INTEGRATED **ANNUAL REPORT** 2019

HOMECHOICE INTERNATIONAL PLC

HomeChoice International plc

INVESTMENT HOLDING COMPANY WITH INTERESTS IN **RETAIL** AND **FINANCIAL SERVICES**

Incorporated in Malta, and listed on the Johannesburg Stock Exchange.

Operations targeted at the mass middle market.

Based primarily in southern Africa with expanding operations in Mauritius.

VISION

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

SUSTAINING STRATEGIC DIRECTION DESPITE DIFFICULT TRADING PERFORMANCE

Revenue	EBITDA	HEPS
+7.3% to **R3.5 billion**	**-8.5%** to **R751 million**	**436.0c** down **14.1%**

R2.0bn digital credit extended (40.2% of total credit)	**271 000** new customers

RETAIL

homechoice
for the home you love

- Omni-channel Retail providing shopping convenience with home delivery
- Curated range of quality own-brand textiles and homeware merchandise, and selected range of well-known external brands
- Affordable accessible credit-enabled sales
- Empowering customers to create a home they love

Retail sales
+4.9%
to **R2.0 billion**

FINANCIAL SERVICES

finchoice
for when you need it

- A diversified FinTech business offering a range of personal lending and insurance financial products and value-added services primarily on digital platforms
- Customers predominantly sourced from Retail customer base with increasing external acquisition
- Putting customers in control of their financial well-being

Loans disbursed
+27.0%
to **R2.3 billion**

Retail			Financial Services	
75%	**R2 613m**	Revenue	**R871m**	25%
53%	**R325m**	Segmental operating profit*	**R286m**	47%

** Segmental operating profit includes interest for Financial Services only*

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:

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

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

Scope and boundary

This report covers the performance and activities of HomeChoice International (HIL) and its subsidiaries (the group) for the period 1 January 2019 to 31 December 2019.

While the holding company is based in Malta, the group currently operates principally in South Africa where it derives the majority of its revenue and profit, with 5% of Retail revenue generated from the neighbouring countries of Botswana, Lesotho, Namibia and the Kingdom of eSwatini. The report focuses on the group's business operations in South Africa.

There has been no material change in the comparability of reporting from 2018. *IFRS 9, Financial Instruments* and *IFRS 15, Revenue from Contracts with Customers* were effective 1 January 2018 and will reflect in the 2018 comparable figures. The group adopted *IFRS 16, Leases* effective 1 January 2019, applying the simplified transaction approach. The impact of IFRS 16 is not material for the group as the Retail business does not have a large number of bricks-and-mortar stores like other traditional retailers.

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 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 2019 integrated annual report for release to shareholders on 24 April 2020.

Stanley Portelli
Independent
Non-executive
Chairman

Gregoire Lartigue
Chief Executive Officer

GROUP OVERVIEW

OUR CUSTOMERS

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

What differentiates us

1. Consistent focus on **female mass market** for more than 30 years
2. Rapidly growing **digital channels** leveraged from well-established contact centre
3. **Mobi-first** digital mindset and execution
4. Extensive behavioural, attitudinal and transactional **data-rich customer database**
5. Proprietary customer credit and response **knowledge** and history
6. **Omni-channel retailing** enables customers to shop in the way that they want
7. Integrated single-item direct-to-home logistics **delivery channel**
8. **Entrepreneurial spirit** delivers sustainable organic growth

GROUP

82% | The group has **912 000** active customers | 18%

Predominantly urban based in a growing informal economy

TARGET FOCUSED ON MASS MIDDLE MARKET
with an average monthly income of
R10 000

APPEALING TO WOMEN OF ALL AGES

18 – 29: 14%
30 – 39: 34%
40 – 59: 44%
60+: 8%

CUSTOMERS REGISTERED FOR DIGITAL ACCESS

RETAIL 23%
FINANCIAL SERVICES 88%

52k CUSTOMERS ENGAGE ON INSTAGRAM
843k FACEBOOK COMMUNITY

RETAIL

homechoice
for the home you love

Her preferred **shopping channel:**

FINANCIAL SERVICES

finchoice
for when you need it

Her preferred **financial channel:**

Retail	Channel	Financial services
22%	Digital	85%
61%	Contact centre	15%
12%	Sales agents	
5%	Show-room	

"everything comes on your cell phone, I love that ... **I have FinChoice in the palm of my hand**"

Retail – HER PREFERRED DIGITAL ACCESS

SMARTPHONE **49%** (2018: 50%)
SIMPLE PHONE **18%** (2018: 19%)
WEB **33%** (2018: 31%)

Financial services – HER PREFERRED DIGITAL ACCESS

SMARTPHONE **76%** (2018: 62%)
SIMPLE PHONE **24%** (2018: 38%)

Retail – APPEALING TO MORE CUSTOMERS

+4%
770 000
(2018: 739 000)

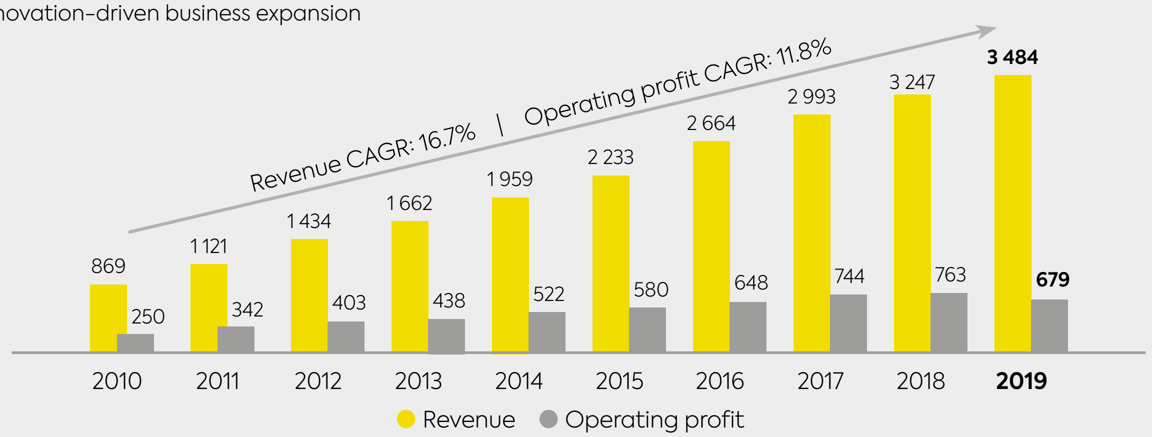
Financial services – APPEALING TO MORE CUSTOMERS

+15%
201 000
(2018: 176 000)

OUR **INVESTMENT CASE**

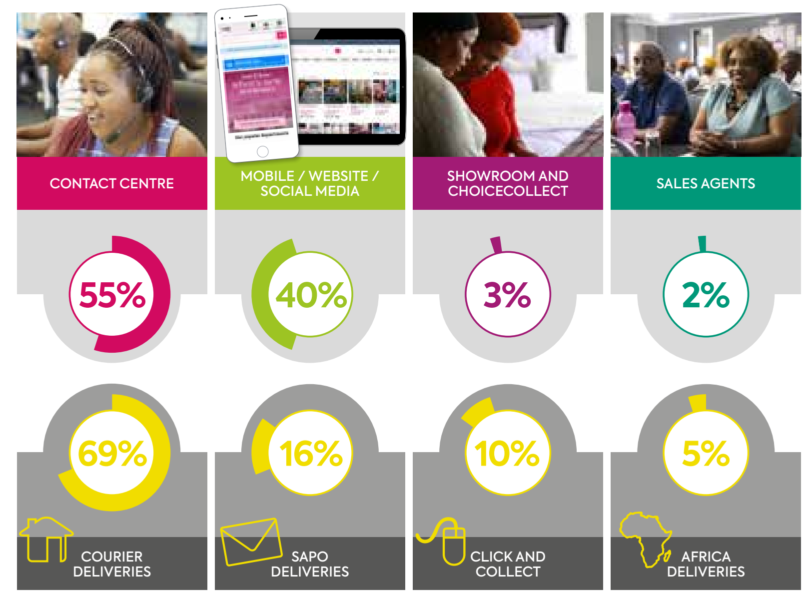
A track record of sustainable and profitable growth

- Proven organic growth strategy to gain market share
- Innovation-driven business expansion



Customer engagement

- Multiple selling channels provide customer convenience
- Digital engagement through mobi and web
- Use of Bots for digital customer self-service



Logistics and delivery expertise

- E-commerce enabled distribution infrastructure
- "Single item" logistics operations with strong back-end processes managing customer returns and reverse logistics

Positioned in sizeable and growing mass market

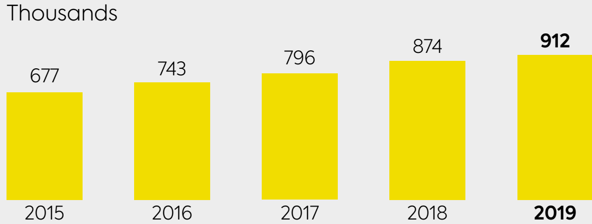
- Well-trusted brands trading in clearly defined customer segment
- Strong potential for HomeChoice growth in large retail mass market customer base
- Significant opportunity to increase FinChoice market share in unsecured lending market

Proven ability to leverage the customer base

- Unique and rich database of behavioural, attitudinal and transactional data
- Retail customer base leveraged for financial services and insurance offerings
- Acquisition of digital-savvy external financial services customers

Group customer base

Thousands

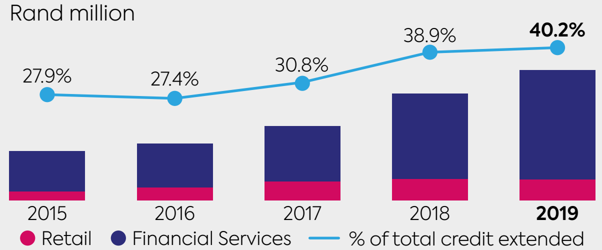


Digital-led transformation

- Mobi technology supporting smartphone and "simple phone" access
- Proprietary mobi Financial Services platform
- Proprietary technology systems enhanced by world-class digital platforms and telephony systems

Credit extended via digital channels

Rand million



Proven growth through product innovation

- Positioned on heritage textiles private label ranges
- Price tiering, affordability and differentiated value
- External brands provide choice and enhance private label offering
- Innovation driven through long-standing supplier partnerships
- Financial Services innovation driven through mobi technology
- Suite of credit options on terms provide customers access to credit

Mass market credit expertise

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

Talent

- Entrepreneurial spirit that launched the business – a core value underpinning culture
- Structures adapted to deliver future growth
- Technology resources attracted to new architecture and agile system development
- Accredited learning provider

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
	Head office located in Claremont

291 employees

2000s

2003	HomeChoice Holdings delisted from JSE in order to restructure business operations after experiencing challenging financial performance
2006	HomeChoice Development Trust launched to address charitable support for early childhood development in local communities
2007	FinChoice established to offer financial services products to HomeChoice customers

402 employees

homechoice development trust

2010s

2011	FinChoice develops and launches KwikServe® USSD, a mobi self-service transaction channel for loan products
	FoneChoice established to offer personal technology and computer products
2013	Retail mobi site launched and website revamped
	World-class 200 000 m^3 centralised distribution centre completed at investment of R150 million
2014	Establishment of HIL group to drive global strategy with listing on JSE
2015	State-of-the-art 1 000-seat contact centre built at investment of R100 million
	FinChoice mobi site launched
	First HomeChoice showroom opened in Wynberg, Western Cape
2016	HomeChoice introduced range of well-known brands
	Introduced TV as a customer acquisition channel
	Launched Retail credit facility product – affordable and quick
	Mauritius operations commenced
	Personal insurance business launched
	ISO 9000 certification for Cape distribution centre
2017	Financial Services launched three-month credit facility product, MobiMoney
	Additional 42 brands launched
	Launched group sustainability programme
	New values introduced in the business
2018	Four showrooms opened
	Financial services operations in Botswana launched
	Financial value-add services launched
	Two ChoiceCollect container hubs opened
2019	Four showrooms and six ChoiceCollect container hubs opened
	Cape Town offices awarded 5* green building status
	Retail external brands stand at 140+
	Launched Oracle Commerce Cloud e-commerce engine – the first site in Africa
	First Bots implemented, WebChat operational

1 958 employees

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.

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.

Social media

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.

A raft of data protection regulations has been 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, with implementation date yet to be promulgated.

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.

Omni-channel and 21st-century retailing

Consumers are more attracted to retailers who provide a multifaceted experience based on a quality/value perspective. 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. A number of pure play online retailers have introduced physical stores or showrooms where customers can see and experience their products first-hand. Customers browse, get advice and assistance with queries from trained consultants and still enjoy the convenience of product delivered to their homes.

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.

Attraction and retention of talent

It is increasingly acknowledged that companies must focus their efforts on their employee experience/engagement strategy in order to improve customer experience. Companies who have mastered employee experience focus on three key aspects – technology, training and development, and physical workspace.

A large proportion of our group employees are employed in direct marketing activities in our contact centre. They are generally the first point of contact for our customers and will consequently leave a strong impression (positive or negative) on the interactions that the customer has with the group.

As digital transformation permeates the external market, training and development will need to take place in the format best suited to those employees of the future – they expect and demand more alignment with external digital transformation to digitally enabled internal processes. Companies need to ensure that the talent they recruit for today also delivers the talent and expertise that will take them forward into the future.

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.

1	**COVID-19**
2	**Trading environment**
3	**Delivery network and customer experience**
4	**Digitalisation**
5	**Credit risk management and regulatory compliance**
6	**Technology transformation, including cybersecurity**
7	**Talent management**

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 2020 onwards. More detail on the group strategy can be found on pages 22 to 25.

COVID-19

The material issues and risks facing the group were approved by the board in November 2019. However, in March 2020 South Africa began to experience the potential devastating impact of COVID-19 on the people and economy of the country. This pandemic is a material risk for the group and will have a material impact on business operations.

A task team, consisting of senior executives of the group, was established in response to the announcement by President Ramaphosa on the declaration of a National State of Disaster. The task team's primary focus was on the health and safety of our more than 1 900 staff and included action plans to ensure the continuation of business operations within the regulations issued by the South African Government.

The impact of COVID-19 on the South African economy is significant and despite the various relief packages introduced by the government the livelihoods of many South Africans have been severely impacted. No-work no-pay, retrenchments and the collapse of many small businesses will increase the level of unemployment and reduce/curtail consumer spending.

Action plans to manage the continuation of business operations during the lockdown period include:

- All corporate office staff, more than 50% of contact centre agents and collections teams enabled to operate remotely from the safety of their homes
- Loan disbursements and retail sales only to be focused on good-paying existing customers
- Adjusting the credit risk scorecards to be more stringent, reducing the level of credit able to be utilised
- Acceleration of converting customer payments to Naedo (debit orders) and digital platforms
- Reallocation of marketing spend to be more focused on digital and television media channels and the monetisation of social media platforms
- Actively managing cash flow requirements by reducing costs and capital expenditure, deferring expenditure where appropriate and a renegotiation of supplier payment terms
- Enhancing the occupational health and safety standards to provide additional protection to staff when they can return to work in the corporate office

For more information, refer to page 51 in the Chairman's review and page 53 in the Chief executive officers' review.

TRADING ENVIRONMENT

Strategic context and stakeholder needs

2019 has been a year of low GDP growth, continued high unemployment, modest increases in negotiated wages, and higher fuel and electricity prices. The Rand continues to be volatile, impacting costings of imported products. As tracked by the BER's consumer confidence survey, the mass-market consumer (the group's primary target customer) appears to be relatively more confident than the high-income earners.

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	Revenue growth driven through targeted direct marketing model, supported by investment in customer acquisition
	Proactively manage product mix and componentry to limit impact of exchange rate movements
	Extension of retail product ranges and categories
	Diversify into additional insurance products and value-adding services
	Expand the customer base with specific targeted offers
	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
- Technology-enabled flexible credit options provide wider choice
- Use of technology to develop more personalised offers driving improved conversion rates
- Optimise supply chain to manage margin

DELIVERY NETWORK AND CUSTOMER EXPERIENCE

Strategic context and stakeholder needs

Operating a direct-to-home delivery network, the quality of the delivery 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 three categories of delivery providers (couriers, owner-driver ISPs and SAPO) to ensure that customers receive their parcels on time.

To manage the operational execution challenges of the South African Post Office (SAPO), the group reduced the contribution of deliveries performed by SAPO to 16% (2018: 23%) and expects to make further reductions in 2020. While SAPO is the main service provider of the Retail catalogue, the group has introduced additional service providers to reduce the reliance. The Retail catalogue is now available digitally and customers can browse it for free if they are connected with two of the four main cell phone data providers.

Our owner-driver independent service providers (ISPs), an enterprise development initiative, has provided us with the opportunity to expand home deliveries to more customers and provide employment for small black-owned driver operations.

The availability of nine showrooms and eight ChoiceCollect containers in easily accessible areas also provides customers the opportunity to collect catalogues and use the click and collect option to receive their orders.

Further details on distribution network partners can be found on pages 34 and 35.

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
	Reduce reliance on SAPO to deliver parcels
	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	Additional on-the-street delivery partners introduced
	Roll-out of showrooms and ChoiceCollect containers
	Drive collection and validation of customers' street addresses
	Provide free data access to digital catalogue
Our customer experience does not meet expectations	Streamline process from order to delivery
	Provide customers with the ability to select her delivery option
	Use customer satisfaction measurement tools to identify pressure points

Opportunities

- Enable customers' digital engagement with the group to be free of charge
- 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

Strategic context and stakeholder needs

One of the strategic initiatives of the group is to drive mobi-first engagement. It provides convenience for the customer and improves efficiencies for the group. 86% of Financial Services' transactions are concluded on a digital platform and 15% of Retail sales are digital.

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

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

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

Risks and mitigations

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

Opportunities

- Implement best-of-breed technology business solutions with mobi-first thinking
- Leverage newly launched e-commerce engine
- Allocation of technology capital expenditure to support digital transformation
- Develop and roll out customer self-service options on digital platforms
- Drive digitalisation of internal business processes

CREDIT RISK MANAGEMENT AND REGULATORY COMPLIANCE

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 new debit order protocol, DebiCheck, is currently being developed for future implementation.

Further details on credit risk management can be found on pages 90 to 93.

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 to be implemented by 2021

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 developers 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. A number of international companies have experienced breaches in their information security and had their customer data compromised.

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

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

Risks and mitigations

Threat of breach of data security	Solutions developed and implemented in technology roadmap Proactive monitoring by external specialist companies Information security officer working closely with committed senior management team
Replacement of legacy systems diverts resources from day-to-day operations	Specific capital allocation and resources for redesign of legacy systems Focused team for replatforming 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 of 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 pages 30 and 31 and the Remuneration policy can be found on pages 97 to 100.

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 SETA-accredited learnership programme 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

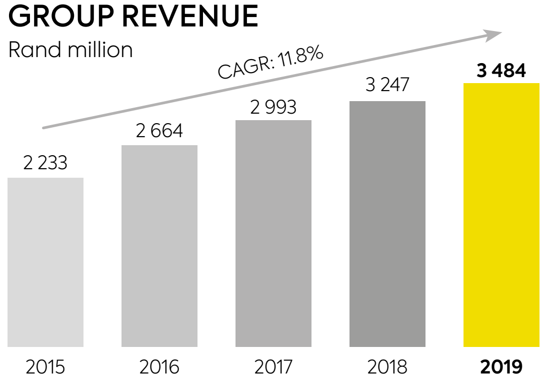
OUR STRATEGY

CUSTOMERS ARE AT THE CORE OF THE GROUP'S STRATEGY.

In recognition of the importance of our employees and their engagement with the brand to deliver and enhance our customers' experience we have included "drive employee engagement" as a sixth strategic pillar. Supporting and enabling the strategic pillars are our technology strategy and the digitalisation of business processes to deliver sustainable shareholder returns.

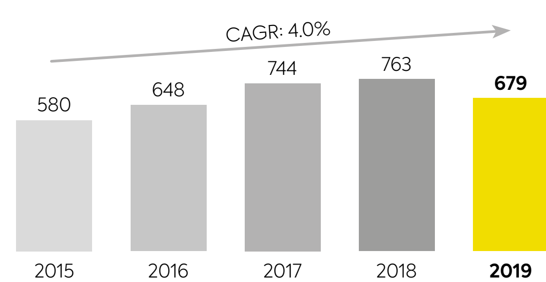
GROUP REVENUE

Rand million



GROUP OPERATING PROFIT

Rand million



MEDIUM-TERM TARGETS

		Target	2019*	2018**	2017***	2016	2015
Retail gross profit margin	(%)	47 – 50	**47.4**	49.6	51.2	49.3	50.7
Operating profit margin	(%)	22 – 27	**19.9**	23.5	24.9	24.3	26.0
Return on equity	(%)	22 – 27	**16.7**	20.9	23.3	22.5	23.7
Net debt to equity	(%)	<40	**30.2**	27.6	28.3	28.7	26.2
Dividend cover	times	2.2 – 2.8	**2.6**	2.6	2.6	2.6	2.6
Digital credit extended	(%)	>60	**40.2**	38.7	32.4	27.4	27.9
Customer experience	(delivery days)	<4	**5.4**	6.4			
Net promoter score (Retail only)	(%)	>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.

