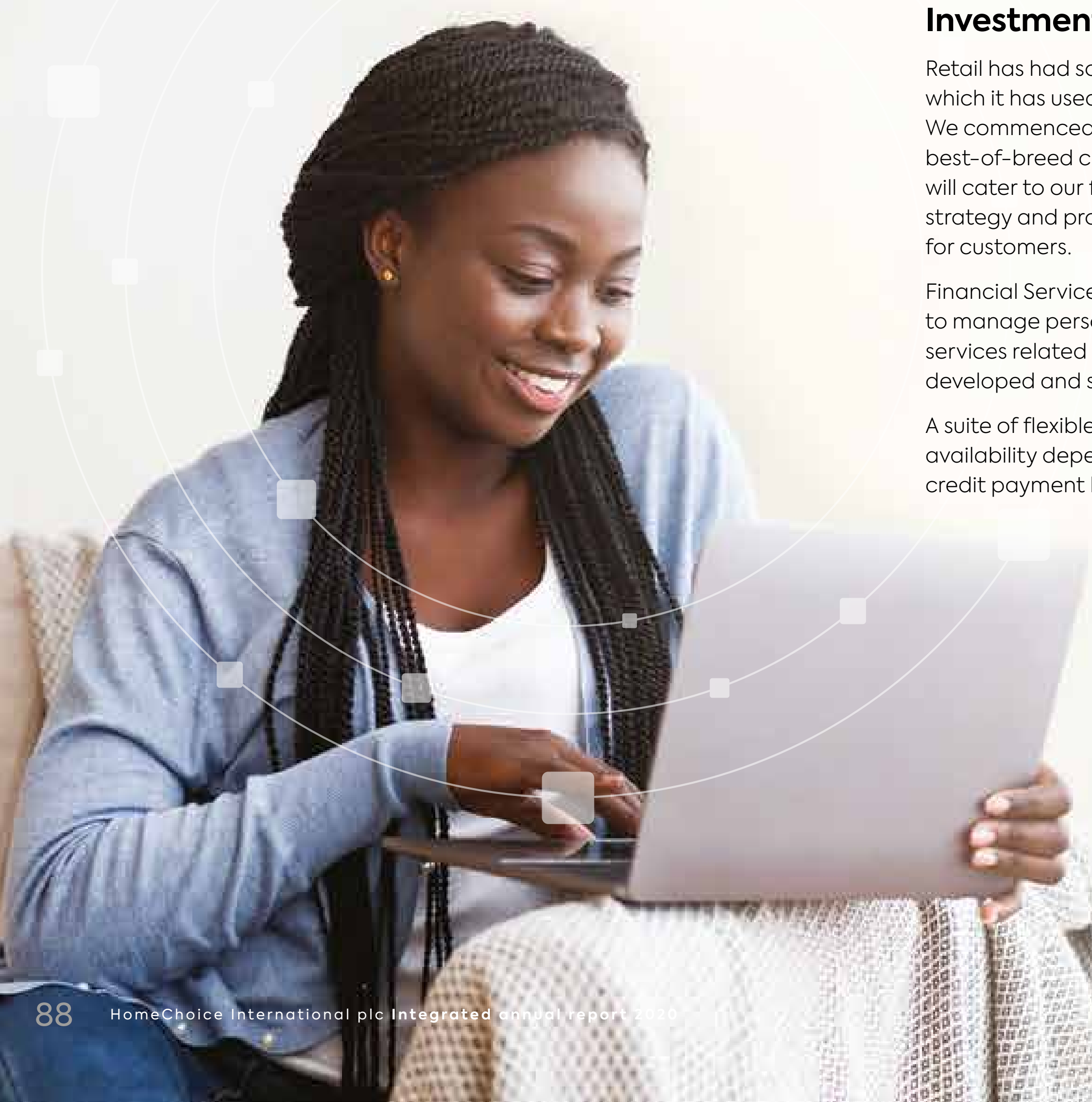
**Other invitees**
Divisional CEOs, Human resource executive, Legal and B-BBEE personnel, Head of customer experience

### Outcomes

- Strong governance and ethics
- Processes implemented to ensure operational business continuity and support for staff in the midst of water and electricity shortages in South Africa

# MANAGEMENT OF CREDIT

**The provision of credit to the mass middle-income market is a key element of the group's business model.**



More than 90% of the group's sales are credit sales, and the provision of loans and financial service products requires robust management of the credit management process. The group draws on its more than 35 years of experience and knowledge of the mass market customer in determining which customers are most likely to be able to service their debt.

Our credit risk policies are applied by the Retail and Financial Services divisions, with nuances relevant to each business. Strategy, origination, decisioning and vetting processes are managed independently by separate credit risk teams based in South Africa and Mauritius. Collections for Financial Services have been outsourced to South Africa given the language considerations.

## Investment in technology

Retail has had some very old legacy systems which it has used to manage the credit cycle. We commenced a programme to implement best-of-breed credit management tools that will cater to our future credit management strategy and provide additional functionality for customers.

Financial Services use bespoke systems designed to manage personal loans and other financial services related products. These systems are developed and supported in Mauritius.

A suite of flexible credit products is offered with availability dependent on customers' previous credit payment behaviour.

## RETAIL

homechoice

**3 months**
Interest-free

**6, 12, 16 months**
Revolving credit

**24, 36 months**
Instalment credit

**Advantage 24, 36 months**
Revolving credit

## FINANCIAL SERVICES

finchoice

**Flexi loan 6 months**
Short-term credit

**MobiMoney 1 – 3 months**
Revolving credit

**Premier loan 12, 24, 36 months**
Unsecured credit

## OPERATIONAL METRICS

| | **2020** | 2019 |
|---|---|---|
| Applications accepted | **70.3%** | 73.5% |
| Not taken up | **2.1%** | 2.3% |
| **Customer mix** | | |
| Existing | **69%** | 75% |
| New | **31%** | 25% |
| Average term (months) | **16.1** | 16.9 |
| Average balance | **R4 542** | R4 349 |

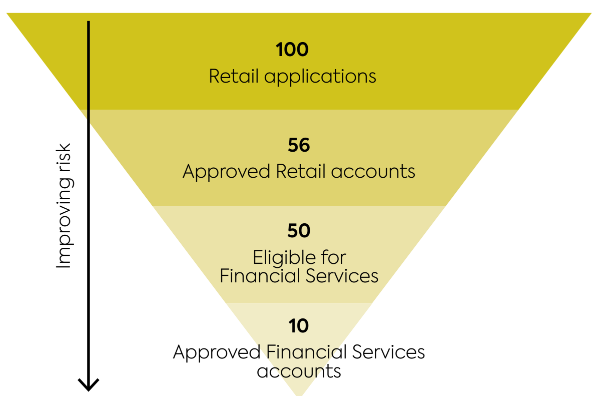
| | **2020** | 2019 |
|---|---|---|
| Applications accepted | **64.8%** | 76.8% |
| Not taken up | **2.5%** | 2.3% |
| **Disbursement mix** | | |
| Repeat loans | **87%** | 85% |
| New loans | **13%** | 15% |
| Average term (months) | **12.2** | 14.2 |
| Average balance | **R7 100** | R8 628 |

## Credit policy and governance

### Policy

New customers to the group are mainly sourced by 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. Our Retail product margin enables the group to accept a higher tolerance of credit risk in the acquisition of potential customers. Once they have a proven credit record, customers are offered our lower-margin Financial Services products – the risk-filtering process.

**THE RISK-FILTERING PROCESS**




The group applies a "low and grow" credit strategy. First-time customers start with a low credit limit and shorter payment terms which are then gradually increased over time as their credit behaviour improves. For many new customers this may be the first time that they have had access to credit. This strategy allows customers time to orientate and understand how they can service their accounts within their household budget.

The Retail credit policy and debtors' book are managed independently of the Financial Services book. Although separate teams of analysts based in Mauritius and South Africa monitor the books and develop appropriate credit policies, customers' group-wide data is considered in each credit decision and learnings between the two teams are shared on a constant basis.

### Governance

Credit risk committees are managed separately in Mauritius and South Africa and report into their respective boards. Based on the governance framework, these committees in turn report directly to the HIL board as part of the normal board process.

## Origination and acquisition

### Retail

Retail customers have a suite of accounts available to them – revolving credit, either using Flexi or Advantage accounts. A three-month interest-free account is available and primarily used by customers to purchase lower-value products.