ENHANCE CUSTOMER EXPERIENCE

GROUP'S 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.

STRATEGIC INITIATIVES

- Provide consistent experience by channel
- 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

INNOVATIVE PRODUCT AND CREDIT OFFERS

GROUP'S 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
- Transition from financial services loans business to FinTech business selling innovative financial services and insurance products designed to meet the needs of our customers
- Develop value-added financial services products and services using mobi-wallet functionality

DATA AND INSIGHT-LED CUSTOMER GROWTH

GROUP'S OPERATING CONTEXT

We have more than 1.6 million customers on our database and 912 000 active customers.

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

- 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

MOBI-FIRST ENGAGEMENT AND SALES

GROUP'S 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 is steadily growing in acceptance by customers of traditional bricks and mortar retailers, and pureplay digital retailers. 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.

The group provides functionality for a smartphone with more advanced applications or a simple device using USSD technology.

As a technology-enabled business, the group is well positioned to take advantage of the benefits of digitalisation to re-engineer and replatform its technology.

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

DIVERSIFY INTO NEW MARKETS AND SERVICES

GROUP'S 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.

- Launch additional Retail showrooms
- Roll out ChoiceCollect container strategy
- 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™

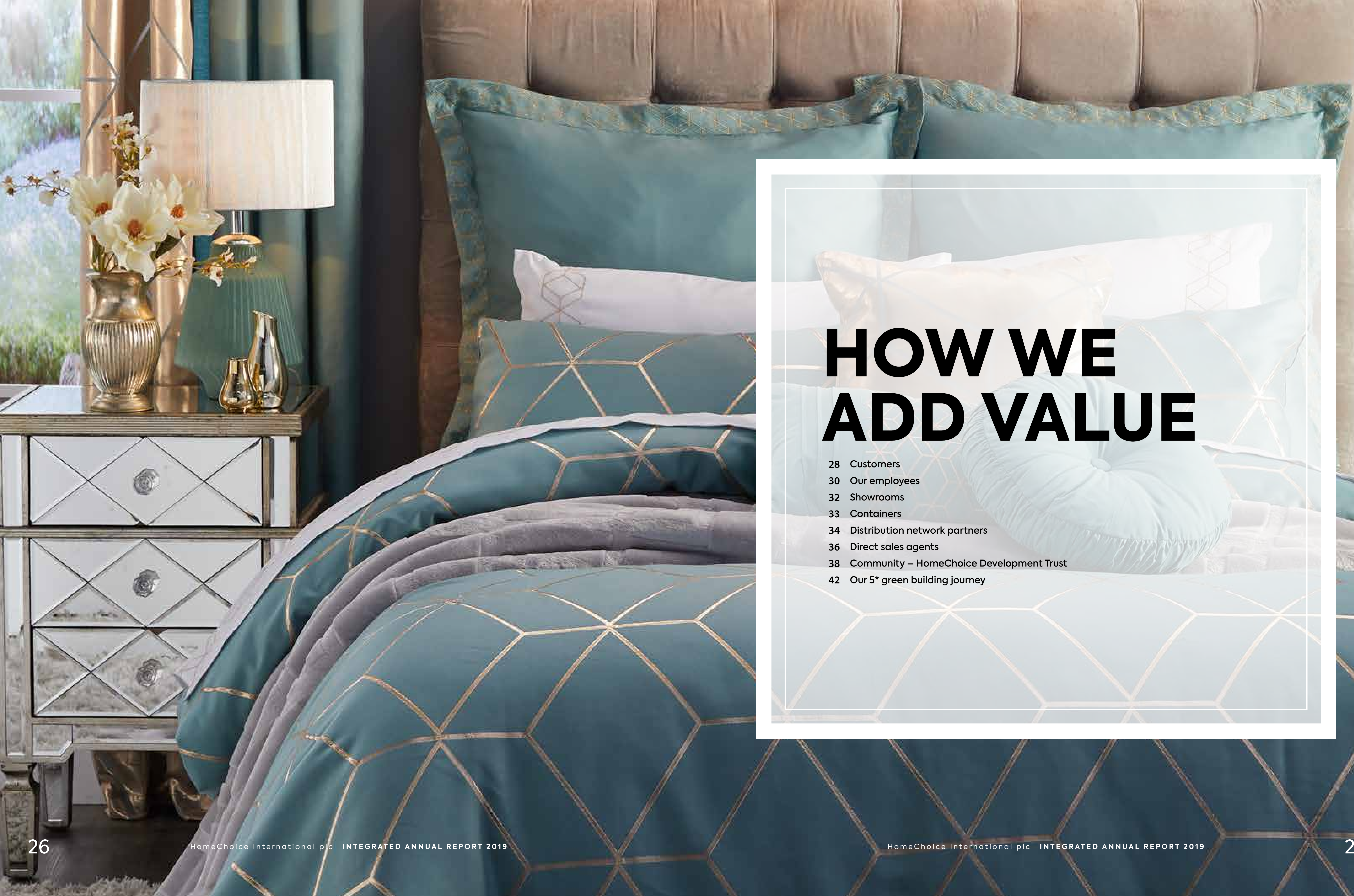
DRIVE EMPLOYEE ENGAGEMENT

GROUP'S 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



HOW WE ADD VALUE

Our business model and how we add value to the customer

The group's business model has two distinct legs. 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. The Financial Services division offers, primarily the Retail customer, loans and insurance products for when she needs access to additional short-term and low-value finance.

The group's main focus is on consistently achieving the financial and non-financial targets set in the strategy process. Inherent in this focus is also being aware and conscious of the impact of the business on all our stakeholders and our customers. We have therefore chosen to depict the group's business models in terms of our customer's experience with the two divisions.

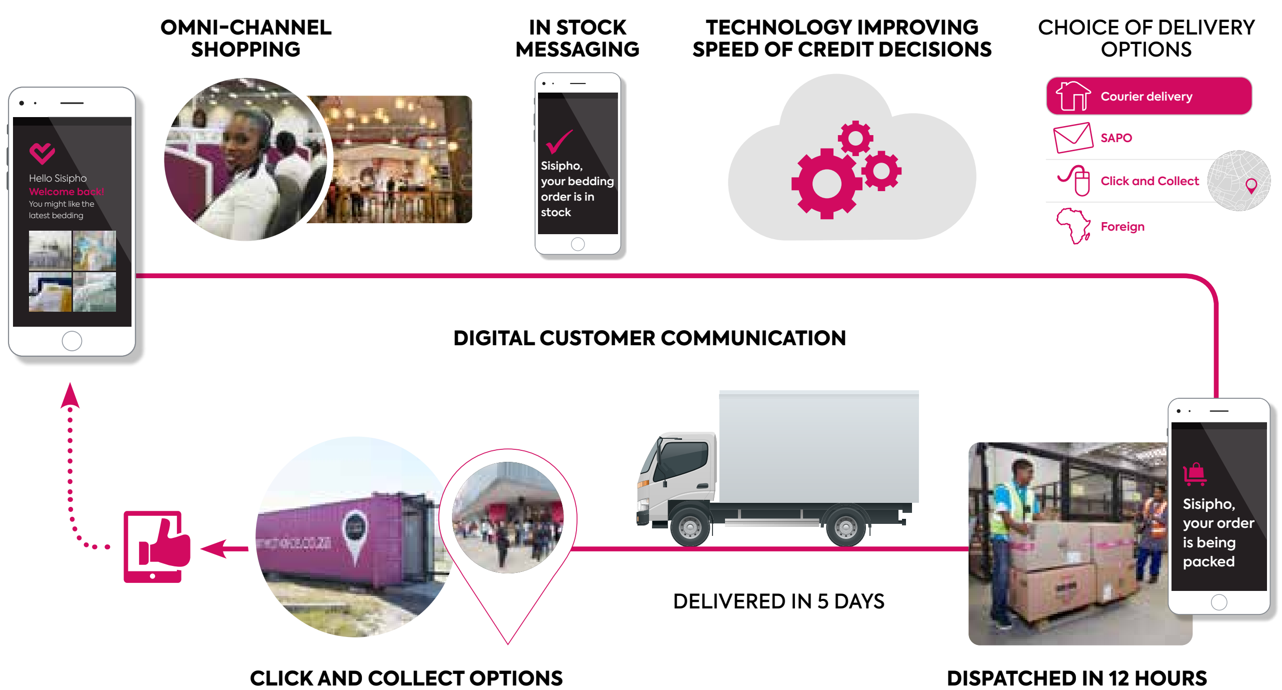
We use the following resources to deliver the business models:

Resources	What we rely on
Financial	Shareholders and debt funders who have provided the financial capacity to run the business
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	Limited usage of energy, water and packaging in our business operations

homechoice

for the home you love

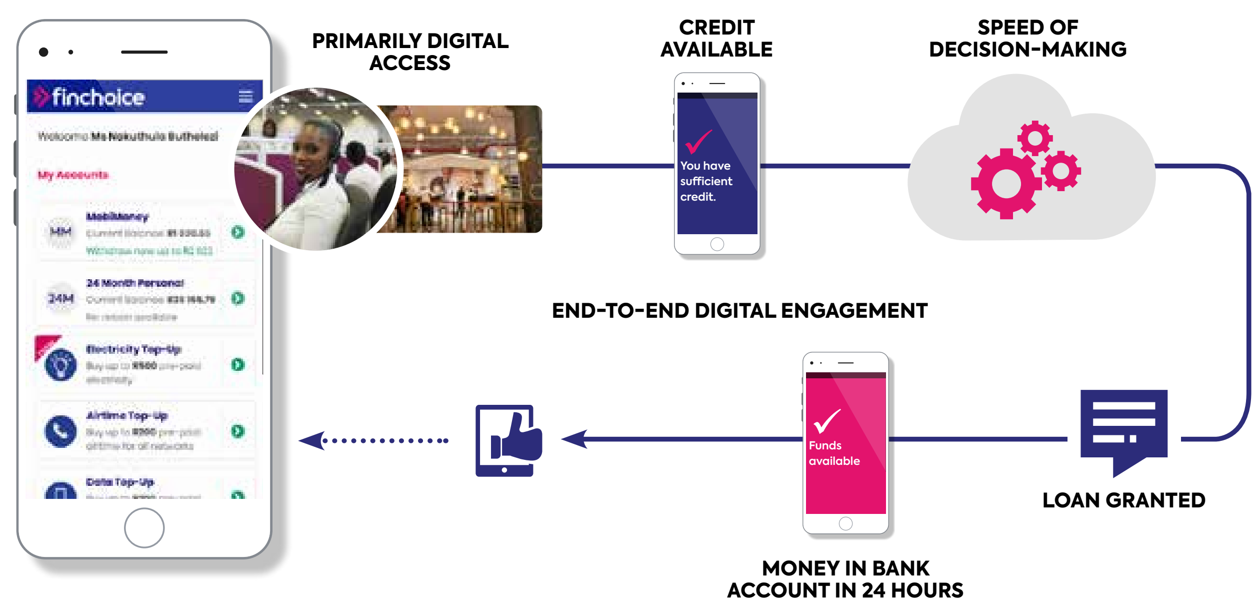
Improving shopping experience



finchoice

for when you need it

Her digital 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.

1 958 employees

99% South Africa
1% Mauritius

66% Operations
34% Corporate office

+135 jobs created for SA economy

Rewards **Recognition** **Growth** **Care**

EMPLOYER OF CHOICE
4 pillars of employee value proposition

TECHNOLOGY-ENABLED MYLEARNING PORTAL

90%+ employees used digital **MyLearning**

31 353 training interventions
– 49% conducted digitally
(2018: 17 547 interventions, 52% digital)

DEVELOPING COMPETENCIES FOR THE FUTURE

72 (2018: 50) **learnership employees**

41 Contact centre
31 Generic management
100% black,
57% previously unemployed

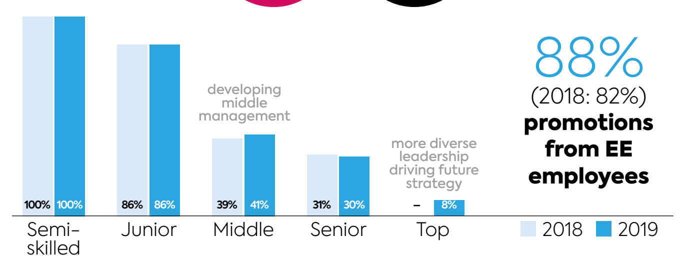
BURSARIES AWARDED **10**
90% black recipients

BUILDING FUTURE EXECUTIVES

8 senior managers on an 18-month development programme

TRANSFORMATION

73% female
92% black



88% (2018: 82%) **promotions from EE employees**

COMMITTED TO TRANSFORMATION

Disability audit conducted in readiness for 2020 roll-out

B-BBEE champions appointed

ADDRESSING ATTRITION RATES

Contact centre 32% (2018: 30%)
Corporate office 32% (2018: 22%)

Reviewing rewards benefits and employee engagement channels

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.

ANNUAL PULSE SURVEY

Deferred to 2020 (2018: 77%)

Workplace forums have been introduced throughout the business encouraging employees to engage with and provide a platform to improve employee engagement. The forums have been well received and provided meaningful input to enhancing the employee value proposition.

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.

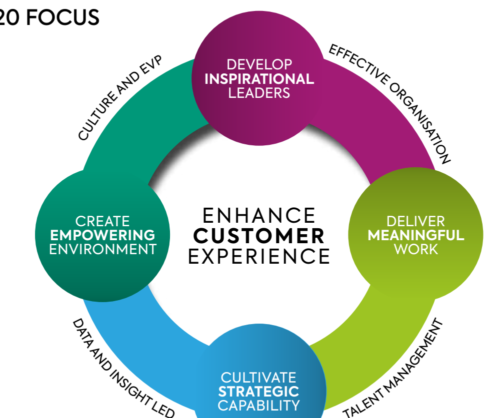
EASY ACCESS TO WELLNESS PROGRAMMES AND RESOURCES

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.

2020 FOCUS



- **People strategy a key driver of customer experience**
- **Implement employee life cycle management system**
- **Competency frameworks aligned to digital transformation**

SHOWROOMS

"showcasing the breadth of the range to customers"

Nine showrooms showcase the breadth of Retail's product range to our customers in a physical location where they are able to "touch and feel" and experience the merchandise first-hand. By combining a convenient access to digital channels through the in-store tablets, customers can place their orders and by using the click and collect delivery option have their order delivered to the showroom. The showrooms are generally located close to the city's main transport hubs (taxis, buses and train) making it more convenient for customers to fetch their orders on their way home.

9
SHOWROOMS
5 provinces

Wynberg, East London, Port Elizabeth, Bloemfontein, Pretoria, Mamelodi, JHB CBD, Maponya Mall, Pretoria

>80% **CONVENIENT CLICK AND COLLECT** 100%

Opened 4 new showrooms

Cash sales
> 25%

135 new jobs created

Can apply for Financial Services loan

8% **Retail sales**
Higher average order values

NEW CUSTOMERS ACQUIRED:

RETAIL **7%**
FINANCIAL SERVICES **2%**

5 ADDITIONAL SHOWROOMS IN 2020, POTENTIAL FOR 20+

CONTAINERS

"bringing the brand to customers' homes"

Khayelitsha, Mfuleni, Philippi, Soweto, Alexander, Soshanguve, King Williams Town and Mdantsane

8
CONTAINERS
3 provinces

>1 000
parcels collected monthly

Partnerships with SMEs and sales agents

After a two-container trial late in 2018, a further six ChoiceCollect containers opened during the year. The ChoiceCollect containers provide customers with the convenience of receiving their orders at a location close to their home.

The strategy is a collaboration between HomeChoice, a third party who owns the land on which the containers are placed and a sales agent who already works in that area. We have also uplifted and refurbished surrounding areas around the containers for the benefit of the local community.

Containers are becoming an important leg in the group's retail delivery network. Careful consideration of their locations reduces the group's reliance on SAPO for deliveries of product and we have seen a reduction in returns for non-deliveries.

Containers are also located in a close radius of Retail showrooms, leveraging existing operational structures to ensure that they are managed in the brand's ethos and philosophy.

On-container energy sources ensure the containers have a continuous power supply and access to digital networks. Robust security measures are in place and is a key requirement to ensure the safety of the container and its immediate surrounds.

ADDITIONAL 10 CONTAINERS IN 2020, POTENTIAL OF 50+

DISTRIBUTION NETWORK PARTNERS

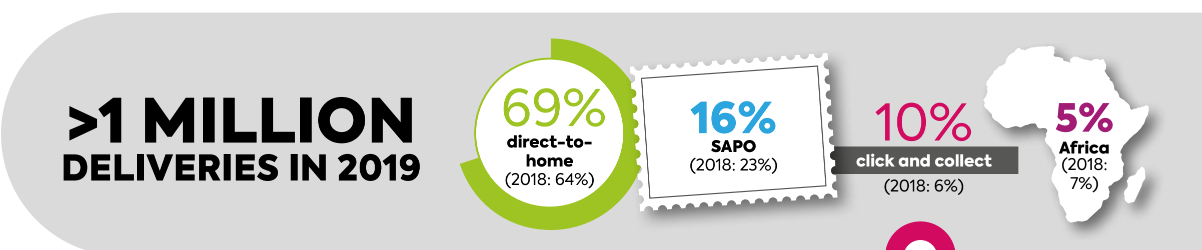
An efficient logistics and distribution network capability is a key enabler for digital retailers to provide customers a quick, convenient and efficient process to receive their orders.

The group has three main delivery options available to Retail customers – courier deliveries, click and collect, and parcel deliveries through the South African Post Office (SAPO).

Three categories of business partners support the delivery process – third-party courier companies, SAPO and "owner-drivers" or independent service providers (ISPs). In 2018 SAPO experienced a number of operational challenges, including a strike, which negatively impacted their service and resulted in a poor delivery experience for our customers. As a result of this we restructured the delivery mix to better guarantee customer deliveries, reducing the reliance on SAPO to 16% from 23% in 2018. We expect to reduce SAPO deliveries further as we open additional ChoiceCollect containers. SAPO will primarily be used for more out-of-town areas and areas where it is costly for the group to service.

SAPO is also the main distribution partner for delivery of the Retail catalogue. Additional partners have been brought on board to ensure customers receive their catalogues. 25% of catalogue deliveries are now done by on-the-street delivery partners. The launch of our Digicat (digital catalogue) enables customers to browse the catalogue from their mobile phones. Currently browsing the Digicat is free when using two of the main cellular data providers and we hope to extend this to more providers.

Customers continue to positively respond to the convenience that the click and collect option provides for them. Using the Retail showroom as a convenient collection point, customers are able to pick up their orders and make use of public transport.



Convenient **click and collect**

from nine showrooms, eight ChoiceCollect containers and third-party sites.

>100 000 click and collect orders

Making sure she gets her deliveries quicker – average 5.4 days (2018: 6.4 days)

Independent service providers

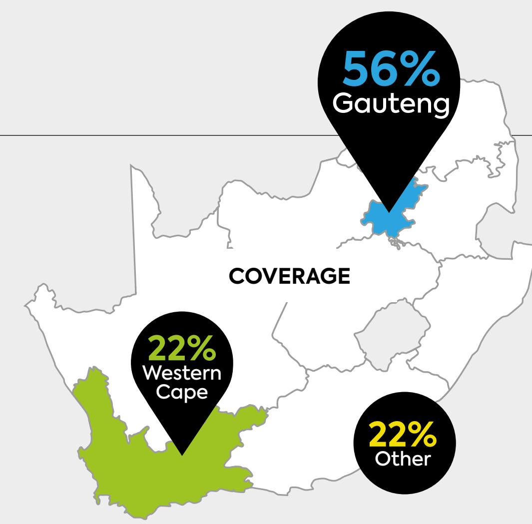
ISPs work very closely with the group and are an integral part of the group's enterprise development initiative. They are key business stakeholders who deliver 54% of all our direct-to-home deliveries.

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

Training is provided for all ISPs and a comprehensive delivery manual ensures that delivery standards are maintained. While it is beneficial to the business, meaningful employment is provided to 18 small business enterprises, who in turn employ 69 drivers.

18 independent service providers with 69 vehicles/drivers

More than
390 000
deliveries



Transport 54% of direct-to-home deliveries

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. Based on the principle of brand ambassadorship, we have reduced the number of agents working in the field. We now have a higher calibre of agent more committed to and passionate for the brand.

The sales agent channel continues to provide, 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 R2.2 million in 2019 in the form of commission.

Monthly sales training sessions are held in the Johannesburg and Pretoria showrooms. First Saturday meetings 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.

Our current agent processes have been very manual. We have started to digitalise the processes by developing an App and electronic order form to speed up customer order confirmation and processing times. Further enhancements will be made in 2020 to reduce the credit approval time and decision-making processes. Agents are encouraged to migrate to digital technology with the ability to earn digital tablets as selling incentives.

> *"I have passion for sales and always build a good relationship with my clients. You need to be confident and good negotiation skills are very important – do your homework and know your products."*
>
> Lynetty Murongo (Namibia)

> *"From being a domestic worker to a sales agent team leader has turned me into somebody today. It started with a dream that came to reality."*
>
> Esther Machaba (Limpopo)

3 009
(2018: 4 908)
active agents

92% based in South Africa

DELIVERING BETTER QUALITY ORDERS

>40% increase in orders

Top 10 agents earned R2.2m in commission

Average sales per agent pa R27k

> *"I joined Homechoice in 2011, it changed my life by support and training. Today I can look back and brag about the three houses I own and the amount of commission I earn every single month. I am my own boss and write my own paycheck."*
>
> Morgan Yelani (Eastern Cape)

> *"Nothing is Impossible if you set realistic goals, plan and be committed you are able to achieve. Its starts with the passion and drive from within. I bought a house and resigned from being a government worker."*
>
> Maipelo Maorupi (Botswana)

COMMUNITY – HOMECHOICE DEVELOPMENT TRUST

homechoice development trust

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

507	1 976	27 575
(2018: 405)	(2018: 1 511)	(2018: 21 025)
Educare centres supported	**ECD practitioners trained**	**Children under 6 received quality start to education**

Total investment in communities since inception R39m

Financial support in ECD sector > R29m

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

Project spend R4.1m

IMPACT IN 2019

CARE PROJECTS

Supporting urgent and short-term needs of community in times of crisis

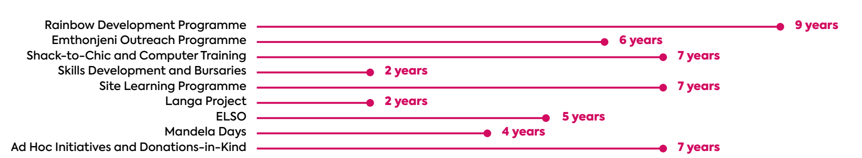
Provide our employees opportunity to give back to charitable causes in the local community

Donations-in-kind and volunteer days

Project spend R3.6m

Donations-in-kind at retail value R3.5m | **Over 1 800 employee volunteering hours**

LONG-TERM PARTNERSHIPS, PROJECTS DELIVER DEEP-ROOTED CHANGE



5 points achieved for B-BBEE scorecard | 2 innovative container-based ECD classrooms launched

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.

CORE PROJECTS EDUCATION – 2019 ECD PROJECT HIGHLIGHTS

Integrated early childhood development project – Langa

This Rotary Foundation Global Grant Project was officially launched in the Langa community in February 2019. The HomeChoice Development Trust is proudly the only corporate funder on this innovative project.

The main objective of this project is to change the lives of all children in Langa by creating a stairway of hope through the provision of quality education. This integrated project requires working in partnership with a broad range of stakeholders from the community and local government. The project's 2030 vision is to provide the more than 7 000 children living in Langa access to quality early childhood development facilities. Providing quality education, teacher and parent training, facilities upgrades, water and sanitation, equipment and books forms the basis of the operational execution of the project.

Aiming to become a model of excellence in the space of ECD, the project will build a sustainable ECD ecosystem that will provide quality ECD access to all children aged 0 – 7 years in the Langa community.

During 2019 the financial support from the Trust enabled 16 ECD facilities to receive structural upgrades in order for the crèches to fully comply with the Department of Social Development's (DSD) registration requirements.

Infrastructure upgrades to date	16	67	1 076
Total project goal	36	138	2 226

Rainbow Development Programme – Vrygrond and Overcome Heights

Involved in the Vrygrond and Overcome Heights communities since 2013, the HCDT has financially supported various pioneering and innovative initiatives together with its partner, True North.

A new three-year funding agreement, signed in 2018, supports the Rainbow Development Programme. The programme incorporates skills development (bursaries), capacity building and the build of three new ECD centres.

Little Sunshine ECD centre's infrastructure build was completed in December 2019 and has opened its doors in February 2020. The other two ECD centres are in various phases of their infrastructure development process, with expected completion by June 2020.

Aligned to the group's values and digital transformation strategy, the Trust embarked on an innovative project during the year – the funding of the development of an ECD registration App in partnership with True North. Replacing a cumbersome manual process, the App will streamline the registration process, making it easier and simpler for the ECD centres to collate and gather all the information required for the DSD registration process. The App will be piloted in the Rainbow Development Programme in 2020.

Estimated reach	32	158	1 841

Combining the human touch with infrastructure development

"Thank you for making our dream come true of having a proper building. This is something we have longed for and now we are seeing the dream unfolding in front of our very own eyes: a safe place for learning and playing for all our children. The new building will give us the chance to get government registration sooner and place us in a position to apply for a government subsidy to open other avenues for us."
Portia Solomons, principal at Little Sunshine ECD

"I am so thankful to the Trust for sending me to college by providing a bursary. What I've learnt at college has shown me that children will learn more if they are free to be themselves."
Penelope Eberbach, from Rainbow Educare

Shack-to-chic Programme – Mfuleni

The Trust has been involved in the Mfuleni community since 2013. Partnering with NPO, Starting Chance, the Trust's funding is channelled into the Shack-to-chic programme.

This programme is focused on infrastructure builds and renovations to ECD centres. In addition, a comprehensive computer and tablet training for teachers and Grade R learners is operational in Mfuleni. This tablet training programme is instrumental in helping the learners grasp formative concepts in maths and literacy, and is run on the laptops and tablets donated by the Trust.

To date six ECD centres have successfully been developed and registered in Mfuleni and another two centres are in various stages of development.

In May 2019 Principal Elizabeth Tyilana's dream became a reality when Emmanuel, a newly renovated ECD centre was handed over. Elizabeth Tyilana ran her ECD centre in a dilapidated shack and RDP house for 10 years. During this time she provided quality education for children under very difficult circumstances. Starting Chance purchased a house in Mfuleni and together with the Trust converted it into a modern and functional ECD centre with a playground and capacity to accommodate 55 children.

Total project reach	25	150	1 765
Computer training	6	65	750 Grade Rs

Principal Elizabeth Tyilana: "It's a pleasure to move into the new school. I can't hide my tears of joy. I have been waiting for such a long time. Thank you to Starting Chance and HomeChoice."

Commenting on the partnership with the HomeChoice Development Trust, Ali Corbett – founder and board member of Starting Chance said, *"The HomeChoice Development Trust has been instrumental in helping us create a footprint in the Mfuleni community. With their financial support, together we annually improve the lives of 150 teachers and 1 765 learners in Mfuleni through practical skills transfer workshops, introduction of technology and physical makeovers of shack schools.*

It is a privilege to work with a partner who shares in our vision. The HomeChoice Development Trust team don't just administer funds, they actively encourage and support us in the field by sharing their knowledge and expertise to help us improve what we do. Our principals, the greater Mfuleni community together with the parents of the children, are grateful for the opportunity to educate children in well-equipped facilities."

Emthonjeni Playgroup Outreach Programme – Khayelitsha

Since 2014 the Trust has financially supported the Emthonjeni Playgroup Outreach Programme in Khayelitsha.

The goal of this programme, managed by Sikhula Sonke, is to provide ECD stimulation to children who cannot access formal ECD learning or preschools due to the lack of adequate resources. This programme reaches the poorest communities in Khayelitsha by bringing ECD to the child. Annually between 88% – 90% of the Grade R children who completed the playgroup outreach programme are successfully registered in primary schools.

Given the resource constraints, particularly land, the Trust agreed that alternative infrastructure build options such as containers would be considered despite this meaning the centres would not be eligible for any DSD subsidies. The container-form of build would provide a safe and secure environment for the children and address some of their current challenges.

On this basis, the Trust partnered with Breadline Africa (our preferred supplier for the container solution) and successfully placed the first container-based classroom (consisting of a kitchen and storeroom) in Mew Ways. The ECD opened its doors on Mandela Day in 2019. It will provide a safe environment to 65 children and also function as a resource centre to the broader community.

Disaster relief funding – Khayelitsha

In partnership with Sikhula Sonke and Breadline Africa, the HCDT financially contributed to the rebuild of Kethokule Educare in Enkanini area in Khayelitsha after the original ECD centre was destroyed by a fire. This new container classroom was also opened on Mandela Day 2019.

Containers – 2019	2		
Total reach	8	16	500+

CARE PROJECTS

Constantia Primary School – local community

Constantia Primary School is government funded and has been a historically disadvantaged school in the Constantia community for years.

In partnership with the Western Cape Department of Education and Vocallnet, a storeroom at Constantia Primary School was converted into a workable and functional information technology lab. The Trust donated laptops, tablets, tablet stands and funded the installation of a temporary Wi-Fi connection. Software was sponsored by the Western Cape Department of Education and Vocallnet has committed to providing permanent Wi-Fi internet connectivity across the entire school.

"Through the Trust we are committed to empowering youth with technology. Technology plays a central role in all aspects of our lives so it is essential for learners to have access to technology. The training is instrumental in assisting learners to grasp formative concepts in maths and literacy and equip them with knowledge in technology skills."

In addition, the funding of the upgrade of the foundation phase play area at the school was achieved with a number of supportive partners and handed over to the school on 20 May 2019.

The Trust will continue to support the school on an ad hoc basis.

Alastair Adams, Principal of Constantia Primary School: *"On behalf of the school governing body, parents, learners and staff at Constantia Primary School, we express our thanks to the HomeChoice Development Trust for the generous funding. Technology in the classroom helps teachers and learners develop essential skills for the 21st century while aiding in creating a meaningful and fun learning environment."*

Initially the Trust became involved at the school in 2017 when, together with its partners – including Sporting Chance, the local community and various other corporate funders, the sports field was transformed into a facility that now enables the school to host interschool soccer tournaments.

2019 Christmas campaign

The 2019 Christmas campaign supported the community Mothers project, managed and run by Yabonga, a NPO situated in our local Wynberg community.

This project has 46 community mothers across seven communities, who collectively care for over 1 000 vulnerable children in their homes and offer daily nutrition, psycho-social support and homework assistance to the children.

Collectively 1 554 food hampers were collected for the mothers and the Trust contributed a R20 000 monetary donation.

Haven Shelter – Wynberg

Employees of the HomeChoice building services department joined forces with the Trust to undertake a project to provide a clean and positive environment for the many homeless dwellers in the Wynberg area who make use of the Haven Shelter.

The goal is to uplift and empower them to have the strength to improve their lives and constructively deal with their daily challenges while at the same time raise an awareness amongst our employees. support.

What started off as an awareness and employee volunteering initiative and providing homeware donations-in-kind quickly transformed into a sustainable project when the building services department adopted the Haven Shelter as their own CSI project. They continue to assist with repairs and maintenance while Koreserv, HomeChoice's cleaning supplier, assists residents with work opportunities.

Heinrich van Graan, Chairman of the Haven Shelter: "We are extremely grateful to HomeChoice for giving the shelter a facelift and for providing our clients with an opportunity to transform their lives."

2019 Mandela Day Campaign – "Share the Joy of Giving Back"

Building on the success of the 2018 digitally driven Mandela Day campaign, the 2019 "Share The Joy of Giving Back" was again managed digitally.

More than 670 employees spent their 67 minutes creating "calming kits" for the NPO Learning in Reach, that focuses on equipping preschool classrooms in the conflict-ridden Lavender Hill area in order to create more welcoming spaces to traumatised children.

110 calming kits, enough to reach 1 150 children across 30 ECDs, were handed over to Learning in Reach, together with a monetary donation of R134 700.

"I was so touched by this project that I wanted to extend the lesson and experience to my own family. Our twins had their birthday party at one of the schools supported by Learning in Reach so they could see how blessed their lives are."

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.

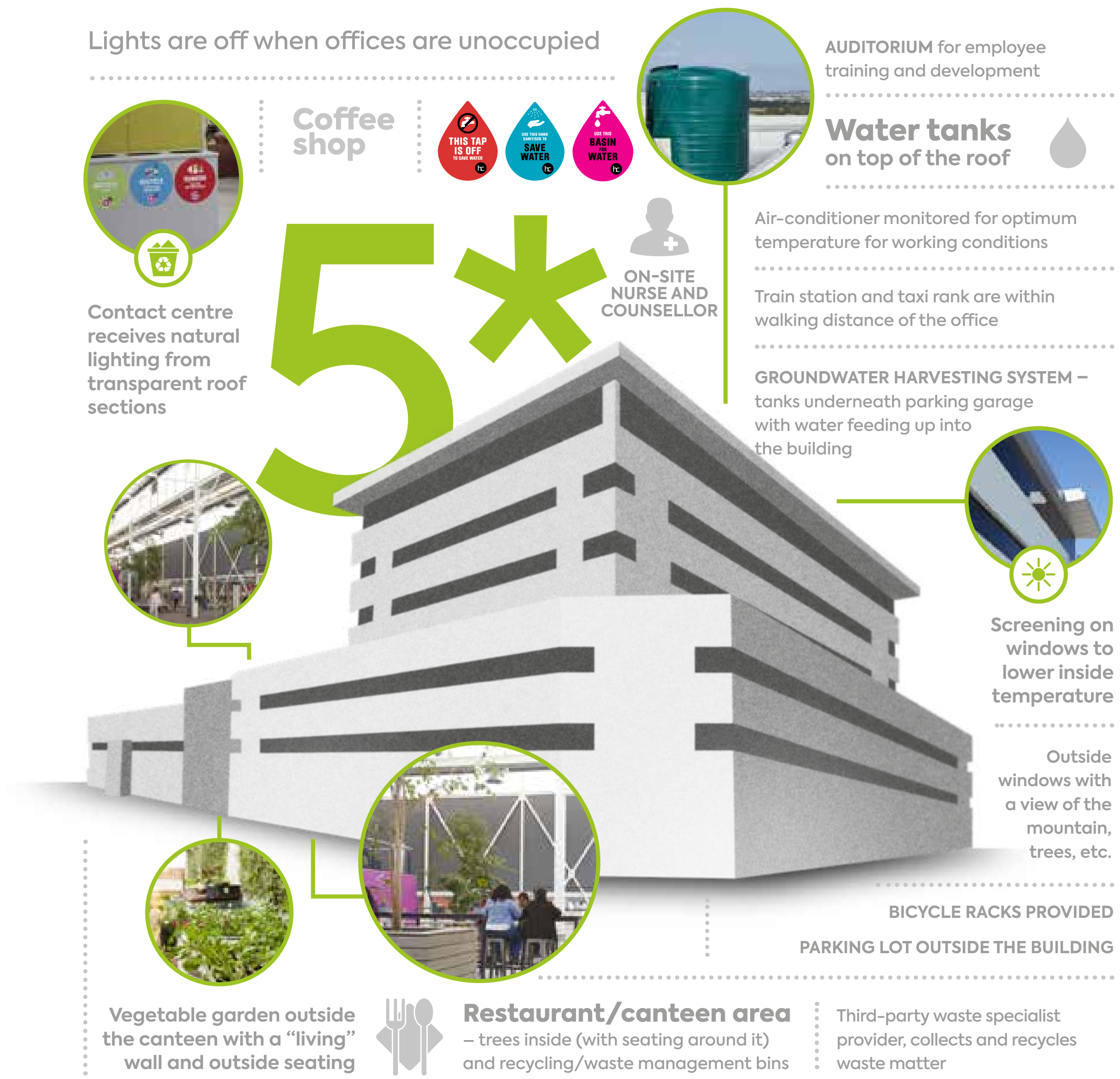
Most of the sustainability initiatives to date have been focused on our internal stakeholders – employees. Going forward in 2020 we will extend the initiatives to be more inclusive of our external stakeholders, the largest of which are our customers.

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.

Focus for 2020

	Installation of solar panels on the roof
	Installation of additional water tanks to harvest rainwater run-off from roof
	Landscaping gardens surrounding the perimeter of the building
	3rd-floor balcony to be planted with trees to shade window's from sun's rays
	Recyclable packaging for customers' orders

1 of only 11 existing 5* buildings as rated by GBCSA



WATER

"reduced water consumption by >20%, alleviating the constrained water resource of the Western Cape"

Why it's important to us

Water is a severely constrained natural resource in the drought-stricken areas of South Africa. In early 2019 the Western Cape experienced severe water shortages and consequently the South African operations committed to minimise their water requirements by using non-potable water where practical.

What have we done

- Corporate office underground aquafer water tank storage of 65 000 litres
- Installed water-efficient fittings in employee toilets
- Bathrooms make use of harvested groundwater
- 80% of taps disabled and replaced with hand sanitiser units
- 150 000 litre storage in water tanks fed from rain and roof condensation at Western Cape distribution centre

Focus going forward

- Implement Project Rainwater to collect rainwater in storage tanks at head office, alleviating the use of municipal potable water
- Install water meters linked to the building management system to track water usage at a more granular level
- Continue with staff awareness programmes to reduce our water consumption

ENERGY

"motion detection lights installed in all floors of the building including the lift stairwells switch off after 7 to 10 minutes"

Why it's important to us

Eskom, the state-owned electricity provider, is experiencing major structural and operational challenges. It has implemented a programme of "loadshedding", disrupting the provision of consistent non-interrupted power supplies. This negatively impacts business operations and is an inconvenience to personal consumption. We need to ensure that we reduce our energy consumption.

What have we done

- Implemented LED lighting across most of the building, reducing energy consumption from those lights by 50%
- Driven efficiencies from air-conditioning units in the head office
- Designed and built the extension to house the contact centre to make use of natural light where practical and possible
- Filters installed on all windows, reducing the generation of heat from the sun
- Installed a generator in head office, to ensure the business can continue operations during loadshedding periods
- UPS installed in the contact centre areas, so they are not affected by loadshedding

Focus going forward

- Project Solar – install solar panels on all useable head office roofing, enabling the business to significantly reduce its requirement from the Eskom grid
- Install electricity meters linked to the building management system to track water usage at a more granular level
- Complete the installation of LED lighting in the building

WASTE

"90% of waste generated by the Cape Town distribution centre is recycled"

Why it's important to us

As a deliver-direct-to-customer retailer and digital financial services provider, the group has relatively low levels of packaging and waste. Our distribution network uses packaging materials to ensure the products are received by customers in good condition. Our in-house restaurant generates food waste. We recognise that we need to have a greater focus on the use of plastic.

What have we done

- Packaging sorters installed in head office
- Recycling bins in all areas in the building
- Sorting machines in the main distribution centre in Cape Town
- Reverse vending machines installed, encouraging employees to recycle plastic and cans in exchange for points which can be redeemed at participating retailers and at the in-house restaurant

Focus going forward

- On-board a new waste management service provider in order to have full traceability of the end use of packaging and reduce the waste to landfill by 40% to 60%
- Trial a new fully compostable packaging bag for customer orders
- As one of the founding members of the newly formed SA Plastics Pact, commit to achieving the 2025 targets
- Bokashi bins to be installed in the kitchen and the compost used in the garden

TRANSPORT

"more than 75% of our employees make use of existing mass forms of transport to get to work every day"

Why it's important to us

Greenhouse gases are a by-product of our direct-to-home delivery network and employees coming to work. We need to ensure that we reduce our carbon emissions and reduce our carbon footprint.

What have we done

- Head office situated within walking distance of existing rail, taxi and bus infrastructure, enabling the majority of employees to make use of them on a daily basis
- Retail showrooms located close to transport hubs, enabling customers using the click-and-collect option to use existing transport hubs

Focus going forward

- Develop a strategy to understand the carbon footprint of our delivery network
- Develop carbon emissions reduction targets

COMMUNICATE AND COLLABORATE

"through collaboration we can achieve more and extend the reach of our sustainability programme beyond the group"

Why it's important to us

Communication and collaboration are key elements of our sustainability strategy. We can achieve more when we collaborate with our service providers and, in turn, they pass their learnings on to their other customers. When our employees understand and are involved in our sustainability initiatives they influence their families and communities, thereby extending the reach of our programme.

What have we done

- Regular newsletters on environmental issues to employees and sale of water-savings devices in our shop
- Collaborated with our cleaning service provider to use more environmentally friendly cleaning materials and methods in head office
- Joined the Wynberg Improvement District Council to improve the safety, quality of life and socio-economic situation within the shared public environments of Wynberg

Focus going forward

- Install television in our entrances, providing more visible communication on our water and energy usage
- Employee eco-warriors influence their colleagues, and create more enthusiasm and commitment for our sustainability journey

The SA Plastics Pact

SA Plastics Pact

HIL is proud to be one of the founding partners of SAPP in collaboration with the World Wildlife Fund for Nature (WWF). The group has pledged to radically reduce plastic pollution in South Africa, aiming to reach the following targets by 2025:

- 100% of plastic packaging will be reusable, recyclable or compostable
- 70% of plastic packaging will be effectively recycled
- There will be an average of 30% recycled content across all packaging
- We will significantly reduce plastic usage throughout the business

THE YEAR UNDER REVIEW

HomeChoice International plc

CHAIRMAN'S REVIEW

Stanley Portelli

The HomeChoice group has for more than 30 years been partnering "her", our customer, to beautify her surroundings and create an inviting home for her family.