Advantage credit accounts are accessible to customers once they have demonstrated good payment performance on their Flexi account and their accounts are in good order.

New customers to the group are acquired through multiple origination channels, namely television, sales agents, showroom, targeted list mailing and digital.

Short codes included in TV adverts allow customers to respond to the SMS, which in turn will trigger an automatic credit bureau check. Successful customers are then contacted by our contact centre to finalise their account application.

### Financial Services

Loan products are offered to Retail customers who demonstrate good payment behaviour and consequently are relatively low-risk customers. Scorecard selection criteria drive the acquisition of a profitable group of loan customers, with a stable and acceptable risk of bad debt, at a reduced customer acquisition cost.

Financial Services has previously supplemented their Retail customer acquisition programme by bringing on board customers external to the group. This successful external strategy brings more "digital-savvy" FinTech customers onto the group's customer database and in 2020 53% of new Financial Services' customers were externally sourced. Stricter credit policies are applied to external customers using API data-driven technology. Higher credit thresholds, lower maximum credit limits and a maximum term of six months are applied and only once they are proven to the group the "low and grow" strategy is then applied.

MobiMoney, a digital-only account, is the entry point for most customers to the Financial Services division. It is a short-term, revolving credit facility, enabling customers to withdraw funds against their approved credit limit. By using e-wallet technology, this platform supports and enables the group to offer products in the value-added services portfolio.

## Vetting and decision-making

The group applies the South African credit regulations. Affordability, processing, vetting and decision-making on credit granting operate independently. In-house scorecards used in vetting are developed in South Africa and Mauritius, with documentation and affordability run out of Mauritius. Scorecards are supplemented and strengthened with data from external credit bureaux.

Technology also plays a critical role in ensuring efficient and easily accessible customer processes. Our membership of the Document Exchange Association has enabled a more efficient and quicker process to obtain customers' relevant banking information. The use of technology has enabled us to give customers quicker responses to their credit application process.

### Quicker decision-making


Streamlining of processes in vetting have resulted in improvements in the time it takes to authorise customers' credit.

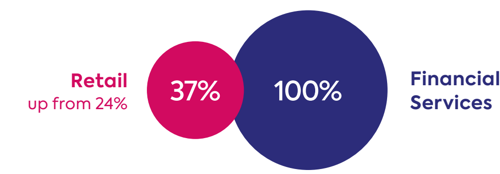
Advanced anti-fraud detection technology tools and predictive models are used to manage application fraud.

Significant improvements in the reduction of fraud has reduced existing account takeover fraud, improved detection on new business first- and third-party fraud and streamlining our anti-fraud processes. These are then either automatically declined or reviewed by a team of fraud specialists.

## Collections

Our in-house collections team is predominantly focused on the Retail business as all Financial Services loan repayments are mainly fulfilled by debit order payments, hence only arrear payments are collected on a predictive dialler in South Africa. In addition to convenient and easy-to-use digital payment options, customers can make use of multiple physical payment points throughout South Africa and neighbouring countries which include selected retailers and banks.

**% OF BOOK COLLECTED ON DEBIT ORDERS**




A major drive to convert Retail account payments to Naedos (debit orders) has proved very beneficial to the group. In addition to being more convenient to customers, it has had the added advantage of efficiency savings in the collections team, improving the cash yield on the debtors' book and reductions in bad debt write-offs.

### Debit orders and digital payments for customer convenience

**75%**
**of payments are digital**

Proprietary telephony technology enables the collections team to be more efficient in when and how they contact customers to request payments.

Late-stage account collections, where recoveries from customers may be more onerous, are outsourced to external debt collection (EDC) agencies. Agreed service-level agreements and collections targets ensure that the group optimises these collections. Periodically, the group undertakes a sale of its debt review book. This book consists of customer accounts who have shown distress and entered the formal NCA debt review process with a debt review counsellor.

## Credit risk management

The group maintains conservative debtors' impairment provisions which are determined and regularly reviewed during the year.

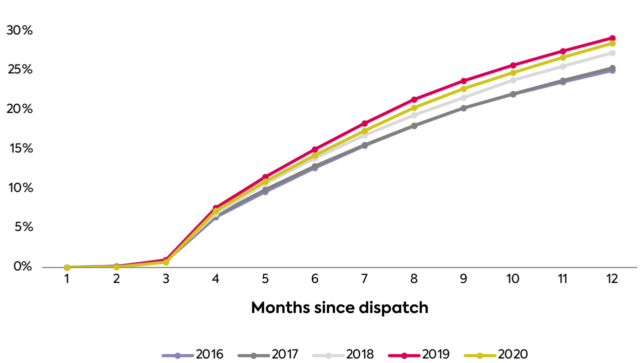
### DEBTOR PROVISION BALANCES

| | Group | Retail | Financial Services |
|---|---|---|---|
| Gross book | R3.68 billion | R1.92 billion | R1.76 billion |
| Debtor costs as % of revenue | 26.7% | 22.8% | 38.1% |
| Debtor provision as % of receivables | 18.3% | 21.1% | 15.3% |
| Stages 2 and 3 loans cover | | 56.4% | 71.4% |

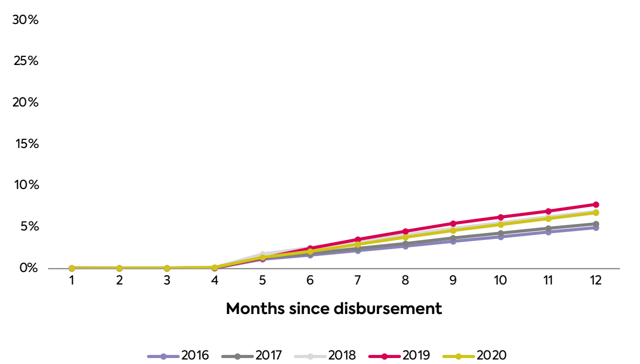
### VINTAGES BY YEAR

(120+ days in arrears and written off)
Cumulative % of original accounts reaching arrears status

**RETAIL**




**FINANCIAL SERVICES**




For more detail on the credit performance during 2020, refer to the Finance Director's commentary on pages 62 to 64.

# REMUNERATION REPORT

## SECTION 1 Report from the chairman of the remuneration committee

During 2020, the primary focus of the committee was considering the impact of the Covid-19 pandemic, and the lockdown regulations imposed by the Government, on the group's remuneration strategy.

The components of the short-term bonus scheme and the related performance conditions were approved by the committee prior to the Covid-19 pandemic. However, the impact of the lockdown restrictions had a significant impact on the performance of the group. Therefore, the committee considered and approved revised performance targets to motivate and encourage achievement of the group's strategy.

The committee discussed the following key matters during the year:

### Executive directors' remuneration

A detailed benchmarking exercise, conducted in 2019, was used to inform the remuneration structure and guaranteed pay for executive directors and senior executives in the group. The committee agreed to maintain the construct of executive director's guaranteed and variable remuneration for the 2020 financial year. Increases to guaranteed pay were in line with inflation.

Following the re-domicile of HomeChoice International from Malta to Mauritius and resultant impact on the board composition, Shirley Maltz was appointed Executive chairman on 1 June 2020. She received an adjustment to her guaranteed pay in recognition of her increased responsibilities.

### Short-term performance bonus scheme

The committee approved the group and divisional financial and non-financial performance targets and thresholds for the 2020 short-term bonus scheme.

### COVID-19 IMPACT

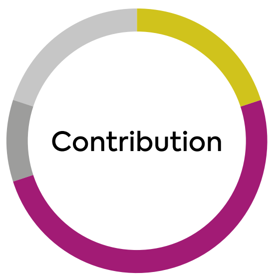
The committee considered the impact of the various lockdowns on the business operations and the approved STI targets. In order to proactively manage the business and conserve cash during the year, the Board agreed to implement actions that would impact the achievement of the original targets.

As a result of this, the committee agreed to:

- remove the group PBT target
- revise the divisional operating profit and cash yield targets for 2020
- require the achievement of both operating profit and cash yield in order for a bonus payment to be triggered
- reduce the bonus pool by 50%, effectively capping an individual's potential bonus to 50%

- The 2020 performance against the revised targets were reviewed and considered. As discussed in the group FD's report, the financial performance of the group was significantly short of the revised expectations – Retail had a disappointing H2, while Financial Services performed relatively well. Consequently, only the Financial Services division achieved the revised targets.
- The committee discussed the performance metrics, weightings and conditions for the 2021 financial year. Given the ongoing nature of Covid-19 on the 2021 financial year and the need to achieve both profit and cash, the committee agreed the following would apply:

**Weighting contribution**




- Group PBT **20%**
- Segmental PBT **50%**
- Cash yield **10%**
- Individual performance **20%**

## Long-term share incentive schemes

**1 350k**
**LTI shares awarded**

**100%**
**vesting for 2016 allocations**

- The committee approved the annual rolling allocations for the Employee Share Option Scheme and the Forfeiture Share Plan to management levels and the executive directors for 2020.
- The vesting of the share options allocated in 2016 were agreed. As the participants were still in the employ of the group, all vesting conditions were satisfied. Performance conditions are applicable for allocations made in 2018 and onwards.

### COVID-19 IMPACT

The impact of Covid-19 on the performance conditions for LTI allocations, from 2018 onwards, which are 'in-flight' was discussed by the committee. Awards made in 2018 and 2019 are unlikely to vest due to the impact of Covid-19 on the 2020 financial performance. The committee agreed to discuss this further in 2021.

It was also agreed to reconsider the performance hurdle to be used for 2021 LTI allocations once the group's long-term forecasts had been approved. This is expected to prior to the announcement of the 2021 interim financial results.

**0%**
**increase**

### Non-executive directors' fees

Given the disappointing trading performance, the committee recommended that there would be no increase in the maximum amount payable for non-executive fees. The approval of a maximum amount of $40 000 per annum would be tabled at the Annual general meeting to be held on 10 June 2021 for shareholder approval.

The fees for the non-executive directors of the subsidiary companies (HomeChoice South Africa and HomeChoice Mauritius) were approved.

### King IV

The committee continues to consider the King IV recommendations contained in Principle 14. Disclosure of the remuneration at all levels of the group is included in Section 3, Implementation report, and the executive directors' remuneration has been shown according to the single-figure remuneration methodology suggested by the South African Reward Association.

The group did not use any external independent remuneration consultants during the year; however, it has utilised independently collated data in its deliberations.

***The committee welcomes all questions on the Remuneration policy and the Implementation report. Questions should be directed to governance@homechoiceinternational.com***

### Shareholder voting

2019 AGM voting approval

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.

**2019 AGM voting approval**

Shareholders overwhelmingly approved the remuneration policy and implementation report.

| | |
|---|---|
| Non-executive directors' remuneration | **99.99%** |
| Remuneration report | **99.23%** |
| Implementation report | **99.23%** |

The group's Remuneration policy (Section 2) and Implementation report (Section 3) are subject to non-binding advisory votes by shareholders at the AGM dated 10 June 2021.

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

## SECTION 2 Remuneration policy

Our employees play a critical role in the delivery of the group's strategy and the achievement of business objectives and therefore contribute to the sustainability of the business for the medium and long-term.

The group's Remuneration policy has been formulated to ensure that the group attracts, motivates and retains exceptional talent, drives a high-performance culture aligned to the group's business objectives and strategy, and achieves the following objectives:

- internal consistency, ensuring that all employees are remunerated fairly in relation to one another and reflects their value to the group and their individual performance;
- external consistency, through participation in industry remuneration surveys managing employees' remuneration fairly in relation to the market;
- responsible remuneration, which attempts to address any income disparities based on gender and race; and
- aligns the executive's interests with shareholders, with a combination of short- and long-term incentives.

### Components of remuneration

The remuneration mix includes a combination of monetary and non-monetary rewards.

Monetary rewards

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

Non-monetary rewards

For the purposes of the remuneration policy, employees are categorized as follows:

- executives – executive directors and senior executives in operating companies
- corporate office – employees who are primarily based in head office
- operations – employees in contact centres, retail showrooms and distribution centres.

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

The group's employee value proposition model recognises that engaged employees are a key driver to deliver on the customer experience strategy. **The model is built on four key pillars:**

### Rewards

- Guaranteed pay
- Related benefits
- Short- and long-term incentive schemes
- Commission schemes

### Recognition

- Biannual performance reviews
- Discretionary recognition awards
- "Wow" employee communications

### Growth

- Talent development – career pathways and succession
- Bursary and leadership programmes
- Employment equity and skills development forums
- Diversity transformation

### Care

- ChoiceCare wellness programme
- Ergonomically designed workplace
- "5-star Green" building
- Annual Employee Pulse survey
- Restaurant facilities

## Remuneration structure

The details of each component of the remuneration structure applicable for the 2021 financial year are shown in the table below.

### Guaranteed pay

| | |
|---|---|
| **Rationale** | Salary is based on competitive market value and adjusted in accordance with performance and contribution.<br>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 in relevant geographies.<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.<br>Provident fund also provides cover for death and disability. |
| **Medical aid** | Membership is encouraged but is not compulsory. Two approved schemes are available, providing flexibility in terms of affordability and benefit coverage. |
| **Discount** | Product discount on merchandise sold by the group is available to all employees. |
| **Other** | Expatriate staff in Mauritius receive additional benefits appropriate to the nature of their contract. Certain inclusions in guaranteed pay are dependent on in-country legislation. |
| **Executive contracts and notice periods** | The notice period is three months for executives. 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. |

**Operational staff participate in commission schemes dependent on their roles**

### Commission schemes

Customer-facing staff in the contact centres, retail showrooms and credit collections team have the opportunity to supplement their guaranteed pay by participating in a commission scheme dependent on the achievement of operational targets.

Certain categories of staff in the distribution centres may earn commission based on productivity and despatch targets.

| Rationale | Participants | Period | Mechanics | Conditions |
|---|---|---|---|---|
| Drive and reward performance against critical operational targets aligned to the strategic pillars. | Customer-facing employees<br>Categories of distribution centre staff | Monthly | Formulaic driven dependent on commission scheme.<br>Payments made monthly in cash. | Sales<br>Loan disbursements<br>Credit collections<br>Despatches<br>Productivity |

### Short-term performance bonus scheme

The short-term performance bonus is based on one-year performance measures which include both financial and non-financial metrics. It is available to Executives and Corporate office employees.

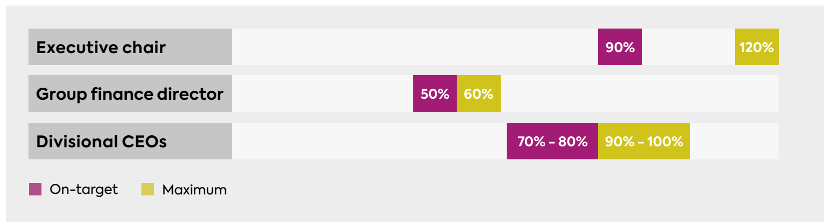
The bonus pool is calculated in relation to group PBT.

Individual performance determines the respective allocations from the pool. Individuals must achieve an acceptable performance in order to qualify for a bonus. The allocations for the categories are depicted below, with further details provided in the table.

**Available to all directors and corporate office**

| Rationale | Participants | Period | Mechanics | Performance conditions |
|---|---|---|---|---|
| Rewards performance for short-term financial and non-financial performance.<br>Non-financial metrics are generally aligned to the six strategic pillars. | • Executives<br>• Senior executives<br>• Management<br>• Corporate office employees<br>• General head office staff | One year | Threshold, on-target and stretch targets for Group and Divisional profit.<br>No gatekeeper applied. | Group PBT: 20%<br>Divisional metrics:<br>• Segmental PBT: 50%<br>• Cash yield: 10%<br>• Individual performance: 20% |

**Allocations**



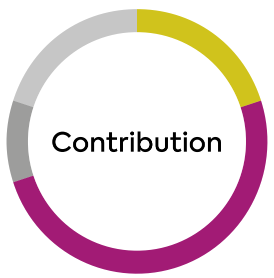

**Other**

Targets agreed annually in advance.

Remuneration committee retains discretion on whether to award a bonus, and the quantum.

Payments made in cash post year-end.