Generations of female customers have embraced our HomeChoice and FinChoice brands as being synonymous with quality and differentiated value. Our success depends on constant innovation and renewal, and we have used our considerable expertise to stay at the forefront of trends, offering attractive and carefully curated products to satisfy her changing needs.

Our omni-channel offering comprising digital channels, contact centres, sales agents, showrooms and container hubs, which provides customers with multiple touchpoints and allows them to choose how and when they engage with our brands. FinChoice has expanded on this theme by offering an innovative range of financial products, insurance products and value-added services to satisfy her financial needs, as well as convenient digital channel to conduct her transactions 24/7.

> **"Our trading environment in South Africa continued to be characterised by muted economic growth, constrained household consumption, high levels of unemployment and interruptions in key State-provided services, particularly water and electricity.**

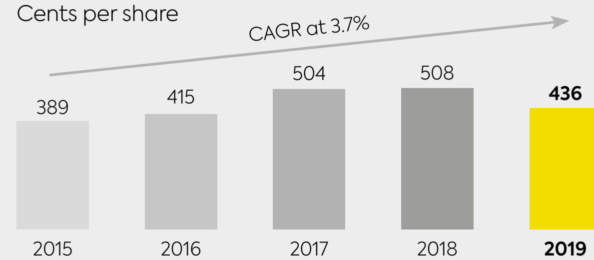
Financial results

Our trading environment in South Africa continued to be characterised by muted economic growth, constrained household consumption, high levels of unemployment and interruptions in key State-provided services, particularly water and electricity. These factors, together with some challenges of our own in operational execution, impacted on our profitability and headline earnings per share for 2019 reduced by 14.1% to 436.0 cents per share (2018: 507.7 cents per share). The full-year dividend of 166.0 cents was down 14.4% on 2018.

The taxing environment is not without precedent and our ability to withstand the challenges are predicated on maximising the levers under our control – innovation, technological improvements, and effective cost and working capital management – to continue to position ourselves as a leading provider of innovative Retail and Financial Services products in southern Africa. We continue to strive to remain resilient and capitalise on all opportunities for growth.

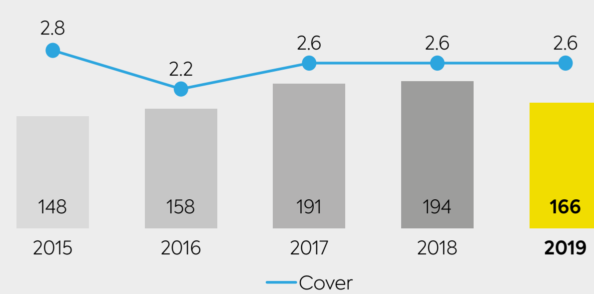
HEADLINE EARNINGS PER SHARE

Cents per share



DIVIDENDS PER SHARE

Cents



Governance

The boards of HomeChoice International and its subsidiaries fully endorse the principles and framework contained in the King IV Report on Corporate Governance.

A more detailed analysis of the application to King IV can be found on the group's website, **www.homechoiceinternational.com**

During the year the board and its committees conducted an evaluation process with the results indicating that the performance of the board and committees are satisfactory to strong. Certain areas were highlighted for improvement for which action plans have been developed.

The board also continued to spend time reflecting how best to structure its membership to provide the relevant expertise needed to guide the strategic issues facing the group. The board, in conjunction with the nominations committee, will in the coming year focus on expanding and strengthening its collective skills set while giving effect to the board's race and gender diversity policies.

Changes to the board of directors and management team

At the annual general meeting on 17 May 2019, shareholders approved the appointment of Pierre Joubert to the board. Consequently, Pierre resigned from the board of the Mauritian subsidiary in order that he can dedicate sufficient time and expertise to the HIL board. Pierre is an independent non-executive director and with the retirement of Rick Garratt on 31 December 2019 has increased the proportion of independent directors on the board.

Rick Garratt has stepped down as non-executive director in December 2019, after a lifetime of service to the group. Rick founded the HomeChoice group in 1985 and has held the positions of chief executive officer and chairman of the South African operations. The board wishes to thank Rick for his extensive contribution to the board, and as founder of the group he will continue to provide his insights to the team.

Change of domicile and amendments to the Constitution

The group's growing business presence in Mauritius has made it more efficient for the management of HomeChoice International to be conducted from Mauritius. On 27 August 2019 shareholders approved the redomiciliation from Malta to Mauritius and a new Constitution. The redomiciliation is expected to be completed by early May 2020. Changes to the board composition may arise after the redomiciliation.

Stewardship

As a corporate citizen and active contributor to the South African economy, the group is mindful of its responsibility to nurture and manage our resources for the benefit of generations to come. Our belief that we must lead from the front has driven us to implement a range of initiatives to advance economic and social transformation and environmental sustainability within our sphere of influence and to develop a foundational base for children within our surrounding communities through the HomeChoice Development Trust.

Transformation

Economic and social transformation of our society remains a crucial and urgent necessity and we are committed to playing our role. An external consultant has been appointed to assist in redeveloping a realistic three-year broad-based black economic empowerment (B-BBEE) roadmap. More needs to be done to align our internal efforts with the relevant scorecards and this will be a focus area for 2020, but we are optimistic that we will meet the targets set out in the three-year plan. We achieved a B-BBEE level eight contributor status for the 2019 financial year.

Our total employment complement is reflective of our target market, with 92% of our employees from designated groups. Transformation at a senior management level has remained constant and middle management has improved.

Our employees have taken up the opportunity provided to them by applying to our development programmes, bursary awards to make further studies more affordable, as well as learnership programmes. The group hosted 72 registered learnerships this year, up from 50 in 2018. This new strategy is premised on high employment engagement is a key asset for the group to deliver enhanced customer experience. Without engaged and empowered employees, underpinned by inspirational leadership and meaningful work, the group will not deliver on enhanced customer experience.

Environmental sustainability

The group commenced proactive management of its natural resources some years ago. These activities were formalised through a strategic sustainability framework implemented in 2017, which encapsulates a variety of environmental management aspects for our 22 000 m² head office building.

Home to more than 1 800 employees, our South African corporate offices have become one of only 11 existing buildings in South Africa to attain a 5-Star Green Star rating from the Green Building Council South Africa. A wide variety of energy- and water-saving initiatives, as well as waste and recycling efforts, have contributed to this rating. We are proud of this recognition and reinvigorated to intensify our efforts to create ethical and sustainable work environments for our people and further reduce our environmental footprint. In 2020 we plan to install solar panels to further improve the group's resilience in the face of electricity outages and save on costs.

We are also delighted to be one of the founding members of the South African Plastics Pact that was launched at the beginning of 2020 to reduce the amount of plastic that ends up in our oceans. Research shows that eight million tonnes of plastic leak into the ocean every year and members of the Plastics Pact have committed to a series of ambitious targets for 2025 to prevent plastics from becoming waste or pollution. We are committed to play our role by ensuring that our plastic packaging is not only reduced wherever possible, but that the plastic that remains is reusable, recyclable or compostable. As part of this journey we will this year start testing packing made from mielies as a compostable alternative.

HomeChoice Development Trust

Our social investment strategy is managed through the HomeChoice Development Trust. Community investment is targeted at the upliftment of underprivileged communities in the Western Cape where our group was founded. The social programme focuses primarily on enabling early childhood development by building schools, improving educational standards and increasing educator skills. Our programmes benefit from and are more impactful due to long-standing partnerships with non-profit organisations with a track record of long-term and sustainable plans in the Early Childhood Development (ECD) sector.

The Trust receives an annual donation of 1% of the group's operating profit and earns a regular dividend income on 600 000 HIL shares donated to the Trust on the group's listing in 2014. The Trust has invested R39 million in communities since inception, of which R7.8 million was spent in 2019. Since 2011 we have supported 507 educare centres, trained 1 976 educare practitioners and provided quality education to more than 27 000 children under the age of six years, among others.

In recognition of the role sport plays in creating social cohesion in our communities, HomeChoice in 2019 has co-funded a township cricket centre of excellence at the Chris Hani Secondary School in Khayelitsha, in partnership with the Gary Kirsten Foundation.

Impact of COVID-19

The group released its 2019 annual results on 12 March 2020 when the impact of COVID-19 was primarily focused in China and certain countries in Europe. At the time the board considered the declaration of a year-end dividend appropriate as the impact of COVID-19 on the group was expected to be limited to possible delays of merchandise from China, for which the group had already implemented plans to manage delays in production and delivery.

Subsequent to the dividend announcement, the economic and risk landscapes have changed significantly and the impact of COVID-19 moved from a potential supply crisis into a demand crisis. Post South African President Ramaphosa's first announcement on 15 February, the group experienced a slowdown in Retail sales which was further exacerbated by the commencement of a 21-day lockdown from 27 March 2020 to 16 April 2020, further extended to 30 April 2020.

Out of consideration for the safety of our employees and customers, and in line with the regulations put in place by the SA Government, our Retail showrooms, ChoiceCollect containers, distribution centres and corporate offices were closed.

During the lockdown period the group is very focused on conserving cash and any trading was carried out within the confines of protecting cash and stringent credit risk management rules. The Retail business was able to deliver essential products to fulfil customer demand and our Financial Services operations limited their loan disbursements to digital transactions only.

The events of the past weeks are unprecedented and the short- and medium-term effects on the local and global economies are significant and uncertain. The board believes that it is in the best interests of the company and its stakeholders to preserve cash reserves during this period of uncertainty. Against this background and in the interest of the continued financial health of the group, the board has considered it prudent to postpone the final dividend of 79.0 cents per share that was anticipated to be paid on Monday, 25 May 2020. This postponement will give the group greater flexibility as the situation develops over the coming weeks and months. Information on the dividend will be communicated when the group releases the interim results in August 2020.

As the impact of COVID-19 is unfolding daily, we are unable to quantify with any degree of certainty the impact it may have on the group over the medium term. However, it is expected to have a material impact on the group's financial results for the six months to June 2020.

Further details on the action plans by the management team can be found on page 18.

Acknowledgements

As always, we are indebted to the management team and our employees for the group's continued prosperity and growth. Your loyalty, hard work, dedication and energy is greatly appreciated. I would also like to acknowledge and appreciate the valued contribution and guidance of my fellow board members and to thank our customers, shareholders, suppliers and other stakeholders for their support and continued interest in the HomeChoice International group.

CHIEF EXECUTIVE OFFICERS' REVIEW

Gregoire Lartigue | Shirley Maltz

It is in challenging times that our ability to look beyond current market conditions and steadfastly steer our company and people in an integrated strategic direction is more critical.

For us, that strategic direction is an enhanced customer experience that will continue to attract and delight our more than 900 000 customers and, in so doing, deliver sustainable long-term value to all our stakeholders. Our passion, our operations and our investments are all aligned to deliver on this promise.

Trading environment

Continued weak economic growth, social instability and unemployment have culminated overall in low consumer confidence, constrained spending and lower retail turnovers in 2019. The mass market demographics of the informal sector has shown more positive confidence albeit in the context of the economy of the country. A breakdown in service of a key delivery partner added to operational challenges for businesses in South Africa. Intense competition and widespread discounting have sacrificed margins and exacerbated the inability to recover rising costs through price increases.

The volatile nature of the Rand created its own challenges, declining from a high of R13.25 to the US Dollar at the beginning of the year to R15.29 by August and again strengthening considerably towards year-end in response to global factors.

Q4 2019 TransUnion SA Consumer Credit Index fell marginally from Q3. It indicates a mild improvement in consumer credit health within the context of a tough economic environment. Accounts in early default and distressed borrowing have stabilised. Revolving credit utilisation is below 50% of credit limits and debt service costs, stable in Q4 were reduced in January 2020. Household cash flow remains tightly constrained.

> **"Despite massive unemployment statistics in South Africa, two-thirds of our customers have a second source of income – she is running a shebeen, doing braids and hair extensions, baking goods or renting out a room at the back of her house.**

Our customer is a digitally savvy, urban African woman. While she is undoubtedly under pressure financially, our observations indicate that consumer confidence in our target market and the informal economy in South Africa is much more vibrant than generally accepted. Our customers see themselves as entrepreneurs and she is proud of that. We salute her resoluteness and do what is in our power to enhance her life.

Responding to COVID-19

We have used this crisis as a stimulus to accelerate our digital transformation and re-examine ways of doing business. Once the lockdown restrictions are relaxed, we hope to emerge as a more agile business with an even greater focus on enhancing our customers' experience.

We would like to thank all our staff for their willingness to quickly respond to the restrictions imposed on the group and for embracing significant changes in their ways of working in order to bring the group through this challenging economic and humanitarian crisis.

More information on our action plans can be found on page 18.

Financial performance

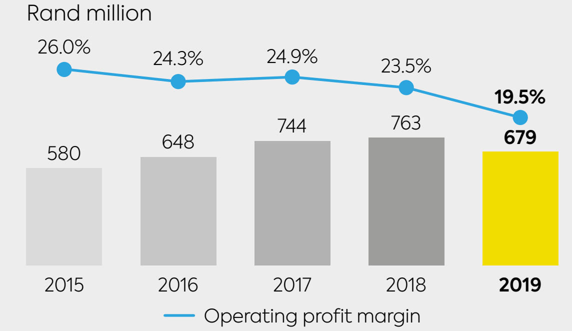
Group revenue increased by 7.3% to R3.5 billion, with a solid contribution from Financial Services and a lower Retail sales growth of 4.9%. Profit conversion was disappointing, with operating profit decreasing by 11.0% to R679 million.

This was primarily due to aggressive mark-downs of stock in the first half of the year due to the aftermath of the 2018 SAPO postal strike. Higher debtor costs also contributed. Vintages nevertheless reflect improving trends, with credit conservatively managed through smaller parcels of credit, shorter terms and the portfolio strongly skewed toward existing customers with established credit behaviour.

More information on our financial performance is available in the Finance director's commentary on pages 56 to 65.

GROUP OPERATING PROFIT

Rand million



Progress against strategic initiatives

Our future will be defined by our ability to continue to innovate and embrace technology to improve efficiencies and successfully execute on our customer value proposition.

Whether it is a credit product, a digital platform innovation or a merchandise product, it is **innovation** and constant renewal that drives our growth. This year we increased our retail product offering to 145 external brands. We also introduced a vacuum pack for our blanket range, saving storage space for her and delivery size for the business. The excellent growth in our insurance business has been enhanced further by the introduction of parent and extended family funeral cover. We have embedded airtime, data and electricity functionality in our foundation digital-only wallet product, MobiMoney, and over time will add money transfers, vendor payments and further added-value services.

Our **brands** are central to how we are identified as a group. In 2019 we refreshed both the HomeChoice and FinChoice brands, bringing the heart into the business for her. Consumer reaction to the change has been positive.

We introduced 271 000 new **customers** to the group in 2019. The Retail business continued to attract on average 20 000 new customers per month. FinChoice gained 62 000 new customers, with 84.9% of customers coming through the mobi channel. With total active customers of 912 000 at year-end, we are well on track to achieve our target of 1.2 million customers by 2022.

> **Online retail is thriving despite the challenging economic climate. The *Online Retail in South Africa 2019* study indicates that online retail in South Africa passed the R14 billion mark in 2018 as e-commerce started to go mainstream.**

We exceeded R2 billion in credit offered through our **digital** channels for the first time this year. It is the successful outcome of committed investment over recent years – replacing legacy systems and embedding new best-of-breed technology. We are the first in Africa to partner with Oracle Commerce Cloud for our Retail digital engine, however the project implementation was not as smooth as we had planned it to be. In spite of this, we believe that the new site is going to be fundamental in terms of increasing digital sales through our recommendation engines and servicing the customer better. We are using the opportunities created by digital transformation to streamline our processes and provide customers with a more improved experience. Two Bots and Webchat are currently being trialled to good response from our customers.

Social media interaction with customers has picked up notably in recent years. This year we introduced a new social media customer service platform which enables agents to seamlessly move between social media channels – Facebook, WhatsApp, Instagram, phone and e-mail – capturing the entire conversation with the customer and providing excellent first-call resolution. It has also resulted in sales benefits as contact centre agents can respond more quickly to customers' queries.

Our **omni-channel strategy** is designed around convenience – allowing customers to shop how they want, where they want and whenever they want, 24/7. We have had success with the roll-out of our Retail showrooms. Our ChoiceCollect containers are a very exciting initiative, borne out of the adversity of the postal strikes last year. It is an initiative that partners with the community and local micro-entrepreneurs, to bring us closer to our customers' homes, providing click and collect, ordering and support services. We believe that there is an opportunity to extend the number of showrooms and ChoiceCollect containers across the country.

> **Regardless of the huge opportunity for growth in online retail, the path to long-term profits is through dramatically improving customer experience.**

Our considerable store of **customer data** combined with data science and analytics will ultimately deliver better offers, speed and improved experiences across our customers' journey with the group. We have introduced new marketing, product and customer propensity models and extended our machine learning algorithms to process large amounts of data from many sources to provide more robust decision-making. We are also using data to produce rapid, appropriate and attractive credit offers for FinChoice customers and we are seeing excellent conversion ratios as a result.

We believe that our **customers' experience** is going to increasingly become the driver for success going forward. We want their journeys with us to be consistent, frictionless and exciting. They are at the centre of our strategy and we are focusing on their end-to-end financial or shopping journey. Our engagement with our customers tells us that speed is very important, followed by personalisation, convenience and simplicity. This year we improved home delivery days for existing customers from 6.4 to 5.4 and we are constantly looking at ways to reduce this further.

Investing for the future

We commenced a medium-term strategic investment cycle in 2018 focused on digitalisation, omni-channel, distribution and enhancing the customer experience. We are continuing to invest in technology as a key enabler in our journey to become a leading digital retailer with new best-of-breed e-commerce, as well as a new credit decision engine and a merchandise planning system. We are also investing further in our customer experience and showrooms, as well as the Johannesburg distribution centre to improve efficiencies.

Our vision is to provide for our customers' lifestyle through digitally focused and innovative retail and financial services products. We are pleased with the traction that we have gained in 2019, and continuing this into 2020 and beyond.

Appreciation

We continue to find opportunities to deliver value and a great experience to our customers, regardless of the challenging conditions. This is the direct result of the commitment and dedication of the fantastic people we have. We thank you all for the hard work during 2019. We would also like to acknowledge and appreciate our customers, suppliers, shareholders and other stakeholders for their backing and continued interest in the group.

We are pleased to announce the appointment of Gerhard Hayes as Retail CEO of HomeChoice from 1 February 2020. Gerhard has spent his entire career in retail and we are excited about the fresh ideas, energy and innovation that he will bring to the Retail business.

Outlook

South Africa's domestic economic outlook for 2020 remains muted, with sluggish growth prospects.

We are committed to our strategy and are focusing our resources where we believe they are important – around data analytics, best-of-breed technology, while focusing on our customer experience.

One of the key drivers of sustainability remains how effective you are at attracting customers. The group's consistently successful customer acquisition over decades confirms to us that she loves our product. Our relentless focus on customer experience to deliver an engaging and consistent retail and financial services offering across all channels, is aimed at ensuring that she continues to shop with us for generations. With this as a strong foundation, we remain well positioned to capitalise on any improvements in the environment.

HomeChoice International plc

FINANCE DIRECTOR'S COMMENTARY

Paul Burnett

Performance review and targets

		Medium-term targets	2019*	2018**	2017***	2016	2015
Revenue	(Rm)		**3 484**	3 247	2 993	2 664	2 233
Growth in revenue	(%)		**7.3**	8.5	12.3	19.3	14.0
Retail sales	(Rm)		**1 951**	1 860	1 749	1 498	1 197
Growth in retail sales	(%)		**4.9**	6.3	16.8	25.1	10.6
Gross profit margin	(%)	47 – 50	**47.4**	49.6	51.2	49.3	50.7
Operating profit	(Rm)		**679**	763	744	648	580
Growth in operating profit	(%)		**(11.0)**	2.6	14.8	11.7	11.3
Operating profit margin	(%)	22 – 27	**19.5**	23.5	24.8	24.3	26.0
EBITDA	(Rm)		**751**	821	793	701	632
Growth in EBITDA	(%)		**(8.5)**	3.6	13.1	11.0	17.0
Cash generated by operations	(Rm)		**437**	474	359	277	359
HEPS	Cents		**436.0**	507.7	503.8	414.6	389.1
Growth in HEPS	(%)		**(14.0)**	0.7	21.5	6.6	10.3
Dividend cover	times	2.2 – 2.8	**2.6**	2.6	2.6	2.6	2.6
Net debt to equity	(%)	<40	**30.2**	27.6	28.3	28.7	26.2
Return on equity	(%)	22 – 27	**16.7**	20.9	23.3	22.5	23.7

* 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.*

Financial commentary

The financial commentary on the performance for the twelve months ended 31 December 2019 should be read in conjunction with the annual financial statements available on the group's website www.homechoiceinternational.com

The complete summarised financial statements are available in the appendices to this integrated annual report on pages 112 to 117. A summarised five-year review is shown on page 111.

2019 performance

In the context of a low growth economy, the group had a challenging year.

Group revenue increased by 7.3% to R3.5 billion, achieved a lower gross profit margin of 47.4% – driven in the main by a poor first-half performance, well-controlled trading expenses growth of 7.6% and countered with higher debtor costs of 28.7%. Consequently, conversion of top-line growth to operating profit was disappointing at R679 million, an 11.0% decrease from 2018.

The balance sheet metrics are healthy. Trade and loans receivables books grew by 10.9%; stock has been well managed, up 14.8% (inclusive of higher goods in transit) with an acceptable increase in debt funding of 9.4%. Excluding a once-off taxation charge of R44 million, good cash control resulted in cash balances being marginally down on 2018.

Application of International Financial Reporting Standards (IFRS)

The group has adopted *IFRS 16, Leases* retrospectively from 1 January 2019 but has not restated comparatives for the 2019 reporting period as allowed under the standard's transitional provisions. The reclassification and adjustments from the new leasing rules have been recognised in the opening balance sheet on 1 January 2019.

On adoption of the standard, previously classified operating leases are now recognised as right-of-use assets with corresponding lease liability. These liabilities were measured at the present value of the remaining lease payments discounted using 10.25%, the lessee's incremental borrowing rate at 1 January 2019.

As the group is an omni-channel retailer, it has nine Retail showrooms (bricks and mortar), leases its distribution centre in Gauteng and through the group's property company leases the head office and Western Cape distribution centre. The impact on the group is therefore not significant when compared with other more traditional South African retailers.

The implementation of the standard had the following effect on the balance sheet on 1 January 2019:

- recognition of operating leases as right-of-use assets at R50 million;
- deferred tax assets at R2 million;
- lease liabilities recognised at R55 million; and
- net reduction on opening retained earnings of R3 million.

The impact of IFRS 16 on the group's financial statements for the year are as follows:

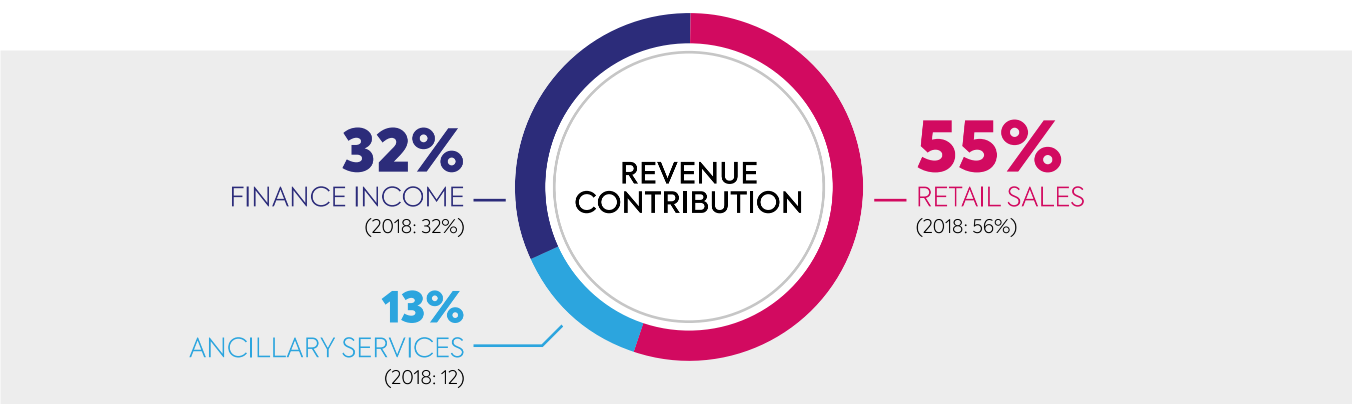
- gross profit margin is higher by R8.3 million as rental costs previously allocated to cost of sales are now shown in depreciation and interest;
- operating profit and margin is higher by R3.3 million; and
- EBITDA has increased by R19.8 million.

IFRS 16 does not impact the financial fundamentals of the group, its operations or the cash flow. As the group rolls out additional showrooms the quantum of the right-of-use assets and lease liabilities will increase.

Additional information can be found in note 1.29 of the 2019 annual financial statements.

Statement of comprehensive income

	2019 Rm	% change	2018 Rm
Revenue	**3 484**	7.3	3 247
Retail sales	**1 951**	4.9	1 860
Finance income	**1 093**	7.6	1 016
Fees from ancillary services	**440**	18.6	371
Cost of Retail sales	**(1 027)**	9.5	(938)
Gross profit	**2 457**	6.4	2 309
Other operating costs	**(1 785)**	15.2	(1 550)
Credit impairment losses	**(717)**	28.7	(557)
Other trading expenses	**(1 068)**	7.6	(993)
Other net gains and losses	**(1)**	(80.0)	(5)
Other income	**8**	(11.1)	9
Operating profit	**679**	(11.0)	763
Interest income	**4**	33.3	3
Interest expense	**(101)**	13.5	(89)
Share of loss of associates	**–**	–	(1)
Profit before taxation	**582**	(13.9)	676
Taxation	**(127)**	(14.2)	(148)
Profit and total comprehensive income for the year	**455**	(13.8)	528
Earnings per share (cents)			
Basic	**436.0**	(14.0)	506.8
Diluted	**428.7**	(14.2)	499.8
Headline earnings per share (cents)			
Basic	**436.0**	(14.1)	507.7
Diluted	**428.7**	(14.4)	500.8



Revenue

Revenue for the group increased by 7.3%, with a five-year compound annual growth rate (CAGR) of 11.8%. At a segmental level, revenue generated from the more defensive division of the group, Financial Services, performed well, increasing to 25% contribution, up from 23.0% in 2018.

Retail sales

Retail sales grew 4.9%. Growth was dampened by a high level of lower-value clearance sales in H1 from the markdown of mainly bedding stocks left over from the 2018 SAPO strike when the delivery of catalogues and parcels were severely delayed. In addition, higher-than-normal levels of customer returns from non-deliveries during the strike were also cleared.

Digital sales have been in high double-digit growth over the previous two years, having grown to 16% contribution. In H2 digital retail sales were negatively impacted by the complex implementation of a new Oracle Commerce Cloud engine. Customer traffic to the new site was managed during the transition period and, combined with limited investment on the old commerce site, led to a decline of retail digital sales to 15% contribution.

Finance income

Finance income earned was 7.6% up on 2018 to R1.1 billion.

Interest rates were reduced by 25 bps on 18 July and had an impact on the finance income earned.

Finance income earned by Financial Services increased by 14.8% for the year. Loan disbursements increased strongly by 27.0% to R2.3 billion, with an H1 growth of 34.2%. This H1 growth was primarily due to the reinvestment of the proceeds of a debt review book in Q1. For more detail on this refer to page 63.

Retail's finance income was level with 2018, mainly due to the lower retail sales growth and the reduction in the interest rate.

Fees from ancillary services

In line with the diversification strategy, the group has continued to introduce additional non-interest-bearing products to reduce its reliance on finance income earned. Fees from ancillary services increased 18.6% to R440 million (2018: R371 million).

In 2017 Financial Services introduced a stand-alone insurance product offering to diversify its revenue. Since then, additional stand-alone products have been implemented, as has value-added services of airtime, data and electricity. Fees earned from insurance increased by 22.2% to R154 million.

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

Gross profit margin declined by 220 basis points to 47.4% from 49.6% in 2018.

The deterioration was largely driven by the discounting activity in H1, non-comparable warehouse costs from the Johannesburg distribution centre which opened mid-way in 2018 and lower exchange rate gains in 2019 versus 2018. The group does not use hedge accounting.

Other trading expenses

Trading expenses across the group have been well controlled to mitigate the impact of the lower gross profit margin and higher debtor costs (explained in more detail on page 64).

To support the implementation of growth-generating initiatives, trading expenses in non-growth areas were well contained. As a result, trading expenses increased by 7.6%. The roll-out of Retail showrooms and ChoiceCollect containers, non-capitalised technology costs and higher operational costs to drive the stand-alone insurance offering experienced higher expense growth rates. Marketing expenses increased by 0.25% as we made greater use of new marketing propensity models to deliver cost-efficiencies. The digitalisation of customer service processes and the use of technology in our credit risk management processes ensured that staffing expenses only increased by 1.0% from 2018.

Retail trading expenses increased by 6.8% despite the non-comparable showroom expenses. Financial Services expenses were up 11.7%, supporting the growth in stand-alone insurance income and higher loan disbursements.

Interest paid

Interest paid of R101 million increased by 13.5% on the long-term funding of the group. An additional R140 million was drawn down during the year to support the capital expenditure requirements.

Profit for the year

As a result of the lower gross profit margin and higher debtor costs the top-line revenue growth of 7.3% translated into a 13.9% decrease in profit before tax of R582 million.

Balance sheet

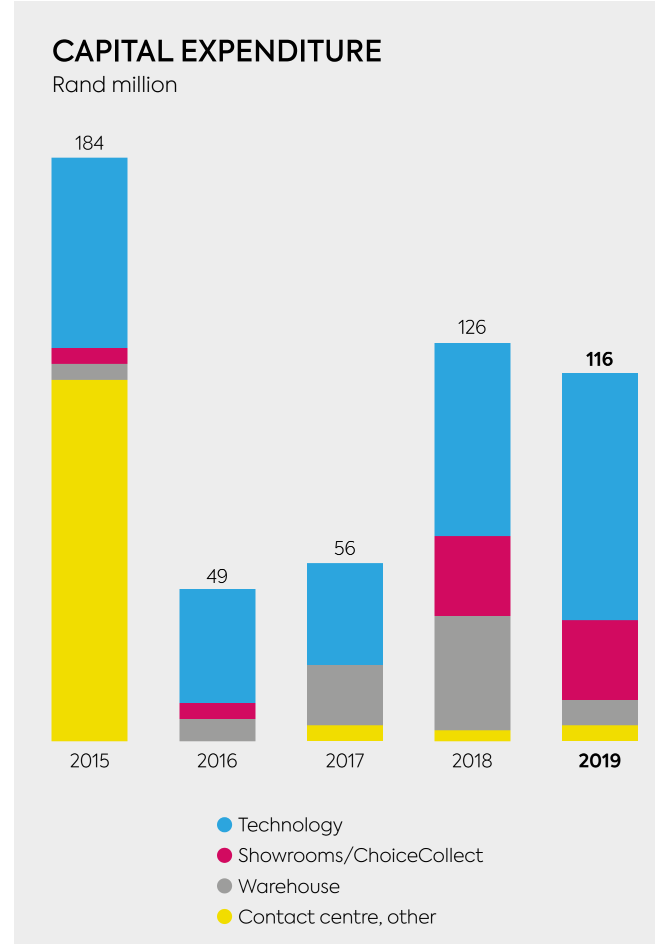
	2019 Rm	% change	2018 Rm
Assets			
Non-current assets			
Property, plant and equipment	**471**	1.5	464
Intangible assets	**169**	45.7	116
Right-of-use asset	**67**	100.0	–
Financial assets at fair value through profit and loss	**24**	–	24
Deferred taxation	**2**	100.0	1
	733	21.2	605
Current assets			
Inventories	**349**	14.8	304
Taxation receivable	**1**	100.0	–
Trade and other receivables	**3 188**	9.8	2 903
Trade receivables – Retail	**1 581**	5.0	1 506
Loans receivable – Financial Services	**1 583**	17.5	1 347
Other receivables	**24**	(52.0)	50
Cash and cash equivalents	**80**	(25.9)	108
	3 618	9.1	3 315
Total assets	**4 351**	11.0	3 920
Equity and liabilities			
Equity attributable to equity holders of the parent			
Stated and share capital	**1**	–	1
Share premium	**3 010**	0.2	3 005
Reorganisation reserve	**(2 961)**	–	(2 961)
	50	11.1	45
Treasury shares	**(18)**	>100.0	(3)
Other reserves	**33**	83.3	18
Retained earnings	**2 881**	9.8	2 624
Total equity	**2 946**	9.8	2 684
Non-current liabilities			
Interest-bearing liabilities	**537**	(29.0)	756
Lease liabilities	**57**	100.0	–
Deferred taxation	**51**	(22.7)	66
Trade and other payables	**4**	(33.3)	6
	649	(21.6)	828
Current liabilities			
Interest-bearing liabilities	**391**	>100.0	92
Lease liabilities	**18**	100.0	–
Taxation payable	**16**	(65.2)	46
Trade and other payables	**283**	6.0	267
Provisions	**–**	(100.0)	3
Bank overdraft	**48**	100.0	–
	756	85.3	408
Total liabilities	**1 405**	13.7	1 236
Total equity and liabilities	**4 351**	11.0	3 920

Property, plant and equipment (PPE) and intangible assets

In 2018 the group commenced a three-year capital investment programme to support our omni-channel strategy. This is mainly focused on implementing best-of-breed technology to replace old and cumbersome legacy systems.

R116 million (2018: R126 million) was allocated to capital expenditure in 2019, with almost half focused on new information technology systems and infrastructure. The most significant tech investment in the year was the Oracle Commerce Cloud engine to reinvigorate and provide a world-class website for the expansion in the digital contribution of Retail sales. We also commenced with the implementation of a new group debtor engine to drive efficiencies and increase flexibility of our credit risk processes and product offering, and a new Oracle merchandise planning tool to improve the visibility of stock and planning processes.

After a lengthy trial with our Wynberg Retail showroom, opened in 2017, we have accelerated the roll-out of additional showrooms into major regional areas throughout South Africa. A further four showrooms were opened in 2019, bringing the total to nine. As part of the strategy to provide convenient collection points for customers to receive their orders, and in mitigation to reduce our reliance on SAPO for deliveries, ChoiceCollect containers located in township suburbs were trialled in 2018. We have gained further traction with this strategy, with an additional six containers opened in 2019. It is our intention to have 20+ retail showrooms and 50+ ChoiceCollect containers over the next five years.



Inventories

Stock has increased by 14.8% to R349 million, higher than the full-year Retail sales growth.

In anticipation of the retail sales in 2020 Q1, and to ensure delivery of stocks prior to the Chinese New Year, stock-in-transit is up 72.7% on 2019. The higher stock holdings may also act as a buffer to mitigate the uncertainty arising from the Coronavirus on the group's operations.

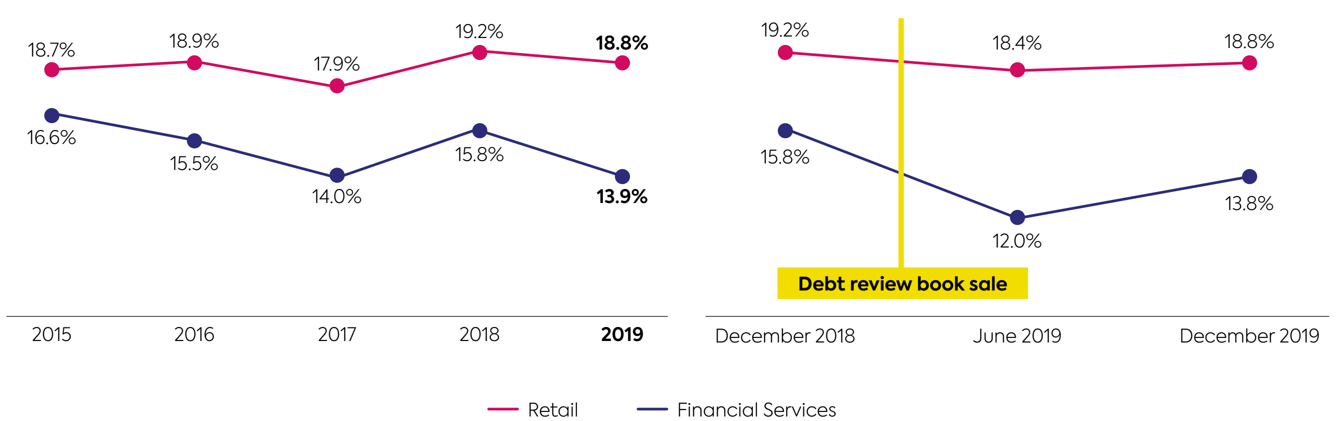
Trade and loans receivables

		2019 Rm	% change	2018* Rm
Group				
Gross trade and loans receivable	(Rm)	**3 784**	9.2	3 464
Debtor costs as a % of revenue**	(%)	**20.6**		17.1
Retail				
Gross trade and loans receivable	(Rm)	**1 947**	4.4	1 865
Debtor costs as a % of revenue	(%)	**16.5**		14.9
Provision for impairment as a % of gross receivables	(%)	**18.8**		19.2
NPLs***	(%)	**10.2**		9.6
NPL cover	(times)	**1.8**		2.0
Financial Services				
Gross trade and loans receivable	(Rm)	**1 837**	14.9	1 599
Debtor costs as a % of revenue	(%)	**32.7**		24.7
Provision for impairment as a % of gross receivables	(%)	**13.8**		15.8
NPLs	(%)	**4.3**		4.1
NPL cover	(times)	**3.2**		3.8

* IFRS 9, Financial Instrument *adopted effective 1 January 2018.*
** *Debtor costs include bad debts written off net of recoveries, as well as movements in provisions.*
*** *Non-performing loans (>120 days).*

PROVISION FOR IMPAIRMENT AS A PERCENTAGE OF GROSS RECEIVABLES

Percentage



Debt review book sale

During the first quarter, a commercial decision was taken to effectively swop a poor-performing, low-yielding asset for cash, by selling the debt review book to a third party. The proceeds from the sale were subsequently reinvested in loans to existing customers, generating a higher yield from a higher-performing customer base.

The debt review book, valued at R220 million (6% of gross debtors), comprised customers who had shown distress and entered the formal National Credit Act (NCA) debt review process with a debt review counsellor. The group holds high provisions on all debt review books reflective of their credit risk.

The sale had the following impact on the 2019 results:

- Sale of R220 million of debtor balances at market value, with no losses incurred as a conservative impairment provision was held on this book. Gross debtors reduced by R220 million after the sale.
- The proceeds were used to disburse loans to existing low-risk customers, with all the funds disbursed by June 2019.
- Disbursements were recognised in H1, with a timing delay of finance income earned into H2 and onwards.
- The overall provision for impairment held on the book reduced immediately after the sale, based on the new mix of the book as the debt review book provision percentage was significantly higher than the rest of the book (see graph opposite).
- The overall provision percentage increased marginally from June as a new debt review book grew following the sale, requiring increased provisions in line with our policy.

The establishment of a debt review book is part of normal credit risk management operations and will accumulate and increase over time until it is disposed of. Consequently, the gross debtors' book of R3.8 billion at 31 December 2019, includes a "new debt review book" consisting of customers who have entered the NCA debt review process post the sale of the book in Q1.

The group will continue to explore options to dispose of low-yielding assets to unlock and recover value, and then reinvesting proceeds where a higher return can be realised.

Debtor provision balances held

	Group Rm	Retail Rm	Financial Services Rm
1 January 2018	614	384	227
Movement in provisions	–	(25)	25
31 December 2018	614	359	252
Sale of debt review book	**(124)**	**(29)**	**(95)**
Movement in provisions	**133**	**36**	**97**
31 December 2019	**620**	**366**	**254**

Non-comparable movement in provisions

A more detailed analysis, as extracted from note 3 of the annual financial statements of the movement in the quantum of provisions is shown above.

The group adopted IFRS 9 from 1 January 2018 and the new expected credit loss (ECL) model required an increase to the provisions for impairment at 1 January 2018 of R102 million, approximately a 20% increase.

Based on the ECL model as at 31 December 2018, the Retail business had a net reversal of R25 million, whilst the Financial Services business required a net increase of R25 million driven mainly from high disbursements in 2018, off-set with a reduction in provision.

As explained opposite, the sale of the new debt review book reduced the provision balance held by R124 million.

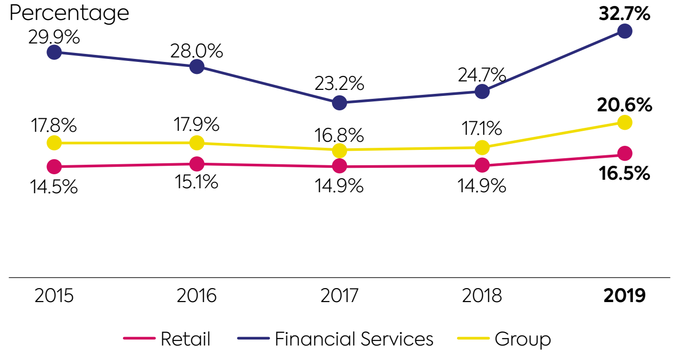
The post-sale reinvestment of proceeds to loan disbursements required a marginal increase in the provision percentage post-sale due to the build-up of the new debt review book. This resulted in a non-comparable movement in provisions of R97 million. Retail's movement in provision for 2019 of R36 million only reflects the increase in provision quantum on the growth of the gross debtors' book.

Trade and loans receivables (continued)

The group has a stable credit book, with gross trade and loans receivables increasing by 9.2% to R3.8 billion, primarily due to the high loan disbursements during the period under review.