**Weighting contribution**




Group PBT **20%**

Segmental PBT **50%**

Cash yield **10%**

Individual performance **20%**

## Long-term variable remuneration

The group has two long-term share incentive schemes:

- Employee Share Option Scheme (ESOS) which is open to senior employees and key or critical roles in the group. It is used to reward loyalty and the achievement of sustained financial performance over a four-year period.
- Forfeiture Share Plan (FSP), participation in which, is primarily available to executive directors and senior executives who are responsible for the driving of strategy and consistent sustainable achievement of financial performance above economic conditions.

Details of the two schemes are shown below.

### Employee Share Option Scheme

**Rationale:** Attract, motivate, reward and retain employees who can influence the performance of the group

**Performance period:** Four years

**Performance conditions:** 100% vesting: to be confirmed once long-term forecasts have been agreed. 2019: conditions were profit after tax growth > CPIX +3% compounded annually. No threshold or stretch target.

**Participants:** Senior employees and key and critical roles

**Other:** Performance conditions applied to 2018 allocations onwards. Forfeiture on resignation.

**Value of allocations:** Dependent on Paterson grading levels up to a maximum of 20%.

Based on expected % of guaranteed pay at vesting date.

| | |
|---|---|
| Participant | 15% – 20% |

### Forfeiture Share Plan

**Rationale:** Attract, motivate, reward and retain employees who can influence the performance of the group

**Performance period:** Four years

**Performance conditions:** 100% vesting: to be confirmed once long-term forecasts have been agreed. 2019: conditions were profit after tax growth > CPIX +3% compounded annually. No threshold or stretch target.

**Participants:** Executive directors, executives and select senior employees

**Other:** Participants are entitled to receive dividends and have voting rights. Shares are held in escrow and forfeitable on resignation until the vesting date. Performance conditions applied to 2018 allocations onwards.

**Value of allocations:** Based on expected % of guaranteed pay at vesting date.

| | |
|---|---|
| Executive chair | 70% – 100% |
| Group finance director | 40% – 50% |
| Divisional CEOs | 50% - 80% |

## Non-executive directors' remuneration policy

The table below sets out the Remuneration policy applicable for the 2021 financial year.

| Component | Details |
|---|---|
| **Rationale** | Market-related fees to attract and retain non-executive directors |
| **Fees** | Non-executive directors receive fees for their services on the board and participation on the board committees.<br>Fees are determined in US Dollars and may be paid in an alternative currency dependent on the country of residence.<br>The fees paid recognise the responsibilities of non-executives to provide their expertise throughout the year on an ongoing basis and, therefore, an annual fee has 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.<br>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. Any consultancy agreements awarded to non-executive directors are approved by the operating company's remuneration committee and tabled with the HIL remuneration committee. |
| **Other** | Non-executive directors may not receive any payments linked to organisational performance, nor are they entitled to participate in the long-term share incentive schemes. |

### Shareholder engagement and voting

In line with King IV, the company will table its Remuneration policy and Implementation report for two separate non-binding advisory votes by shareholders at the AGM to be held on 10 June 2021.

If 25% or more of the shareholders vote against either resolution (or both), the Remuneration committee will engage with the dissenting shareholders to ascertain their concerns with the company's remuneration framework.

# SECTION 3 Implementation report

This section deals with the implementation of the Remuneration policy for the 2020 financial year.

The committee monitored the implementation of the remuneration policy in 2020 as published in the 2019 Integrated Annual Report. There were no deviations to the 2020 policy, with the exception of adjustments made for the impact of Covid-19.

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

## Executive remuneration

Details of the remuneration paid to executive directors can be found on page 105.

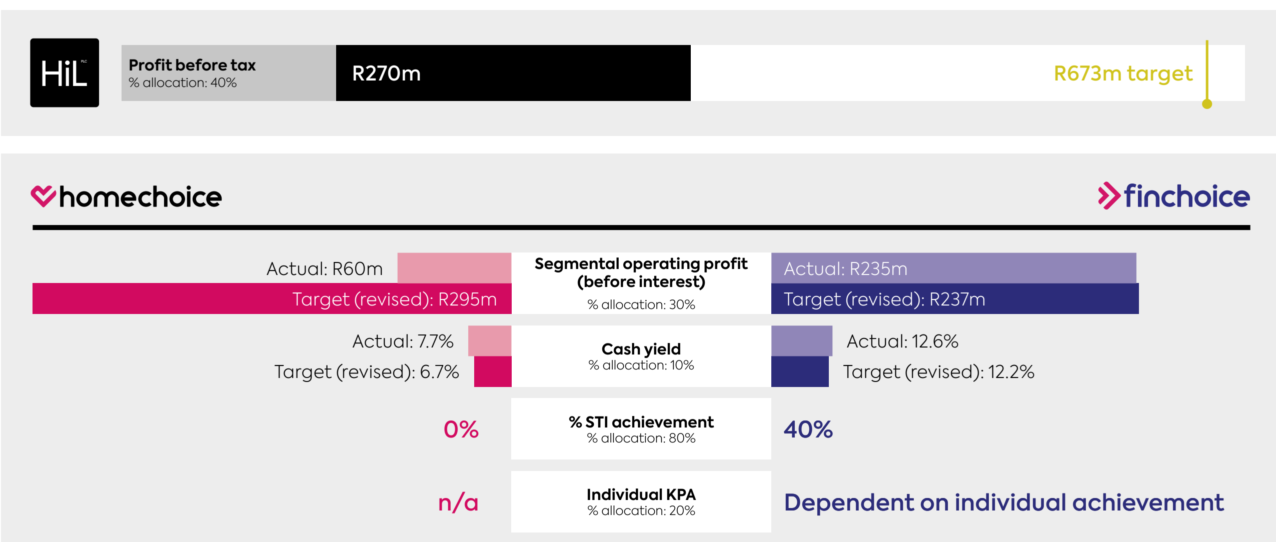
### Guaranteed pay

The remuneration committee agreed a 4.5% inflationary-linked increase to employees guaranteed pay. An additional 1.0% was allocated on a case-by-case basis to manage potential retention risks. Executive directors' increase (based on constant currency) is 3.2%.

## Short-term variable remuneration

### Short-term performance bonus scheme

As discussed in the remuneration committee's chairman's report, the group's financial performance was disappointing. Based on the revised performance conditions and targets, only the Financial Services division qualified for bonuses.




### Short-term performance bonus scheme

**Commission schemes**

Operational employees earned R31.3 million in monthly commission payments during 2020. An independent consultant was used to perform a review on the contact-centre incentive structure during 2020, with recommendations still under discussion.

**COMMISSION EARNED**


### Long-term variable remuneration

**2016 allocations tested in 2020**

*Employee Share Option Scheme*

The vesting of allocations awarded in 2016 were approved for all participants still in the employ of the group at the vesting date. There were no additional vesting requirements.

| | Number | Value at vesting |
|---|---|---|
| **Executive directors** | | |
| Executive chair | **52 000** | **R0.21m** |
| Group FD | **12 000** | **R0.05m** |
| **Other categories** | | |
| Divisional directors and senior management | **246 800** | **R0.98m** |

*Forfeiture Share Plan*

No allocations made in 2016. The scheme was introduced effective 2017.

**2020 annual allocations**

The committee agreed to extend the eligibility of the FSP scheme to senior management to reward and motivate the achievement of the group's and divisional medium-term strategies.

An allocation of FSPs was made on the appointment of the new Retail CEO.