Group debtor costs increased by 28.7%, resulting from the impact of non-comparable provision movements and an increase in the Financial Services bad debt write-offs (explained in more detail below)

DEBTOR COSTS AS A PERCENTAGE OF REVENUE



Retail

Retail gross debtors increased by 4.4% from 2018 and debtor costs increased by 16.1% relative to the sales growth of 4.9%. Well-controlled bad debt write-offs, which reduced by 0.3%, were countered by a non-comparable shift in the quantum of the impairment provision.

The moderate increase in the debtors' book provision to 18.8% (June 2019: 18.4%) is non-comparable against the 2018 financial period when there was a reduction in the provision from 21.0% (January 2018) to 19.2% (December 2018) due to the adoption of IFRS 9.

Benefits in credit risk have been achieved from a higher proportion of business to existing customers, streamlining processes in credit approval and prevention of fraud, as well as an increase in the proportion of Naedo debit order payments.

NPLs have increased marginally to 10.2% (2018: 9.6%) and NPL coverage is within acceptable levels.

Financial Services

Financial Services gross debtors increased by 14.9%. Debtor costs increased by 54.1% relative to loan disbursements growth of 27.0%.

Bad debts written off (net of recoveries) increased by 17.5%, primarily due to the granting of higher credit limits than warranted by their risk profiles to new MobiMoney and externally sourced customers. In addition, a portion of externally sourced customers were granted credit limit increases too early in their life cycle. Corrective action has been taken to treat external customers' limits more conservatively for longer durations of demonstrating good payment behaviour before migrating them into the existing customer risk profiles. The limits assigned to new customers from certain risk bands on the MobiMoney product have been curtailed and scorecards aligned.

The provision for impairment has increased to 13.8% at December 2019 (June 2019: 12.0%) due to the higher risk experienced in the year. The non-comparable increase in the movement in provisions was the primary driver of the high debtor costs' increase. The movement is non-comparable due to the sale of the debt review book in H1, the subsequent growth in provisions on the new debt review book and the impact of the adoption of IFRS 9.

NPLs have increased marginally to 4.3% (2018: 4.1%) and NPL coverage remains conservative at 3.2 times.

Cash management

Given the nature of the business, the group actively manages its cash requirements against cash collected from the debtors' books.

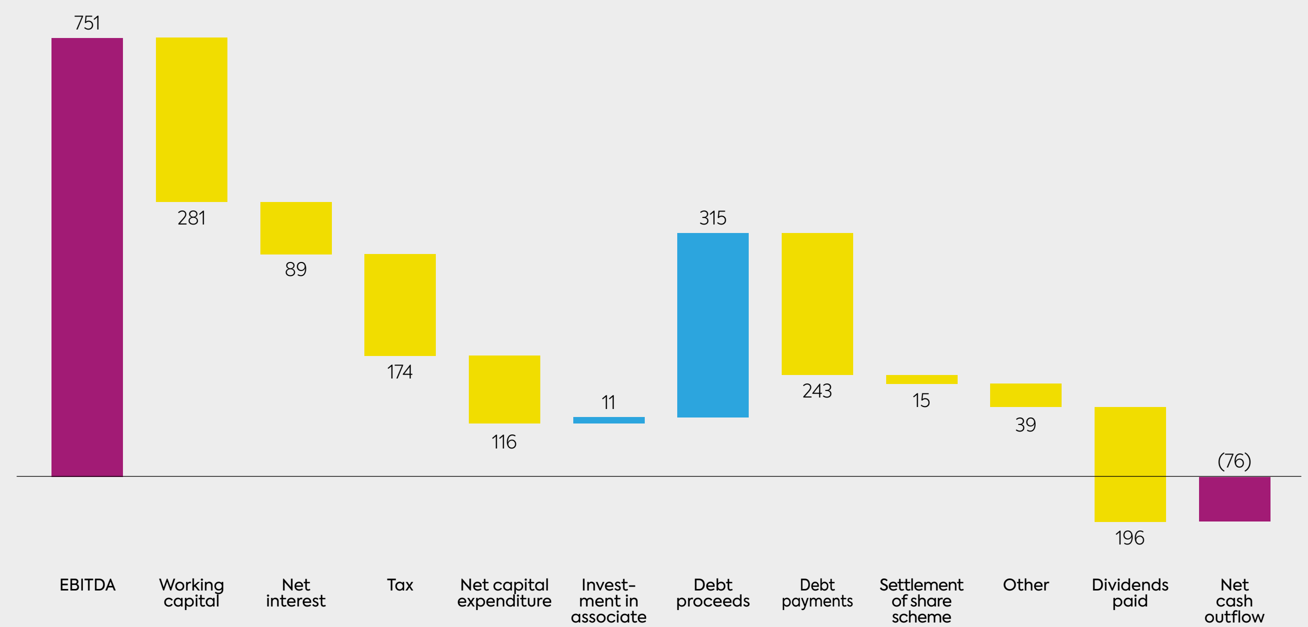
The group made use of undrawn facilities of R150 million due in the year.

Taxation paid includes a once-off tax charge of R44 million emanating from a change in the industry-wide South African Revenue Service's (SARS) treatment of bad debts written off.

During 2018 dividends of R196 million were paid, based on a constant dividend of 2.6 times, within our target of 2.2 – 2.8.

CASH UTILISATION

Rand million



Q&A WITH THE **RETAIL CHIEF EXECUTIVE OFFICER**

Leanne Buckham

How did the Retail business perform in 2019?

Merchandise sales growth of 4.9% was good in the tough retail market. Higher markdowns in H1 from the clearance of the overhang of stock from the 2018 SAPO strike, non-comparable costs from the Gauteng distribution centre and lower exchange rate gains resulted in a decrease of 200 bps of the gross profit margin, achieving 47.4%.

We remained committed to continue with our strategic growth initiatives of expanding our omni-channel, investing in technology and improving the shopping experience for our customers. Trading expenses were well controlled at 8.8% despite the investments in the initiatives highlighted above.

Bad debt costs written off decreased by 0.3% and the provision for impairment costs was higher due to non-comparable provision adjustments made in 2018.

The culmination of the above, particularly the lower gross profit margin, resulted in operating profit decreasing by 18.5% to R325 million.

> **“We remained committed to continue with our strategic growth initiatives of expanding our omni-channel, investing in technology and improving the shopping experience for our customers.**

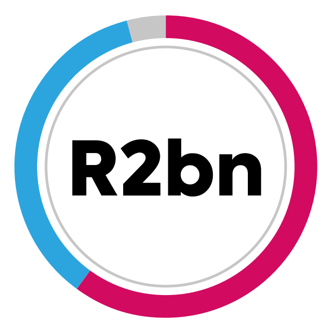
Can you expand on the sales growth?

Performance at a merchandise product level was mixed.

Our bedrock textiles business, a range of bedding offerings, has always been a major contributor to Retail sales. A larger proportion of the H1 clearance stock was bedding componentry, which we had to aggressively mark down in H1 in order that we could bring newness and fresh merchandise into the system. As a result, textiles' contribution fell from 64% in 2018 to 60% in 2019 as goods were sold at a much-reduced Rand value.

We have always had a strong ethos of innovation in our products and ranges offered to customers. The concept of bundling and sets, i.e. multiple variations of products combined to offer a complete solution to customers has been very successful for us in the textiles category. In 2019 we introduced a similar concept into our appliance and electronics category and achieved double-digit growth in this category.

Our footwear business continues to grow, driven by a carefully curated range of well-known and most wanted shoe brands appealing to our specific target market. We introduced external brands into our private label merchandise offering in 2015. The number of brands and their contribution to total sales has grown from 6% (26 brands) in 2016 to now selling 145 brands with a sales contribution of 21% in 2019.



60% Textiles (2018: 64%)

36% Appliances and electronics (2018: 33%)

4% Fashion and footwear (2018: 3%)

Your digital sales contribution has been on a strong growth trajectory. It has slowed down to 15% contribution in 2019 (2018: 16%). What do you attribute the decline to?

We see this as a temporary decline. The decrease in digital sales was primarily due to the implementation of a new Oracle Commerce Cloud e-commerce site during H2.

Digital is an important component of our omni-channel strategy. We have experienced good digital sales contributions, from less than 12% in 2016, and in the space of three years achieving 15% contribution – an increase of 25%.

Our old e-commerce site was no longer fit for purpose. It was unable to deliver the speed and convenience that customers were expecting from us and functionality we required. The implementation of the new site was complex, took much longer than anticipated and meant that we did not maintain and invest in the old site. As a result digital retail sales declined.

To address the decline we brought additional resources and expertise in-house to focus on optimising the implementation and introduce functionality that takes advantage of our available customer data. In addition, we introduced Webchat and other customer self-service tools to provide support and guidance to customers accessing the site. The business is also focused on increasing traffic to the new site, improving customers' digital experience and increasing conversion rates.

We believe that we are now in a much better position to commence leveraging the new website and increase our digital sales contribution for 2020 onwards.

With a strong driver to provide customer convenience and choice, **can you elaborate more on your Retail showrooms and ChoiceCollect containers?**

Our nine Retail showrooms and eight ChoiceCollect containers make up an expanding element of the omni-channel strategy, now contributing 8% of Retail sales.

Showrooms are situated in regional areas around the country, provide a physical location for customers to see and experience the breadth of our product range, place their orders and use the convenient click and collect option to pick up their deliveries from the showroom.

ChoiceCollect containers are located in township suburbs and primarily serve as click and collect pick-up points in areas close to our customers' homes. The containers also support customers placing orders, using the digital tablets available for self-service queries and receive follow-up reminders to fetch their deliveries.

Click and collect from these locations amounts to 10% of all deliveries (2018: 6%) as more customers take advantage of this convenient delivery option. This functionality has, in addition to an increase in courier deliveries, further reduced the group's reliance on SAPO for parcel deliveries from 23% to 16% in 2019. As we introduce more showrooms and containers, we expect SAPO's contribution to reduce further to less than 5%.

A further four showrooms and ten containers are planned for 2020, anticipating having 20+ showrooms and 50+ containers across the country.

Consistently acquiring 20 000 new customers per month is commendable. **How do you achieve this?**

We have a very clear focus and understanding of our customers from more than 30 years' expertise as a direct marketer.

249 000 new customers were acquired in 2019, in line with 2018. Television advertising continues to be a key driver for customer acquisition, with 39% sourced using this medium. Showrooms, targeted marketing and sales agents are other channels for new customers.

New customers from TV are typically brought on board using a low to grow strategy – with the average invoice value lower than existing customers. Once these customers are more confident about managing their credit accounts, we then offer them a wider range of products and release their available credit as they are able to afford it.

The customer base showed a 1.2% growth to 248 000. A higher-than-expected attrition rate in our existing customer base was driven by a lack of focus on reactivation strategies. The marketing strategies and focus areas have been rebalanced for 2020 to decrease the attrition rate while continuing to acquire new customers at the same levels as 2019.

> **Our nine Retail showrooms and eight ChoiceCollect containers make up an expanding element of the omni-channel strategy, now contributing 8% of Retail sales.**

Enhanced customer experience is at the heart of your strategy. **Can you tell us what initiatives you have taken to improve her experience to boost the NPS score to 72%?**

We have consciously focused on improving the customer's experience across her journey with the brand. Her experience starts when she first encounters the product, her ordering process, our credit-vetting processes through the supply chain, concluding when her order is delivered to her.

We have invested in digital and technology to drive the improvements. Initiatives include:

- Using mobi and digital communication customers are made aware of whether an item is in stock or when it will be available back in stock, so she understands potential lead times of her order
- Streamlining processes and the use of new systems in the credit risk area has enabled the detection and prevention of fraud and improved the speed at which credit decisions are made. The majority of our existing customers have their credit approved in under 15 minutes and new customers within 24 hours
- Empowering customers to select their delivery options, whereas previously we would have chosen the delivery method based on her address
- Dispatching most parcels in under eight hours from our Johannesburg DC, allowing us to service our Gauteng customers faster
- Deliveries now take an average of five days, down from six days in 2018. Our target is delivery in under four days

> **We have made a conscious focus on improving customers experience across her journey with the brand.**

Can you provide some examples of the benefits achieved from the digitalisation of processes?

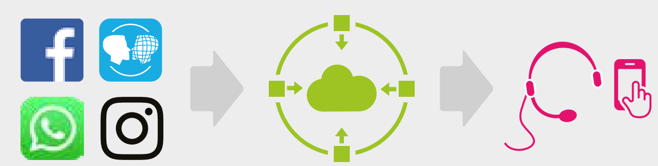
I am very excited with how we are using social media platforms to improve customers' experience, and in addition to generate sales for the group.

A customer has 14 ways in which she can engage with HomeChoice, eight of which are through the various social media channels and platforms. Regardless of how customers use the social media, all conversations are funnelled into one customer dashboard so that the contact centre agents can see all her data in one place. We have seen a marked improvement in customers' first-call resolution as the agents have all their information on their screens. In addition, we have had great success in monetising this information as agents are now able to respond much faster to and convert her engagement into a sale.

We have also launched our first two Bots, with more to come. The Bots have enabled us to provide more comprehensive customer support on our new e-commerce website, with more than 22 000 Webchats in the first three months of launching them.

Additional methods of mobile payments have supported the customer with multiple options to process her monthly payments. We have also focused on encouraging customers to convert their payments to Naedos (debit orders); we have a strong uptake from them. We have seen improved collections from these two initiatives.

We will continue to invest in technology as it benefits both the customer and the group. A new credit origination engine will be implemented in 2020/2021 and we will introduce a new merchandise planning tool in 2020, enabling us to have more control over our stock, improve availability and reduce markdowns.



Retail strategic initiatives

	2019 plans and focus areas		2019 achievements
Enhance the customer experience	Easy, quick experience across all channels	✓	41% improvement in new customers' order to delivery
	Process optimisation in order flows to improve speed	✓	Home delivery days from 5.6 to 6.1
	Increase direct-to-home delivery and click and collect	✓	79% direct-to-home delivery (2018: 71%)
	Improve NPS score	✓	NPS 71.7% vs 70.0%
Curated product and credit offer	Curated product range to develop "digital department store"	✓	140+ external brands, 21% contribution
	Commerce development on best-of-breed debtors' engine to provide flexible credit offers	✓	78% existing customers' credit approved in less than 15 minutes
	Implement credit decision engine and improve origination decisions	✓	Procured "Financier" as new credit engine
	Implement "low to grow" credit limit strategy for new customers	✓	
Insight-led customer growth	Rebalance customer acquisition model	✗	249 000 new customers, level with 2018
	Increase retention of existing customers	✗	Underinvestment in TV
	Drive increased frequency and basket size	✗	Higher attrition in existing customers
	Use analytics to deliver improved services	✓	Enhancements to RFM segmentation to deliver improved benefits
Mobi-first engagement and sales	Implement Oracle e-commerce engine	✓	Oracle e-commerce engine implementation complex and launched later than planned
	Enable additional self-service options	✓	Digital sales contribution declined from 17% to 15%
	Drive digital engagement	✗	Number of digital-only products increased
	Increase digital-only product offering	✓	
Expand new markets and services	Open three – four showrooms, with potential for Botswana	✓	Four showrooms and four ChoiceCollect containers opened
	10 ChoiceCollect click and collect containers	✓	Botswana showroom on hold
	Introduce insurance products	✗	Delayed implementation of Retail insurance products

✓ achieved
✗ partially/not achieved

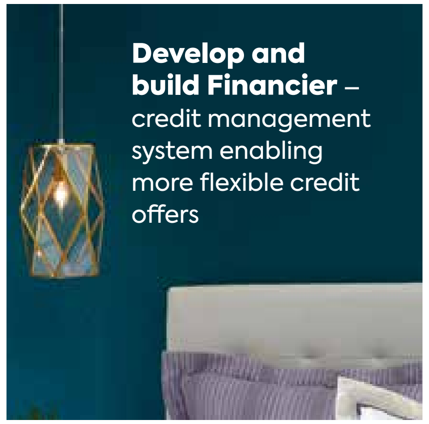
WHAT ARE YOUR KEY FOCUS AREAS FOR 2020 ONWARDS?

Become the sleep experts – innovation, differentiation and value offering in heritage home textile business

Optimisation of Oracle Commerce Cloud engine driving increased traffic and digital conversion

Using **data analytics drive** more from our existing customer base and increase retention with life cycle marketing segmentation

Quicker and more **convenient delivery experience,** easy-to-select delivery options, tracking and more click and collect points



Develop and build Financier – credit management system enabling more flexible credit offers

Improve customer experience and convenience with further investment in showrooms and ChoiceCollect containers

Continue the **digital transformation** journey – social media optimisation, merchandise planning, value-added services

Q&A WITH THE **FINANCIAL SERVICES CHIEF EXECUTIVE OFFICER**

Sean Wibberley

How did the FinChoice business perform in 2019?

A strong top-line loans disbursement increase of 27.0%, continued growth in digital transactions mix in the business to 86%, softened with higher provisions impacting debtor costs resulted in operating profit of R286 million, a decrease of 2.0%.

Trading expenses were well controlled at 11.7% growth including additional operational costs to drive our growth initiatives such as the stand-alone insurance business.

We had a favourable reduction in the average term of loans from 19.7 months to 19.4 months keeping the book relatively short to collect against. The average loan balance has also reduced from R9 474 to R8 628 – a pleasing achievement.

> **“A strong top-line loans disbursement increase of 27.0%, continued growth in digital transactions mix in the business to 86%.**

Loan disbursements growth of 27.0% is a commendable achievement. **Can you explain what drove this?**

There were three main drivers for the growth:

- the reinvestment of proceeds achieved from the sale of the debt review book;
- the acquisition of 63 000 new customers; and
- the increasing usage of FinChoice MobiMoney™.

The debt review book consisted of customer accounts which are being managed with a debt review counsellor as part of the NCA's formal debt review process. A much lower yield is earned on this distressed book. Consequently, we took a decision to sell the R220 million debt review book to a third party for cash. The proceeds were then channelled into the disbursement of loans to our existing customers who perform at a much higher income yield. Essentially, we swapped a poor-performing, low-yielding asset for a higher-performing, higher-yielding asset. The sale took place in the first quarter, with all the proceeds disbursed by the end of June, delivering an H1 disbursements growth of 34.2%.

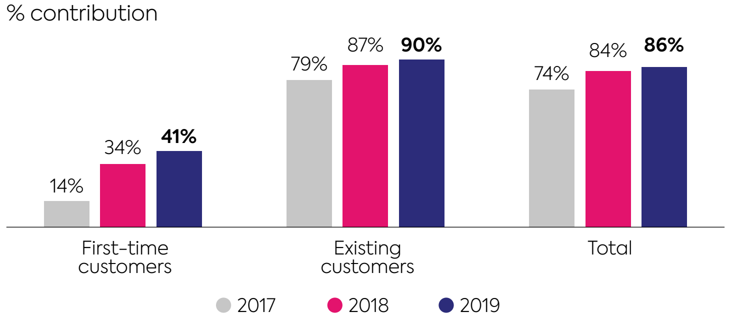
The sale of the debt review book is explained in more detail in the Finance Director's commentary on page 63.

We acquired 63 000 new customers in the year, a growth of 36.9%. New customers account for 15% of the R2.3 billion loan disbursements. 67% of these customers are from the Retail customer base. We have a wealth of data on them, so we know their credit behaviour and they therefore are lower risk. 37% of the new customers acquired were external to the group.

Finally, we had a pleasing increase in the utilisation of our MobiMoney product. This short-term credit facility account functions much like a mobi credit card. Customers can withdraw amounts up to their credit limits and choose from repayment terms of one, two or three months. 58% of our customer base now have an active MobiMoney account.

DIGITAL TRANSACTIONS

% contribution



You mentioned 36.9% (22 500) of new customers were from sources external to the group. **Can you elaborate on this?**

Yes. Previously Financial Services' new customers came solely from leveraging the Retail customer base, offering loans to their good-paying customers. Starting in 2015, we trialled sourcing external customers so that we could learn how to adjust our data collection and risk scorecards modelling to manage the potentially higher risk categories. We have gradually increased this contribution from 15% in 2017, 30% in 2018 and now to 36% in 2019.

In line with the group's credit risk strategy of "low and grow", the initial offer made to these externally sourced customers is at a lower maximum credit limit and a maximum term limit of six months in order to manage the intake risk for the book. This is evident as loans to these customers account for just 5% of the total disbursements of R2.3 billion.

This strategy has been successful for us so we will continue to acquire externally sourced customers. We have found them to be more digital savvy and comfortable with transacting with our digital platform. As these customers are generally sourced from digital affiliate sites via self-service, vetting processes are automated and acquisition costs are significantly reduced as we leverage our current platform, credit systems and know-how to incrementally expand our opportunities outside of the group base.

Disappointingly, one-off execution issues with our scorecards during the year resulted in some external customers being allocated higher limits than planned and some received increases to their credit limits too quickly in their credit life cycle. This resulted in a higher-than-expected bad debt write-offs on these accounts. Corrective action has been taken to address these issues and ensure that credit scorecards and limits are aligned with the risk profiles of these customers. For more detail on the debtor costs refer to the Finance Director's commentary on page 64.

Are you happy with the increase in digital transactions from 84% to 86% in 2019? **What are the key drivers behind this?**

Yes, digital continues to be a successful theme for the Financial Services business. Our customers are very comfortable dealing with our brand from their mobile phones. Digital is now well embedded in our business model and processes, from customer interactions through to our internal operational processes.

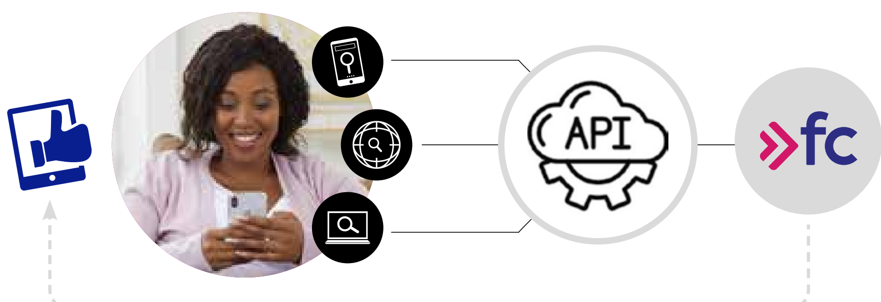
The key drivers. Firstly, customers registered on our digital platforms increased to 86% from 81% in 2018. As explained above, externally sourced new customers tend to be more comfortable transacting digitally and is reflected in the increase in registrations.

Secondly, the utilisation of the digital-only MobiMoney product has increased as more customers take advantage of their facility credit account using it as and when they need to access their available credit. Data usage for our mobi platform is free for customers across the major cellular networks, another advantage to use the digital platforms.

The MobiMoney facility is a foundational product for us on which we intend to develop and introduce additional "mobi-wallet" functionality. We have designed and built MobiMoney such that it can become an e-wallet product, enabling us to sell value-added services (VAS) on this platform.

What does excite me about the digital increase is our use of digital in the deployment of API (Application programming interface) technology to seamlessly integrate with affiliate websites to source new customers. Using APIs has enabled us to manage the information received from potential customers, process it through our vetting and credit risk management processes and then "send back" customers a personalised offer, tailored to meet her needs and manage our credit risk within our scorecard tolerances. This acquisition process has resulted in significantly improved customer take-up and conversion rates as our offers are dynamically curated for her.

We are currently integrating with five sites, successfully acquiring new customers with an end-to-end digital process. We will be applying this technology further into our business processes as it is a more positive customer experience, while being a cost-effective acquisition channel for digital-savvy customers to the group.



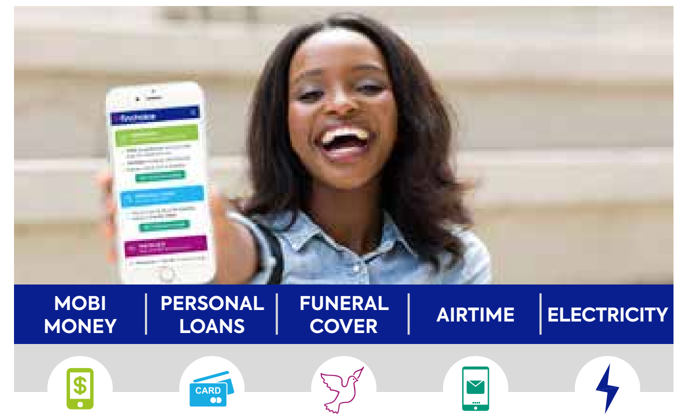
What are your plans to diversify into more non-interest-bearing revenue?

Currently our main thrust in the diversification strategy is the sale of stand-alone insurance products – insurance which is sold to customers regardless of whether they have a loan product with FinChoice or not.

To date our focus has been on growing our suite of funeral insurance products. We launched a further two products during the year, parent and extended family member funeral cover, completing the suite with personal and family cover. We achieved a 48% growth in gross written premiums for 2019 and expect good levels of growth as we continue to add relevant products to cater for our primarily female customer base. As at the end of December 2019 we have 61 000 active insurance customers.

The introduction of VAS is another element of the diversification strategy. This will always be a smaller element in the strategy. Currently we offer airtime, data and electricity services and will expand the range in 2020 onwards. By their very nature, fees earned from VAS are relatively low, but it provides customer convenience and drives more frequent digital customer engagement which we believe is beneficial to increase customer loyalty.

"Currently our main thrust in the diversification strategy is the sale of stand-alone insurance products.



Can you comment on the expansion of the Financial Services operations to Botswana and other countries?

The expansion to Botswana and other countries neighbouring South Africa is managed by the operations in Mauritius through FinChoice Africa. Lending is currently focused on Botswana, building the FinChoice brand off the coat-tails of the HomeChoice Retail base there. All transactions are digitally originated and fulfilled. Disbursements are currently less than 1% of total disbursements and limited to a maximum term of 12 months. The performance of the book is in line with expectations and in line with that experienced in South Africa.

In anticipation of the redomiciliation of HIL from Malta to Mauritius (as explained in the Chairman's report), operational capabilities to drive the Financial Services business from Mauritius have been ramped up during 2019 and will expand further in 2020. It is anticipated that the strategic direction of FinChoice Africa will drive the group's Financial Services business in its next phase of growth.

"The expansion in Botswana and other countries neighbouring South Africa is managed by the operations in Mauritius through FinChoice Africa.

Financial Services strategic initiatives

	2019 plans and focus areas		2019 achievements
Enhance the customer experience	Further reduction in customer journey times	✗	Improved site speed and journey times
	Continued improvements in digital funnel conversion rates	✓	Specialised digital agent team salvaging mobi funnel drop-offs
	Additional self-service options introduced	✗	Added electricity token purchase capability Online chat capability
Curated product and credit offer	Broaden MobiMoney e-wallet functionality	✗	
	Grow insurance suite to drive premiums	✓	Added two new funeral products to suite Insurance premiums +48%
	Reduce or maintain shorter-term mix	✓	Terms reduced from 19.7 to 19.4 months, driving improved cash yield
	Drive improvement in cash yield from book	✓	
Insight-led customer growth	Launch brand refresh towards female-centric positioning	✓	Brand relaunch well received
	Drive personalisation of product offers through data and machine learning	✓	New API service accessing five affinity websites with increase in conversion rates, due to personalised offers
	Continue penetration of Retail customers	✓	
	Manage shift to external acquisition through targeted digital channels	✓	
Mobi-first engagement and sales	Revamp mobi front-end design for improved user experience	✓	Revamp still ongoing
	Introduce mobi App	✗	Delayed to 2020
	Continue replatforming of systems to more agile services-orientated, cloud-ready architecture	✓	Capital expenditure focused on technology
	Explore digital loyalty programme	✓	Delayed to 2020
Expand new markets and services	Continue to grow FinChoice Africa business	✓	FinChoice Africa business growing in line with targets
	Steadily ramp up Botswana operations	✓	Botswana operations slower than expected
	Introduce additional personal insurance products	✓	Parent cover and extended family protection funeral policies launched
	Include Financial Services' presence in Retail showrooms and ChoiceCollect containers	✓	Financial Services in all showrooms and piloted in limited ChoiceCollect containers

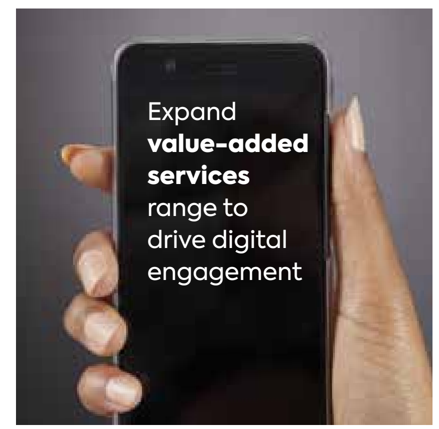
✓ achieved
✗ partially/not achieved

WHAT ARE YOUR KEY FOCUS AREAS FOR 2020 ONWARDS?

Accelerate product development and functionality of our **FinTech platform**, particularly leveraging the MobiMoney e-wallet functionality

Launch smartphone App

Migrate contact centre from voice only to hybrid voice-chat-digital



Scale the Botswana operations, developing a more meaningful presence and start to generate more revenue outside South Africa

GOVERNANCE

DIRECTORS

International board

CHAIRMAN

Stanley Portelli

Independent non-executive director

Amanda Chorn

Independent non-executive director

Pierre Joubert

Independent non-executive director

Robert Hain

Independent non-executive director

Charles Rapa

Independent non-executive director

Eduardo Gutierrez-Garcia

Non-executive director

Adefolarin Ogunsanya

Alternate non-executive director for Eduardo Gutierrez-Garcia

GROUP CHIEF EXECUTIVE OFFICER

Gregoire Lartigue

Executive director

GROUP CHIEF EXECUTIVE OFFICER – SOUTH AFRICA

Shirley Maltz

Executive director

FINANCE DIRECTOR

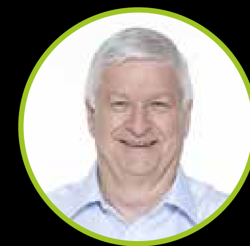
Paul Burnett

Executive director

Nominations committee | Remuneration committee | Audit and risk committee | Social and ethics committee | Chairman

South Africa board

CHAIRMAN



John Bester

Independent non-executive director

Nkosinathi Solomon

Independent non-executive director

GROUP CHIEF EXECUTIVE OFFICER – SOUTH AFRICA

Shirley Maltz

Executive director

CHIEF EXECUTIVE OFFICER – RETAIL

Leanne Buckham

Executive director

CHIEF EXECUTIVE OFFICER – FINANCIAL SERVICES

Sean Wibberley

Executive director

Mauritius board

CHAIRMAN

Roderick Phillips

Independent non-executive director

Paul Burnett

Executive director – Finance

Nominations committee | Remuneration committee | Audit and risk committee | Social and ethics committee | Chairman

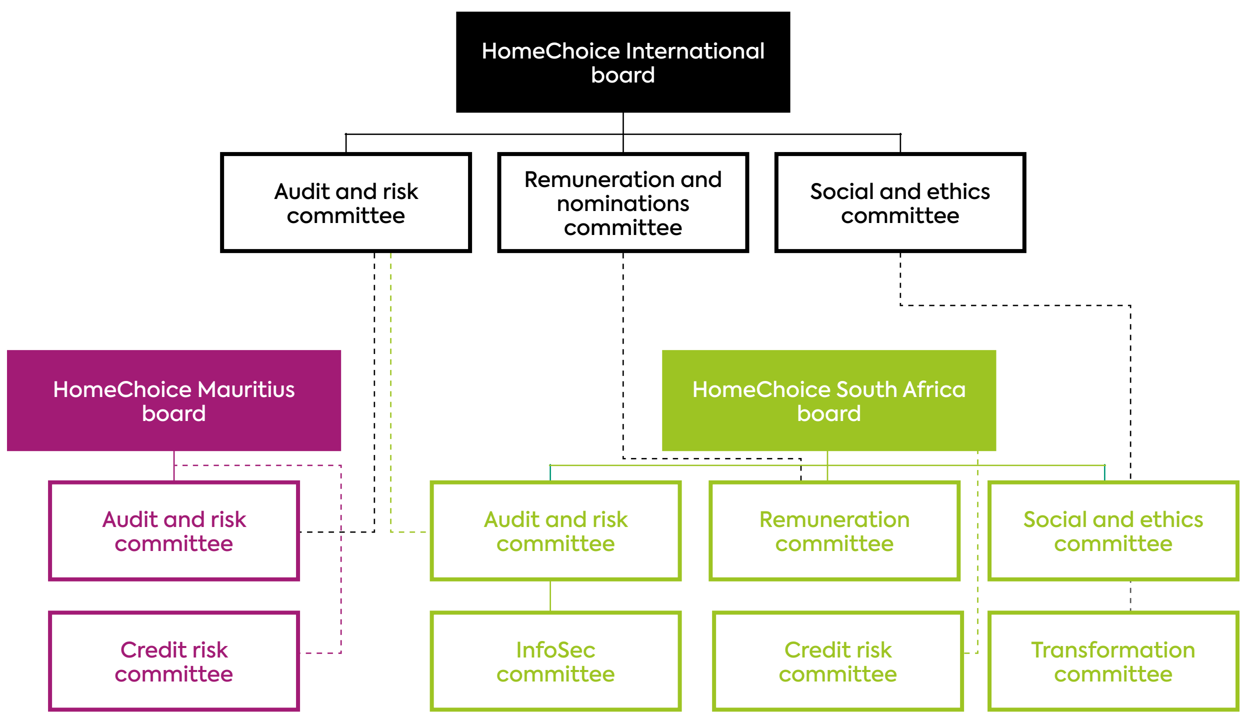
GOVERNANCE REPORT

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 below:



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

The board, in its capacity as the custodian of governance, leads the company ethically and effectively towards the goal of improving the trust and confidence of stakeholders. At the end of 2018 the HIL board reviewed the board structure of the South African and Mauritius operations in order to bolster the appropriate diversity, skills and expertise to manage and provide oversight for the operations. Each subsidiary appointed independent non-executive directors to provide effective oversight of the value-creation process for all stakeholders.

In 2019 the board continued to spend a great deal of time reflecting how best to structure its membership given the challenges facing the retail industry and the group's digital transformation strategy. Rick, founder of the group, stepped down as non-executive director with effect from 31 December 2019. The board would like to take this opportunity to thank Rick for his extensive contribution and is pleased to confirm that he will continue to act as an adviser to the group.

The board agreed the appointment of an independent non-executive director, Pierre Joubert. Whilst the appointment of Pierre does not achieve the outcomes set out in the board race and gender diversity policies, the company maintains its view that the skills set and experience offered by Pierre is appropriate for the group.

As the Mauritian operations are scaling and will continue to grow, the board agreed to redomicile HIL from Malta to Mauritius. Shareholders approved the redomiciliation on 27 August 2019 which will take effect during the first half of 2020 with the composition of the board being reviewed during this process. In conjunction with the nominations committee, the board will focus on expanding and strengthening its collective skills set while giving effect to the board race and gender diversity policies.

The HIL board and its committees have delegated the oversight relating to the implementation of group policies to the subsidiary operating boards. As the major part of the group's operations are in South Africa, group policies are prepared based on significant input from the SA 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, 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 three strategy sessions wherein targets, forecasting and strategy were rigorously discussed. These strategies were then presented by senior management to the board and, after much deliberation, approved by them.

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 the re-election after due consideration is given to the directors' attendance at meetings and their performance.

Board evaluations

In line with the company's policy, board and committee assessments are conducted biennially. During the year the board and its committees conducted an internal evaluation process. The results indicated that the performance of the board and committees were considered as being satisfactory to strong. Certain areas were highlighted for improvement for which an action plan around these concerns were put together.

Board composition, independence and conflict of interest

As at 31 December 2019 the board comprises five 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 directors recuse themselves when there is a perceived or actual conflict of interest.

HomeChoice International

MEMBERS

5 independent non-executive directors
1 non-independent non-executive director
1 alternate non-executive director
3 executive directors

MEETINGS

4

ATTENDANCE

95%

GENDER: Female 20% | Male 80%

RACE: Black 10% | White 90%

Target 30%

OTHER INVITEES

Divisional CEOs, SA finance officer

BOARD SKILLS AND EXPERIENCE

FINANCIAL SERVICES	**73%**
RETAIL	**45%**
BUSINESS LEADERSHIP	**100%**
FINANCIAL	**91%**
GOVERNANCE	**64%**

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

- Approved the three-year strategy with specific focus on diversifying income streams, improving cash generation, replatforming and operationalising new technology platforms
- Approved three-year funding strategies
- In the year under review the board spent a great deal of time reflecting on how best to manage and mitigate the strategic risks within the approved strategy. The risks included the volatile economic climate driving a slowdown in consumer confidence, the Rand/US Dollar volatility, susceptibility of the South African Post Office to industrial strike action and the increasing complexity of the regulatory environment
- Approving the payment of the final and interim dividends
- Recommending for shareholder approval the redomiciliation of HIL from Malta to Mauritius
- Reflecting how best to structure the board membership; resulting in the retirement of Rick Garratt, non-executive director, and the appointment of Pierre Joubert as an independent non-executive director
- The board reviewed its non-achievement of its gender and race diversity targets. The board is committed to achieve the targets. However, the board maintains its view that the company benefits from the depth of understanding of the business that a stable board that includes long-serving non-executive directors. The policies will, however, be given affect during the review of the board as a result of the redomiciliation process of HIL to 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 be increased to a maximum of $40 000 per annum.

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%

GENDER: Female 40% | Male 60%

RACE: Black 20% | White 80%

Target 30%

OTHER INVITEES

SA finance officer

HomeChoice Mauritius

MEMBERS

1 independent non-executive directors
1 executive director

MEETINGS

4

ATTENDANCE

100%

GENDER: Male 100%

RACE: White 100%

Target 30%

OTHER INVITEES

–

The independent non-executive directors come from diverse backgrounds in commerce, service and retail and have both South African and international experience. Their collective experience 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 challenges facing the retail industry in the year under review
- Approving the three-year and 2020 strategy, including but not limited to:
  - approving the budget and refinancing strategy;
  - channel expansion of showrooms and ChoiceCollect containers;
  - broadening insurance product and value-added services; and
  - enhancing the customer experience by implementing new technology platforms
- Reviewing 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
- Approving non-executive director fees for approval by HIL

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

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.

HomeChoice International

MEMBERS
3 independent non-executive directors

MEETINGS
3

ATTENDANCE
89%

OTHER INVITEES
SA finance officer, group finance director, 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
83%

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 director
1 executive director

MEETINGS
2

ATTENDANCE
100%

OTHER INVITEES
External auditors

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

- External auditors
  - 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
  - The reporting framework as guided by IFRS was applied for the 2019 financial year with specific focus on the implementation of new IFRS 16 leasing standard. In doing so the committee carefully assessed its assumptions, specifically relating to renewal periods, discount rate and impaired indicators, and were found to be within reasonable range
  - 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
  - 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.

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

Our committees (continued)

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.

HomeChoice International

MEMBERS
2 independent non-executive directors
1 non-independent non-executive director

MEETINGS
2

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

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

- Remuneration
  - The introduction of cash yield as an additional financial performance indicator for the short-term performance scheme will more closely align reward with operational and financial performance
  - Above-inflation adjustments were approved for the remuneration package of the group CEO – South Africa to reflect the responsibilities held in the group and in line with benchmarking
  - Approved the targets and performance conditions for the 2019 short-term bonus scheme
  - The trigger performance conditions for the 2019 short-term performance bonus was not achieved and the scheme did not qualify for payments
  - The disclosure of both executive directors' and non-executive directors' remuneration is in accordance with King IV and IFRS
- Nominations
  - Approved the appointment of Pierre Joubert (independent non-executive director) given the skills and expertise he will add to the board
  - Noted the retirement of Rick Garratt from the board
  - Noted the HIL board gender and race policies and medium-term targets provide stretch to progress transformation
  - Composition, charter and membership of the board committee members are effective for the requirements of the three group sub-committees
  - The group is supported by the company secretary, George Saïd, 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 committee are appropriately qualified and experienced

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.

HomeChoice International

MEMBERS
1 independent non-executive director
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

* *Recused from discussions impacting executive directors.*

HomeChoice South Africa

MEMBERS
2 independent non-executive directors
1 executive director

MEETINGS
4

ATTENDANCE
91.5%

OTHER INVITEES
Divisional CEOs
Human resource executive
Legal and B-BBEE personnel
Head of customer experience

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

- Transformation
  - The B-BBEE strategy and 2020 targets were reviewed and clear guidelines were redefined for each of the five pillars of the B-BBEE scorecard
  - The accreditation of the group's learnership programme to upskill existing employees and provide employment for unemployed individuals
- 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 loadshedding mitigation plan to ensure that the South African operations and, in particular, its contact centre, is capable of operating during loadshedding 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
- 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. Ten 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.

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 30 years of experience and knowledge of the mass market customer in determining which customers are most likely to be able to service their debt.

Investment in technology

The group 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.

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

RETAIL

homechoice
for the home you love

Interest-free	Revolving credit		Instalment credit
3 months	Flexi 3, 6, 12, 16 months	Advantage 24, 36 months	24, 36 months

OPERATIONAL METRICS

	2019	2018
Applications accepted	73.5%	68.3%
Not taken up	2.3%	2.8%
CUSTOMER MIX		
Existing	75%	73%
New	25%	27%
Average term	18.8	18.3
Average balance	R4 349	R3 577

FINANCIAL SERVICES

finchoice
for when you need it

Revolving credit	Short-term credit	Unsecured credit
MobiMoney 1 - 3 months	Flexi loan 6 months	Premier loan 12, 24, 36 months

OPERATIONAL METRICS

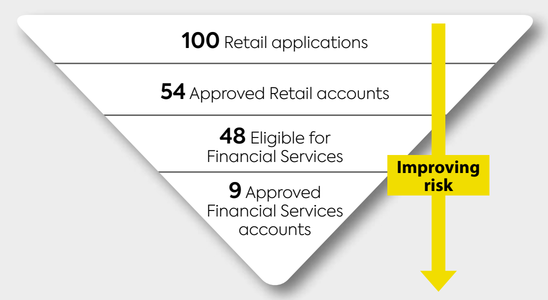
	2019	2018
Applications accepted	91.4%	90.9%
Not taken up	2.3%	2.9%
DISBURSEMENT MIX		
Repeat loans	85%	84%
New loans	15%	16%
Average term	19.4	19.7
Average balance	R8 628	R9 474

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 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 at an operating subsidiary level and meet on a quarterly basis. 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 and limited Instalment options. A three-month interest-free account is available and primarily used by customers to purchase lower-value products.