*Employee Share Option Scheme*

| | Number | Value at grant date |
|---|---|---|
| **Executive directors** | | |
| Executive chair | – | – |
| Group FD | – | – |
| **Other categories** | | |
| Divisional directors and senior management | **276 800** | **R8.9 mill** |

*Forfeiture Share Plan*

| | Number | Value at grant date |
|---|---|---|
| **Executive directors** | | |
| Executive chair | 101 550 | R3.2 mill |
| Group FD | 14 850 | R0.5 mill |
| **Other categories** | | |
| Divisional directors and senior management | **1 074 309** | **R34.4 mill** |

*Performance conditions*

Profit after tax > CPIX +3% compounded annually

*Vesting period*

Four years

## Non-executive directors' remuneration policy

### Non-executive directors' remuneration

Details of the remuneration paid to non-executive directors can be found on page 105.

| Component | Details |
|---|---|
| **Rationale** | Market-related fees to attract and retain non-executive directors |
| **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 US $40 000 per annum for the financial year ended 31 December 2022. |
| **Contracts** | Amanda Chorn has a consultancy agreement with the South African operating company and is remunerated for services and related benefits provided in terms of the agreement. |
| **Other** | Non-executive directors did not receive any payments linked to the group's performance nor did they participate in the long-term share option incentive schemes. Any travel costs incurred are paid for by the company. |

## Directors' remuneration and shareholding

The remuneration, benefits and fees paid to each of the directors, for the company and its subsidiaries, in respect of the year ended 31 December are shown below.

| | | | | | | | Short term | Long term | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Notes | Directors' fees R'000 | Fees earned from subsidiary companies R'000 | Salary R'000 | Benefits[1] R'000 | Guaranteed pay R'000 | Performance bonus R'000 | Fair value of shares[2] R'000 | Dividends received[3] R'000 | Single-figure remuneration R'000 |
| **2020** | | | | | | | | | | |
| **Executive directors** | | | | | | | | | | |
| Gregoire Lartigue | | **–** | **–** | **402** | **–** | **402** | **–** | **–** | **–** | **402** |
| Shirley Maltz | **4** | **–** | **–** | **4 891** | **481** | **5 372** | **–** | **–** | **–** | **5 372** |
| Paul Burnett | | **–** | **–** | **1 908** | **913** | **2 821** | **–** | **–** | **–** | **2 821** |
| | | **–** | **–** | **7 201** | **1 394** | **8 595** | **–** | **–** | **–** | **8 595** |
| **Non-executive directors** | | | | | | | | | | |
| Stanley Portelli | **5** | **85** | **–** | **–** | **–** | **85** | **–** | **–** | **–** | **85** |
| Amanda Chorn | | **147** | **214** | **–** | **–** | **361** | **–** | **–** | **–** | **361** |
| Eduardo Gutierrez-Garcia | **6** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| Robert Hain | | **147** | **–** | **–** | **–** | **147** | **–** | **–** | **–** | **147** |
| Pierre Joubert | **7** | **567** | **–** | **–** | **–** | **567** | **–** | **–** | **–** | **567** |
| Charles Rapa | **5** | **64** | **–** | **–** | **–** | **64** | **–** | **–** | **–** | **64** |
| | | **1 010** | **214** | **–** | **–** | **1 224** | **–** | **–** | **–** | **1 224** |
| Total | | **1 010** | **214** | **7 201** | **1 394** | **9 819** | **–** | **–** | **–** | **9 819** |
| **2019** | | | | | | | | | | |
| **Executive directors** | | | | | | | | | | |
| Gregoire Lartigue | | – | – | 340 | – | 340 | – | – | – | 340 |
| Shirley Maltz | | – | – | 4 318 | 432 | 4 750 | – | 225 | 473 | 5 448 |
| Paul Burnett | | – | – | 1 827 | 825 | 2 652 | – | 111 | 69 | 2 832 |
| | | – | – | 6 485 | 1 257 | 7 742 | – | 336 | 542 | 8 620 |
| **Non-executive directors** | | | | | | | | | | |
| Stanley Portelli | | 174 | – | – | – | 174 | – | – | – | 174 |
| Amanda Chorn | | 126 | 186 | – | – | 312 | – | – | – | 312 |
| Richard Garratt | 8 | 126 | 6 895 | – | – | 7 021 | – | – | – | 7 021 |
| Eduardo Gutierrez-Garcia | | – | – | – | – | – | – | – | – | – |
| Robert Hain | | 126 | – | – | – | 126 | – | – | – | 126 |
| Pierre Joubert | 7 | 361 | – | – | – | 361 | – | – | – | 361 |
| Charles Rapa | | 141 | – | – | – | 141 | – | – | – | 141 |
| | | 1 054 | 7 081 | – | – | 8 135 | – | – | – | 8 135 |
| Total | | 1 054 | 7 081 | 6 485 | 1 257 | 15 877 | – | 336 | 542 | 16 755 |

**Notes**

1. *Benefits include retirement fund contributions and expatriate allowances for staff employed in Mauritius.*
2. *Fair value of share scheme awards at taxable value on vesting date.*
3. *Gross value of dividends received on unvested FSP shares.*
4. *Shirley Maltz was appointed Executive chair effective 1 July 2020.*
5. *Stanley Portelli and Charles Rapa resigned from the board effective 31 May 2020.*
6. *Eduardo Gutierrez, as a representative of ADP II Holdings 3 Limited on the HIL board, does not earn any directors' fees.*
7. *Richard Garratt retired from the board on 31 December 2019. He had a consultancy agreement with a South African subsidiary from which he earned consultancy fees and other related benefits.*
8. *Pierre Joubert was appointed to the board on 10 May 2019. He was appointed the Lead Independent Director effective 1 July 2020.*

| | | | | | As at 31 December 2019 | | Awarded in 2020 | | Sold during 2020 | | | As at 31 December 2020 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share scheme | Award date | Vesting date | Expiry date | Number | Grant price (Rand) | **Number** | **Grant price (Rand)** | **Number** | **Exercise price (Rand)** | **Realisation value[1] (Rand)** | **Vested** | **Unvested** | **Fair value[2] (Rand)** |
| **Shirley Maltz** | ESOS | 23 Jun 2012 | 23 Jun 2016 | 31 Mar 2024 | 179 095 | 10.64 | | | **179 095** | **21.55** | **1 953 926** | | | |
| | ESOS | 27 Aug 2013 | 27 Aug 2017 | 31 Mar 2024 | 50 000 | 11.00 | | | **50 000** | **21.55** | **527 500** | | | |
| | ESOS | 31 Mar 2014 | 31 Mar 2018 | 31 Mar 2024 | 100 000 | 14.44 | | | | | | **100 000** | | |
| | ESOS | 20 Mar 2015 | 20 Mar 2019 | 20 Mar 2025 | 40 500 | 33.70 | | | | | | **40 500** | | |
| | ESOS | 1 May 2016 | 1 May 2020 | 1 May 2026 | 52 000 | 28.00 | | | | | | **52 000** | | |
| | | | | | 421 595 | | | | **229 095** | | **2 481 426** | **192 500** | | |
| | FSP | 4 May 2017 | 4 May 2021 | 4 May 2021 | 150 000 | 36.25 | | | | | | | **150 000** | **3 841 500** |
| | FSP | 23 Oct 2018 | 31 Mar 2022 | 31 Mar 2022 | 48 300 | 38.00 | | | | | | | **48 300** | **1 236 963** |
| | FSP | 4 April 2019 | 31 Mar 2023 | 31 Mar 2023 | 120 000 | 38.00 | | | | | | | **120 000** | **3 073 200** |
| | FSP | 31 Mar 2020 | 31 Mar 2024 | 31 Mar 2024 | | | **101 550** | | | | | | **101 550** | **2 600 696** |
| | | | | | 318 300 | | **101 550** | | | | | | **419 850** | **10 752 359** |
| | | | | | 739 895 | | **101 550** | | **229 095** | | **2 481 426** | **192 500** | **419 850** | **10 752 359** |
| **Paul Burnett** | ESOS | 20 Mar 2015 | 20 Mar 2019 | 20 Mar 2025 | 12 000 | 33.70 | | | | | | **12 000** | | |
| | ESOS | 1 May 2016 | 1 May 2020 | 1 May 2026 | 12 000 | 28.00 | | | | | | **12 000** | | |
| | | | | | 24 000 | | | | | | | **24 000** | | |
| | FSP | 4 May 2017 | 4 May 2021 | 4 May 2021 | 20 000 | 36.25 | | | | | | | **20 000** | **512 200** |
| | FSP | 23 Oct 2018 | 31 Mar 2022 | 31 Mar 2022 | 7 500 | 38.00 | | | | | | | **7 500** | **192 075** |
| | FSP | 4 April 2019 | 31 Mar 2023 | 31 Mar 2023 | 20 000 | 38.00 | | | | | | | **20 000** | **512 200** |
| | FSP | 31 Mar 2020 | 31 Mar 2024 | 31 Mar 2024 | | | **14 850** | | | | | | **14 850** | **380 309** |
| | | | | | 47 500 | | **14 850** | | | | | | **62 350** | **1 596 784** |
| | | | | | 71 500 | | **14 850** | | | | | **24 000** | **62 350** | **1 596 784** |

1 *Realisation value is calculated as being the taxable benefit of the sale.*
2 *Fair value is calculated using the 30-day VWAP at 31 December 2020 of R25.61 and assumes a 100% vesting probability for all unvested awards.*

# SOCIAL AND ETHICS COMMITTEE REPORT

**The Social and Ethics Committee (committee) is pleased to present its report on behalf of the Group.**

Covid-19 has defined 2020 in many ways, and affected every one of our staff members, as well as our activities across all stakeholders. As a consequence of this, much of the committee's focus was dominated by ensuring a balanced response to the Covid-19 impacts on our stakeholders.

Firstly, we first needed to understand the impact of the pandemic. Even before the lockdown was announced, the group began gearing itself up to manage the crisis. We considered various strategies and assessed our level of preparedness. This included our readiness for remote working, enabling a large portion of our contact centre to continue some level of work throughout the various lockdowns. We deployed laptops to essential staff thereby ensuring 581 operations staff (44%) and 315 specialist staff (87%) were able to work from home, including providing data support and accelerated digital training for those in need. We implemented additional online assistance to our staff assisting them across personal, emotional, and financial wellness issues caused by the pandemic.

The HomeChoice Development Trust (HCDT) contributed over R7.7 million donations in kind to Covid-19 relief initiatives which were channeled through various non-profit and social services organizations. Other Covid-19 response initiatives included supporting more than 40 unregistered pre-school centres with personal protective equipment (PPE) and partnering with the Wynberg Improvement District to feed over 70 affected families daily throughout the pandemic.

When lockdown began to ease, we implemented stringent safety measures across our operations, communicating with staff frequently offering the latest information and support. All of our staff returning to work were issued with reusable masks and further supported by sourcing and providing the necessary PPE daily to ensure their safety.

As the economy began opening up, and more staff were allowed to return to work, we completed an environmental scan to ensure that our various offices were ready to receive our staff. This exercise involved sanitising, fogging, and procuring temperature scanners and PPE, among other supplies, as well as communicating with staff to ensure they had a good understanding of what was required in terms of hygiene and other behavioural rules. Importantly, we put plans in place for anyone who might test positive for Covid-19. Making sense of how to implement specific social distancing and hygiene methods in the work environment was not easy.

We thank the team involved in ensuring the safety of our staff and, in addition, the safety of our suppliers and customers during our interaction with them.

## Committee composition and meetings

- Eduardo Garcia-Gutierrez (chairman), non-independent non-executive;
- Robert Hain, independent non-executive director (appointed 1 June 2020)
- Stanley Portelli, independent non-executive director (resigned 30 May 2020); and
- Paul Burnett, executive director

### Permanent invitees

- Group human resource
- Legal and B-BBEE personnel
- Head of customer experience

## Committee attendance

| Member | Number of meetings | Percentage of attendance |
|---|---|---|
| Eduardo Garcia-Gutierrez | 2 | 100% |
| Robert Hain | 1 | 100% |
| Paul Burnett | 2 | 100% |
| Stanley Portelli | 1 | 100% |

## Role of the committee

The company is registered in Mauritius and therefore is not required to constitute a Social and Ethics committee. In the light of the majority of the group's operations taking place in South Africa, the board felt that it was only appropriate to establish a Social and Ethics committee in accordance with Section 72 of the South African Companies Act, 71 of 2008 as amended (the "Companies Act").

The committee is responsible for assisting the board to monitor and report social, ethical, transformational and sustainability practices consistent with good corporate citizenship and assisting the group to discharge its business responsibilities. The committee has adopted the responsibilities as per the Companies Act and is responsible for monitoring the group's activities with regard to:

- social and economic development
- good corporate citizenship
- environment, health, and public safety
- consumer relationships
- labour and employment practices

### Annual report of the committee

The committee met twice during the year and as required by its mandate. The committee is supported by a sub-committee established by HSA which oversees the South African operations, and which meets four times a year.

The key matters considered and reported to the Board include:

Transformation

- Continuously monitoring progress against the B-BBEE strategy

Sustainability

- Overseeing water contingency plans in place for the group's Western Cape operations
- Installing solar panel usage for 30% of the Wynberg head office electricity usage to ensure that the group can function during load-shedding

Social responsibility

- Overseeing the operations of the HCDT continue to partner with key NGOs in the intent of the advancement of early childhood development

Ethics

- Reviewing the activity on the tip-offs line which is managed by an independent external party and is being regularly used by staff

## Our BBBEE scorecard

The group obtained a level 8 BBBEE rating in March 2020 for the initiatives implemented during the 2019. Clear guidelines to maintain the compliant rating for the 2020 were agreed but, unfortunately, due to Covid-19 could not be achieved due to operational requirements having to adapt to everchanging regulations.

As Covid-19 and lockdown has been easing down, management is redeveloping a comprehensive plan to improve our level to be compliant.

## Our people

Our total employment complement of more than 2 000 staff is reflective of our target market, with 91% of our staff from historically disadvantaged groups.

The group has had mixed progress in transformation. Pleasingly we have seen an increase in top management from 8% to 14%, with a disappointing decrease in senior management from 30% down to 18%. Middle management continues to improve from 38% to 45%, assisted by leadership development programmes implemented within the organisation.

The current learnership programme provides 11 unemployed youths with the opportunity to attain an NQF 4 National Certificate in Contact Centre qualification.

Aligned with our digital transformation strategy for our customers, we are also digitalising internal processes. More than 70% of the 22 000 training interventions were conducted online. The number of interventions decreased from 34 000 in 2019, understandable given the impact of the pandemic on business operations.

# OUR COMMUNITY – CORPORATE SOCIAL INVESTMENT

The company aligns itself to early childhood development (ECD) and the HCDT is the primary vehicle managing the corporate social responsibility activities of the group.

The ECD sector was hard hit by the lockdowns imposed to manage the spread of Covid-19, with most of schools closed for a significant part of the year. Consequently, much of the R5 million spend in 2020, was in the form of donations-in-kind to assist communities most impacted by the pandemic.

Since inception, the HCDT has donated over R35 million to beneficiaries assisting more than 27 000 children under the age of six to receive a quality start to education.

More on the activities of HCDT can be found on pages 40 to 43.

## Our suppliers

Our Supplier and Enterprise Development (SED) program in South Africa aims to remove barriers for emerging black and black women-owned business to grow within our supplier base.

We are very proud of the work done in this area to develop and nurture small businesses – focused on three main areas:

- **Independent Services Providers (ISP's) who are an integral part of our logistics network delivering customers' orders direct to their homes**
  - Interest free loans are available to assist them in starting up their delivery business and further funding is available through short-term loans provided by Finchoice
  - The Sisonke Enterprise Development initiative that empowers our ISP's to manage their businesses effectively (learning and development plan and budget)
  - Ensuring sustainable growth of our ISP's by establishing hubs around the country to ensure an even and consistent flow of delivery
  - R12.9 million was earned by them in 2020
- **Sales agents, who generate a primary or secondary income from the sales of HomeChoice product mainly in townships and rural areas**
  - Earn a commission on the successful sales generated by them
  - R8.1 million was earned by them in 2020, a decline from 2019 given the social distancing protocols to manage the spread of Covid-19
- **Independent ChoiceCollect Providers (ICP) who are in partnership with the group to provide operational support for our newly introduced ChoiceCollect containers**
  - Provide finance to our ICP's, by way of interest free loans, to assist them in starting up their service and delivery management business in township areas
  - R1.6 million was earned by them in 2020

## Environment, health, and public safety

Water saving, waste reduction and electricity usage initiatives are set and reviewed monthly by management.

The key focus area for the 2020 financial year was to ensure the safety of our staff, customers, suppliers, and other stakeholders as detailed above.

We continued to monitor our water contingency plans. In light of the energy crisis the South African economy is facing, solar panels were fitted at the Wynberg head office. Solar panels, together with generators ensure that the South African operations and, in particular, its contact centre, is capable of operating during load-shedding stages.

The group received a 5-star green rating for the head office buildings with a longer-term target to achieve a 6-star rating and a further accreditation for our Cape Town Distribution Centre.

The committee monitors the South African operations Distribution Centres developments against the goals and principles set out in the International Organization for Standardization ("ISO"). The Group's Cape Town Distribution Centre has obtained ISO accreditation. Whilst the Johannesburg Distribution Centre is currently not undergoing the ISO accreditation process, it remains committed to the principles set out in ISO and, after an internal audit, it had achieved a compliant status.

## Our customer

We monitor our engagement with all our stakeholders, and in particular our customer experience. The business actively engages with customers, stakeholders, monitor public relations activities, compliance with Protection of Personal of Information Act (South Africa), the Consumer Protection Act and the Data Protection Act (Mauritius) and reports quarterly at South African operations level and biannually to the committee. This ensures that the committee is kept abreast of the quality of customer and stakeholder relationships.

Despite the delay in delivery of products during Covid-19 lockdowns, the Retail Net Promoter Score (NPS) of 73.5 was marginally below our target of 75.

The Financial Services division continues to maintain a NPS score of 75 despite having to curtail loan disbursements and lowering the value of loans during Covid-19.

In a difficult year under review, it is pleasing to see that the NPS score across the Group is over 70.

## Ethics

5 tip-offs were reviewed by the committee of which all were resolved. The committee is satisfied that none of the tip-offs were of a material nature.

## Appreciation

HomeChoice has come through a year that was filled with challenges and victories. It is reassuring to know that we can rely on our staff regardless of what faces us. Against all odds, we have made progress in our business goals, constantly and rapidly evolving against the backdrop of a very competitive trading environment.

On behalf of the Board, I extend our appreciation to every one of our staff members for your resilience, dedication and commitment to the group in these challenging times of Covid-19.

I would also like to express my gratitude to the communities and shareholders who are contributing towards our goals of making a meaningful, sustained, and positive impact.

# APPENDIX



## Summarised five-year review

| | | **2020** | 2019* | 2018** | 2017*** | 2016 |
|---|---|---|---|---|---|---|
| **Statements of comprehensive income** | | | | | | |
| Revenue | (Rm) | **3 275** | 3 484 | 3 247 | 2 993 | 2 664 |
| Retail sales | (Rm) | **1 792** | 1 951 | 1 860 | 1 749 | 1 498 |
| Retail gross profit | (Rm) | **805** | 924 | 922 | 896 | 738 |
| Other operating costs | (Rm) | **(2 020)** | (1 785) | (1 550) | (1 408) | (1 268) |
| Operating profit | (Rm) | **270** | 679 | 763 | 744 | 648 |
| Profit before taxation | (Rm) | **182** | 582 | 676 | 659 | 585 |
| **Statements of financial position** | | | | | | |
| Non-current assets | (Rm) | **825** | 733 | 605 | 559 | 578 |
| Trade and other receivables | (Rm) | **3 024** | 3 188 | 2 903 | 2 642 | 2 215 |
| Inventories | (Rm) | **315** | 349 | 304 | 257 | 214 |
| Cash and cash equivalents | (Rm) | **415** | 80 | 108 | 130 | 187 |
| Other current assets | (Rm) | **13** | – | – | 4 | 5 |
| Total assets | (Rm) | **4 592** | 4 351 | 3 920 | 3 592 | 3 199 |
| Total equity | (Rm) | **3 116** | 2 946 | 2 684 | 2 373 | 2 030 |
| Non-current liabilities | (Rm) | **1 054** | 649 | 828 | 742 | 719 |
| Current liabilities | (Rm) | **422** | 756 | 408 | 477 | 450 |
| Total equity and liabilities | (Rm) | **4 592** | 4 351 | 3 920 | 3 592 | 3 199 |
| **Statements of cash flows** | | | | | | |
| Cash generated from operations | (Rm) | **630** | 437 | 474 | 359 | 277 |
| Capital expenditure | (Rm) | **117** | 116 | 126 | 56 | 46.4 |
| Dividends paid | (Rm) | **–** | 195 | 213 | 175 | 158 |
| **Returns and margin performance** | | | | | | |
| Gross profit margin | (%) | **44.9** | 47.4 | 49.6 | 51.2 | 49.3 |
| Operating profit margin | (%) | **8.2** | 19.9 | 23.5 | 24.8 | 24.3 |
| Return on equity | (%) | **5.5** | 16.7 | 20.9 | 23.3 | 22.5 |
| Net debt:equity ratio | (%) | **20.1** | 33.0 | 27.6 | 28.2 | 28.7 |
| Net asset value per share | (cents) | **2 992** | 2 822 | 2 573 | 2 278 | 1 973 |
| **Share performance** | | | | | | |
| Headline earnings per share | (cents) | **164.2** | 436.0 | 507.7 | 504.1 | 414.6 |
| Dividends declared/paid | (cents) | **–** | 87.0 | 194.0 | 191.0 | 158.0 |
| Dividend cover | (times) | **–** | 2.6 | 2.6 | 2.6 | 2.6 |
| Weighted shares in issue, net of treasury shares | ('000) | **104.1** | 104.4 | 104.2 | 103.6 | 102.4 |

* IFRS 16, Leases *adopted effective 1 January 2019.*
** IFRS 9, Financial Instruments *adopted effective 1 January 2018.*
*** *Restated based on the application of* IFRS 15, Revenue from Contracts with Customers. *IAS 39 applied for the 2017 financial year.*

## Summarised group statement of financial position

| | Notes | 2020 Rm | % change | 2019 Rm |
|---|---|---|---|---|
| **Assets** | | | | |
| **Non-current assets** | | | | |
| Property, plant and equipment | | **476** | 1.1 | 471 |
| Intangible assets | | **210** | 24.3 | 169 |
| Right-of-use assets | | **60** | (10.4) | 67 |
| Financial assets at fair value through profit or loss | | **34** | 41.7 | 24 |
| Deferred taxation | | **45** | >100.0 | 2 |
| | | **825** | 12.6 | 733 |
| **Current assets** | | | | |
| Inventories | 2 | **315** | (9.7) | 349 |
| Taxation receivable | | **13** | >100.0 | 1 |
| Trade and other receivables | 3 | **3 024** | (5.1) | 3 188 |
| Trade receivables – Retail | | **1 517** | (4.0) | 1 581 |
| Loans receivable – Financial Services | | **1 493** | (5.7) | 1 583 |
| Other receivables | | **14** | (41.7) | 24 |
| Cash and cash equivalents | | **415** | >100.0 | 80 |
| | | **3 767** | 4.1 | 3 618 |
| **Total assets** | | **4 592** | 5.5 | 4 351 |
| **Equity and liabilities** | | | | |
| **Equity attributable to equity holders of the parent** | | | | |
| Stated and share capital | | **1** | – | 1 |
| Share premium | | **3 014** | 0.1 | 3 010 |
| Reorganisation reserve | | **(2 961)** | – | (2 961) |
| | | **54** | 8.0 | 50 |
| Treasury shares | | **(33)** | 83.3 | (18) |
| Other reserves | | **47** | 42.4 | 33 |
| Retained earnings | | **3 048** | 5.8 | 2 881 |
| **Total equity** | | **3 116** | 5.8 | 2 946 |
| **Non-current liabilities** | | | | |
| Interest-bearing liabilities | | **933** | 73.7 | 537 |
| Lease liabilities | | **48** | (15.8) | 57 |
| Deferred taxation | | **69** | 35.3 | 51 |
| Other payables | | **4** | – | 4 |
| | | **1 054** | 62.4 | 649 |
| **Current liabilities** | | | | |
| Interest-bearing liabilities | | **39** | (90.0) | 391 |
| Lease liabilities | | **22** | 22.2 | 18 |
| Taxation payable | | **12** | (25.0) | 16 |
| Trade and other payables | | **349** | 23.3 | 283 |
| Bank overdraft | | **–** | (100.0) | 48 |
| | | **422** | (44.2) | 756 |
| **Total liabilities** | | **1 476** | 5.1 | 1 405 |
| **Total equity and liabilities** | | **4 592** | 5.5 | 4 351 |

## Summarised group statement of profit or loss and other comprehensive income

| | Notes | 2020 Rm | % change | 2019 Rm |
|---|---|---|---|---|
| **Revenue** | | **3 275** | (6.0) | 3 484 |
| Retail sales | 4 | **1 792** | (8.1) | 1 951 |
| Finance income | | **1 038** | (5.0) | 1 093 |
| Fees from ancillary services | 5 | **445** | 1.1 | 440 |
| Cost of Retail sales | | **(987)** | (3.9) | (1 027) |
| **Other operating costs** | | **(2 020)** | 13.2 | (1 785) |
| Credit impairment losses | 6 | **(874)** | 21.9 | (717) |
| Other trading expenses | 7 | **(1 146)** | 7.3 | (1 068) |
| Other net gains and losses | | **(8)** | >100.0 | (1) |
| Other income | | **10** | 25.0 | 8 |
| **Operating profit** | | **270** | (60.2) | 679 |
| Interest income | | **5** | 25.0 | 4 |
| Interest expense | | **(93)** | (7.9) | (101) |
| **Profit before taxation** | | **182** | (68.7) | 582 |
| Taxation | | **(15)** | (88.2) | (127) |
| **Profit and total comprehensive income for the year** | | **167** | (63.3) | 455 |
| **Earnings per share (cents)** | | | | |
| Basic | 8 | **160.4** | (63.2) | 436.0 |
| Diluted | | **158.6** | (63.0) | 428.7 |
| **Headline earnings per share (cents)** | | | | |
| Basic | 8 | **164.2** | (62.3) | 436.0 |
| Diluted | | **162.4** | (62.1) | 428.7 |

## Summarised group statement of changes in equity

| | Stated and share capital Rm | Share premium Rm | Treasury shares Rm | Reorgan-isation reserve Rm | Other reserves Rm | Retained earnings Rm | Equity attributable to owners of the parent Rm |
|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2019** | 1 | 3 005 | (3) | (2 961) | 18 | 2 624 | 2 684 |
| Change on initial application of IFRS 16 | – | – | – | – | – | (3) | (3) |
| **Restated equity at the beginning of the year** | 1 | 3 005 | (3) | (2 961) | 18 | 2 621 | 2 681 |
| *Changes in equity* | | | | | | | |
| Profit and total comprehensive income for the year | – | – | – | – | – | 455 | 455 |
| Shares issued | – | 5 | – | – | – | – | 5 |
| Dividends paid | – | – | – | – | – | (195) | (195) |
| Share incentive schemes | – | – | – | – | 15 | – | 15 |
| Shares purchased | – | – | (15) | – | – | – | (15) |
| **Total changes** | – | 5 | (15) | – | 15 | 260 | 265 |
| **Balance at 1 January 2020** | **1** | **3 010** | **(18)** | **(2 961)** | **33** | **2 881** | **2 946** |
| *Changes in equity* | | | | | | | |
| Profit and total comprehensive income for the year | **–** | **–** | **–** | **–** | **–** | **167** | **167** |
| Shares issued | **–** | **4** | **–** | **–** | **–** | **–** | **4** |
| Share incentive schemes | **–** | **–** | **–** | **–** | **15** | **–** | **15** |
| Shares purchased | **–** | **–** | **(16)** | **–** | **–** | **–** | **(16)** |
| Forfeitable shares vested | **–** | **–** | **1** | **–** | **(1)** | **–** | **–** |
| **Total changes** | **–** | **4** | **(15)** | **–** | **14** | **167** | **170** |
| **Balance at 31 December 2020** | **1** | **3 014** | **(33)** | **(2 961)** | **47** | **3 048** | **3 116** |

## Summarised group statement of cash flows

| | Notes | **2020 Rm** | % change | 2019 Rm |
|---|---|---|---|---|
| **Cash flows from operating activities** | | | | |
| Operating cash flows before working capital changes | | **315** | (56.1) | 718 |
| Movements in working capital | | **315** | <(100.0) | (281) |
| **Cash generated from operations** | 9 | **630** | 44.2 | 437 |
| Interest received | | **5** | 25.0 | 4 |
| Interest paid | | **(93)** | – | (93) |
| Taxation paid | | **(56)** | (67.8) | (174) |
| **Net cash inflow from operating activities** | | **486** | >100.0 | 174 |
| **Cash flows from investing activities** | | | | |
| Additions of property, plant and equipment | | **(46)** | | (44) |
| Additions of intangible assets | | **(71)** | | (72) |
| Financial assets at fair value through profit or loss | | **–** | | 11 |
| **Net cash outflow from investing activities** | | **(117)** | 11.4 | (105) |
| **Cash flows from financing activities** | | | | |
| Proceeds from the issuance of shares | | **4** | | 5 |
| Purchase of shares to settle forfeiture share scheme obligations | | **(16)** | | (15) |
| Proceeds from interest-bearing liabilities | | **781** | | 315 |
| Repayments of interest-bearing liabilities | | **(737)** | | (243) |
| Principal elements of lease payments | | **(18)** | | (12) |
| Dividends paid | | **–** | | (195) |
| **Net cash inflow/(outflow) from financing activities** | | **14** | <(100.0) | (145) |
| **Net increase/(decrease) in cash and cash equivalents and bank overdrafts** | | **383** | | (76) |
| Cash and cash equivalents and bank overdrafts at the beginning of the year | | **32** | | 108 |
| **Cash and cash equivalents and bank overdrafts at the end of the year** | | **415** | >100.0 | 32 |

## Group segmental analysis

| | 2020 | | | | | | 2019 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Total Rm | Retail Rm | Financial Services Rm | Property Rm | Other Rm | Intra-group Rm | Total Rm | Retail Rm | Financial Services Rm | Property Rm | Other Rm | Intra-group Rm |
| **Segmental revenue** | 3 275 | 2 440 | 835 | 48 | – | (48) | 3 484 | 2 613 | 871 | 61 | – | (61) |
| Retail sales | 1 792 | 1 792 | – | – | – | – | 1 951 | 1 951 | – | – | – | – |
| Finance income | 1 038 | 468 | 570 | – | – | – | 1 093 | 482 | 611 | – | – | – |
| Fees from ancillary services | 445 | 180 | 265 | 48 | – | (48) | 440 | 180 | 260 | 61 | – | (61) |
| **EBITDA** | 356 | 145 | 235 | 22 | (30) | (16) | 751 | 442 | 362 | 36 | (34) | (55) |
| Depreciation and amortisation | (86) | (85) | (8) | – | – | 7 | (73) | (117) | (11) | – | – | 55 |
| Interest income | 2 | – | 8 | – | 65 | (71) | 3 | – | 3 | – | 72 | (72) |
| Interest expense | (67) | – | (70) | – | (68) | 71 | (68) | – | (68) | – | (72) | 72 |
| **Segmental operating profit*** | 205 | 60 | 165 | 22 | (33) | (9) | 613 | 325 | 286 | 36 | (34) | – |
| Interest income | 3 | 3 | – | – | – | – | 1 | 1 | – | – | – | – |
| Interest expense | (26) | (21) | – | (12) | – | 7 | (32) | (22) | – | (20) | – | 10 |
| **Profit before taxation** | 182 | 42 | 165 | 10 | (33) | (2) | 582 | 304 | 286 | 16 | (34) | 10 |
| Taxation | (15) | 7 | (26) | (3) | 7 | – | (127) | (68) | (55) | (5) | 1 | – |
| **Profit after taxation** | 167 | 49 | 139 | 7 | (26) | (2) | 455 | 236 | 231 | 11 | (33) | 10 |
| **Segmental assets** | 4 592 | 2 621 | 1 850 | 353 | 1 515 | (1 747) | 4 351 | 2 359 | 1 725 | 340 | 1 211 | (1 284) |
| **Segmental liabilities** | 1 476 | 1 376 | 917 | 269 | 678 | (1 764) | 1 405 | 1 035 | 840 | 253 | 561 | (1 284) |
| Gross profit margin (%) | 44.9 | 44.9 | | | | | 47.4 | 47.4 | | | | |
| Segmental results margin (%) | 6.3 | 2.5 | 19.8 | 45.8 | | | 17.6 | 12.4 | 32.8 | 59.0 | | – |
| Operating cash flows before working capital changes | 315 | 112 | 224 | 22 | (27) | (16) | 718 | 415 | 355 | 36 | (33) | (55) |
| Movements in working capital | 315 | 176 | 143 | (3) | (5) | 4 | (281) | (72) | (212) | – | 3 | – |
| Cash generated/(utilised) by operations | 630 | 288 | 367 | 19 | (32) | (12) | 437 | 343 | 143 | 36 | (30) | (55) |
| Capital expenditure | | | | | | | | | | | | |
| Property, plant and equipment | 46 | 42 | 2 | 2 | – | | 44 | 43 | 1 | – | – | – |
| Intangible assets | 71 | 50 | 21 | – | – | | 72 | 49 | 23 | – | – | – |

* *Refer to note 10 for further details on segments and segmental results.*