The Advantage and Instalment 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.

Retail has introduced a Fresh-Start customer acquisition programme aimed at customers who typically would not have qualified for credit due to higher risk profiles. These customers receive a very low, entry-level limit which is increased once they have proven payment behaviour.

Financial Services

Loan products are chiefly 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 2019 37% of Financial Services' customers were externally sourced. Stricter credit policies are applied to external customers as the available data is not as rich or extensive as the Retail customers. Higher credit thresholds, lower maximum credit limits and a maximum term limit 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

In line with the South African credit regulations, the group applies the NCA affordability assessment regulations during the vetting process. Additional affordability criteria based on in-house developed scorecards are also used in the vetting process. 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

- 75%+ Existing customers' credit approved in 15 minutes
- 50%+ New accounts opened in 24 hours

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.

The number of applications approved in Retail has increased from 68% to 74% as a result of these tools.

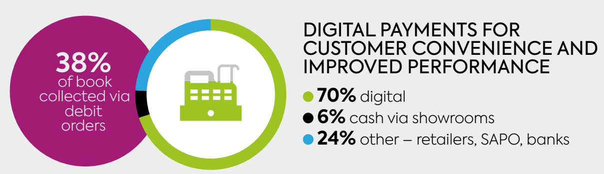
Collections

Our in-house collections team is predominantly focused on the Retail business as all Financial Services loan repayments are fulfilled by debit order payments. 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, SAPO 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



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.

The group sold a debt review book valued at R220 million in the first half of the 2019 financial year. Further details are provided on page 63.

Credit risk management

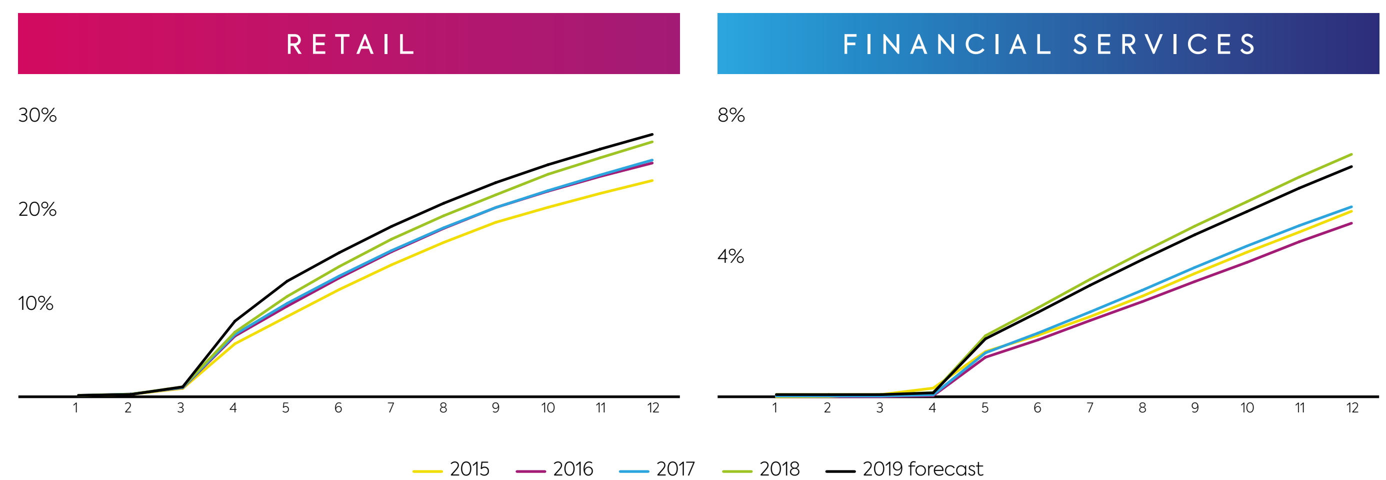
The group maintains conservative debtors' impairment provisions which are determined and regularly reviewed during the year.

Debtor provision balances

	Group Rm	Retail Rm	Financial Services Rm
1 January 2018	614	384	227
Movement in provisions	–	(25)	25
31 December 2018	614	359	252
Sale of debt review book	**(124)**	**(29)**	**(95)**
Movement in provisions	**133**	**36**	**97**
31 December 2019	**620**	**366**	**254**

VINTAGES BY YEAR

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



For more detail on the credit performance during 2019, refer to the Finance Director's commentary on pages 62 to 64.

REMUNERATION **REPORT**

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

The primary focus of the committee during 2019 was consideration of the challenging trading conditions in South Africa and the poor liquidity of the company's shares on the effective implementation of the remuneration policy.

The South African retail trading environment has and is currently experiencing a challenging period with general low consumer confidence, constrained consumer spending and a general phase of low economic growth resulting in companies reducing investments and cutting expenditure to protect shareholder returns.

The committee's deliberations were also framed by the non-materialisation of the short-term performance bonus scheme for the past two years and the impact of poor liquidity on the share schemes. This could lead to the resignation of employees and impact the retention of key individuals.

The committee discussed the following key matters during the year:

Executive directors' remuneration

- A detailed benchmarking exercise, utilising data from independent external consultants, was conducted on the remuneration structure and guaranteed pay for executive directors and senior executives in the group.

  The increases were in line with guidelines and key executives were awarded increases marginally above inflation to manage potential retention risks.

  An above-inflation increase was awarded to the group CEO – South Africa in line with the benchmarking data.

Short-term performance bonus scheme

2019 financial year

- The committee approved the group and divisional financial and non-financial performance targets and trigger for the 2019 short-term bonus scheme.
- In addition, the group's 2019 performance against the approved targets was reviewed.

As discussed in the group FD's report, the financial performance of the group fell short of expectations. Group EBITDA of R766 million (82% of target) was achieved for 2019, therefore below the gatekeeper threshold of 95%. Consequently, the short-term performance bonus scheme for the year did not vest and no bonuses were awarded to executive directors and corporate office employees.

2020 financial year

Given the economic and trading background explained above, the committee approved the following changes to the short-term performance bonus scheme for 2020:

- Profit before tax (PBT) and segmental operating profit would replace EBITDA as the profit target as EBITDA was no longer an appropriate measure to use given the introduction of IFRS 16
- The removal of the EBITDA gatekeeper for all levels of employees
- Cash management defined as cash yield %
- Payment of bonuses apply the principles of threshold, on-target and stretch targets

The approved weighting and measures for the 2020 financial year for executive directors and divisional CEOs are:

	Measure *Financial*	Measure *Non-financial*	Weighting	Details/Definition
Group	PBT		40%	Threshold, on-target and stretch targets applied
Division	Segmental operating profit		30%	Threshold, on-target and stretch targets applied
	Cash management		10%	Cash yield %
Individual performance		Based on key performance areas (KPA)	20%	KPA aligned with the strategic focus areas of the group

Long-term share incentive schemes

- 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 2019.
- The vesting of the share options allocated in 2015 were agreed. As the participants were still in the employ of the group, all vesting conditions were satisfied.

Non-executive directors' fees

- The appointment of Pierre Joubert as an independent non-executive director was discussed by the nominations committee. Due consideration was given to the board's race and gender diversity policies in recommending Pierre's appointment and they felt that the experience and independence offered by Pierre was appropriate.
- The committee also agreed to request approval from shareholders at the next annual general meeting for non-executive director fees up to a maximum amount of $40 000 per annum, so as to enable the company to attract and retain directors with the requisite experience and skills.
- The committee discussed and recommended to the board the non-executive directors' fees for the 2021 financial year. Given the redomiciliation to Mauritius, the committee recommended that the fees should be denominated in US Dollars.

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

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

Shareholder voting

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

2018 AGM voting approval	
Non-executive directors' remuneration	95.86%
Remuneration report	95.86%
Implementation report	95.86%

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

SUMMARY REMUNERATION REPORT

For financial year ending 31 December 2019

DESCRIPTION	METRIC	ACHIEVED FOR 2019 FINANCIAL YEAR Executive directors	Corporate office	Operations
Guaranteed pay (GP)		**3**	**376**	**1 597**
Salary is based on competitive market value and adjusted in accordance with performance and contribution	• CPI • Market conditions • Peer benchmarking	Remuneration committee agreed an inflationary-linked increase to GP. Additional adjustments were made to manage potential retention risks.		Operations staff received an increase in line with inflation.
Short-term performance variable remuneration (STI)				
Short-term performance bonus scheme		**3**	**381**	**1 476**
One-year performance period Group EBITDA acts as gatekeeper Divisional performance conditions: • 70% financial • 30% non-financial	Group EBITDA Divisional: • EBITDA • Cash • Strategic focus areas	No payments made Group EBITDA trigger not achieved. No bonuses awarded.	No payments made	n/a
COMMISSION SCHEME Specific periods – generally one month Performance conditions: • Operational targets for customer-facing and distribution operations staff	Retail sales Loan disbursements Debtor collections Despatches Productivity measures	n/a		R61.8 million Payment based on achievement of operational targets.
Long-term performance variable remuneration (LTI)				
Employee Share Option Scheme (ESOS) Number of employees on scheme/entitled to allocations		**2**	**31**	**n/a**
Four-year period Forfeiture on resignation	PAT (applicable to 2018 allocations onwards)	2015 allocations: 100% vesting	2015 allocations: 100% vesting	
Forfeiture Share Plan (FSP) Number of employees on scheme/entitled to allocations				**n/a**
Four-year period Participants entitled to receive dividends during vesting period	PAT (applicable to 2018 allocations onwards)	No allocations available for vesting	No allocations available for vesting	

2 SECTION 2: Remuneration policy

The group recognises that employees are critical in meeting business objectives and contributing to the sustainability of the business.

The group's Remuneration policy is aimed at ensuring that the group attracts, motivates and retains exceptional talent, drives a high-performance culture which is closely aligned with the group's business objectives and strategy, and achieves the following objectives:

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

Components of remuneration

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

The monetary remuneration structure is made up of three components:

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

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

- executives – includes executive directors and senior executives in operating companies;
- corporate office – primarily employees who are based in head office; and
- operations – employees in the 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

Executive remuneration structure

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

The details of each component of the remuneration structure applicable for the 2020 financial year are shown in the tables below.

Guaranteed pay

	Executives	Corporate office	Operations
RATIONALE	Salary is based on competitive market value and adjusted in accordance with performance and contribution. A market-related suite of benefits is made available, which is included in the cost-to-company basis.		
BASIC SALARY	Reviewed annually, benchmarked against the market and assessed against prevailing economic metrics in relevant geographies. Annual increases are granted on 1 March.		
Benefits:			
PROVIDENT FUND	Defined contribution provident fund is compulsory for all South African employees. Employees have the flexibility to elect from 6% to 20% of pensionable salary. 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.		
CONTRACTS AND NOTICE PERIODS	The notice period is three months for executives. Key executives have contracts that include restraint of trade conditions. No agreements provide for ex-gratia or other lump sum payments on retirement or severance from the group.	Market-related norms.	

Commission schemes

Operational staff participate in commission schemes dependent on their roles

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. In addition, certain categories of staff in the distribution centres earn commission based on productivity and despatch targets.

RATIONALE	PARTICIPANTS	PERFORMANCE PERIOD	PERFORMANCE CONDITIONS
Drive and reward performance against critical operational targets	Customer-facing employees Category of distribution centre staff	Monthly	Sales Loan disbursements Credit collections Despatches Productivity
ALLOCATIONS			**OTHER**
Formulaic driven dependent on commission scheme			Payments made monthly in cash.

Short-term variable remuneration

Available to all directors and corporate office

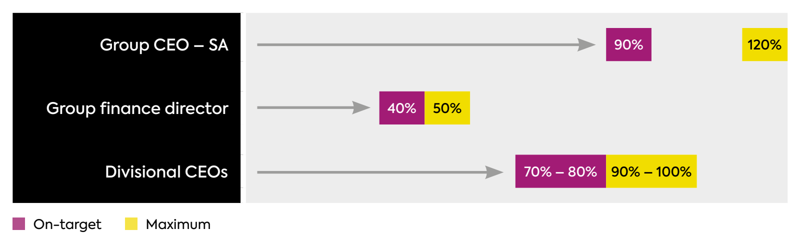
Short-term performance bonus scheme

The short-term performance bonus is based on one-year performance measures which include both financial and non-financial metrics.

Group EBITDA acts as the gatekeeper for the qualification of short-term performance bonus payments to be made. The gatekeeper is 95% of group EBITDA performance. The performance bonus scheme is guided by the principle of "line of sight", therefore divisional executives are also required to achieve an additional gatekeeper trigger of 95% targeted divisional EBITDA in order to participate in the bonus scheme. The bonus pool is calculated in relation to group EBITDA. Individual performance determines the respective allocations from the pool. The allocations for the categories are depicted below, with further details provided in the table.

RATIONALE	PARTICIPANTS	PERFORMANCE PERIOD	PERFORMANCE CONDITIONS
Rewards performance for short-term financial and non-financial performance. Non-financial metrics are aligned to the five strategic focus areas.	• Executives • Senior executives • Management	One year	Threshold performance Group PBT: 40% Divisional metrics: • Operating profit: 30% • Cash: 10% Individual performance: 20%

ALLOCATIONS



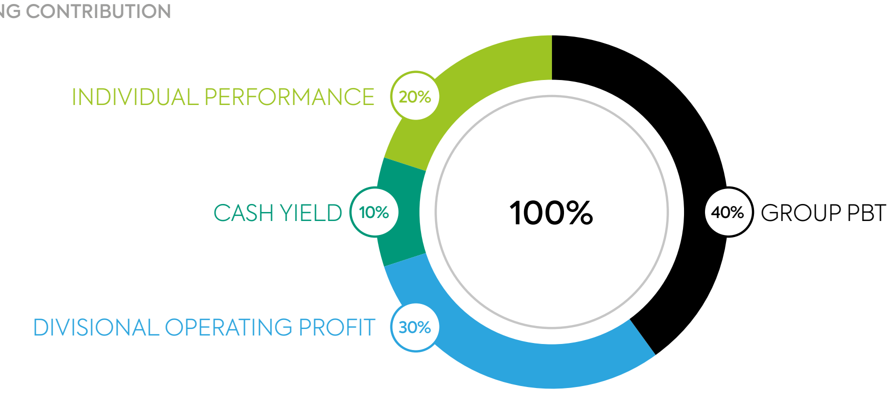
OTHER

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



Long-term variable remuneration

The group has two operational 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: Profit after tax growth > CPIX +3% compounded annually. No threshold or stretch target

OTHER: Targets agreed annually. Performance conditions applied to 2018 allocations onwards. Forfeiture on resignation.

PARTICIPANTS: Senior employees and key and critical roles

ALLOCATIONS: Dependent on Paterson grading levels. Expected % of guaranteed pay at vesting date range:

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: Profit after tax growth > CPIX +3% compounded annually. No threshold or stretch target

OTHER: Targets agreed annually. Participants are entitled to receive dividends and have voting rights. Shares are held in escrow until the vesting date. Performance conditions applied to 2018 allocations onwards.

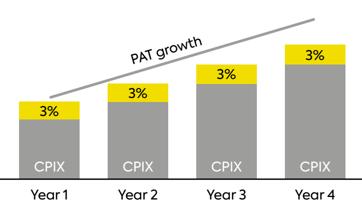
PARTICIPANTS: Executive directors and executives

ALLOCATIONS: Expected % of guaranteed pay at vesting date:

Group CEO – SA	90%
Group finance director	40%
Divisional CEOs	70% – 80%

PERFORMANCE CONDITION

PAT growth > CPIX + 3% pa



Shares available for long-term incentive schemes

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

The number of shares available to use for the long-term incentive schemes as at 31 December 2019 is 12 327 950. This represents 11.8% of the issued share capital.

3 SECTION 3: Implementation of Remuneration policy

The implementation of the Remuneration policy for the 2019 financial year is shown below.

Executive remuneration

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

Guaranteed pay

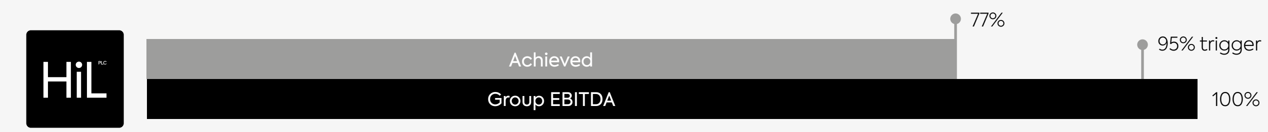
The remuneration committee agreed a 4% inflationary-linked increase to guaranteed pay. An additional 2% was allocated to manage the risk of retention explained earlier.

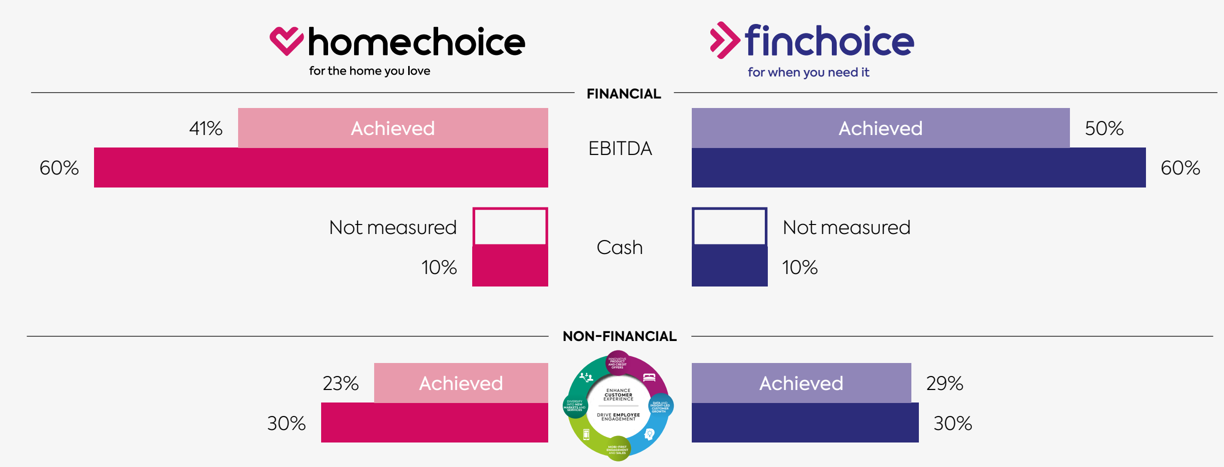
Executive directors' increase (based on constant currency) is 5.8%.

Short-term variable remuneration

Short-term performance bonus scheme

As discussed in the remuneration committee's chairman's report, the actual group EBITDA achieved was 77%, below the 95% gatekeeper trigger. The scheme therefore did not vest and no bonuses were paid.





Commission schemes

Operational staff earned R61.8 million in monthly commission payments during 2019.

COMMISSION EARNED AS % OF AVERAGE GP

Long-term variable remuneration

2015 allocations tested in 2019

Employee Share Option Scheme

The vesting of the 2015 allocations was agreed for all participants still in the employ of the group at the vesting date. There were no additional vesting requirements. The details of the vestings are shown below.

	Number	Value at vesting
Executive directors		
Group CEO – South Africa	**40 500**	**R0.2 mill**
Group FD	**12 000**	**R0.1 mill**
Divisional directors and senior management	**108 000**	**R0.6 mill**

Forfeiture Share Plan

No allocations were made in 2015. The scheme was introduced from 2017.

2019 allocations

In line with the Remuneration policy, the 2019 allocations are required to meet the performance condition, being profit after tax to exceed CPIX +3% compounded annually. Testing will be performed after the four-year performance period ending 31 December 2023.

Employee Share Option Scheme

The remuneration committee approved annual rolling allocations from the ESOS scheme. 259 600 options were approved to 71 participants.

	Number	Value at grant date
Executive directors	**–**	**–**
Group CEO – South Africa	–	–
Group FD	–	–
Senior management	**259 600**	**R9.1 mill**

Forfeiture Share Plan

The remuneration committee approved annual rolling allocations from the FSP scheme. 466 200 shares were allocated to 13 participants made as follows:

	Number	Value at grant date
Executive directors	**140 000**	**R5.4 mill**
Group CEO – South Africa	120 000	R4.6 mill
Group FD	20 000	R0.8 mill
Senior management	**326 200**	**R12.4 mill**

Non-executive directors' remuneration policy

The table below sets out the Remuneration policy applicable for the 2020 financial year. As a result of the redomiciliation non-executive directors' fees will be denominated in US Dollars.

COMPONENT	DETAILS
RATIONALE	Market-related fees to attract and retain non-executive directors.
FEES	The non-executive directors receive fees for their services on the board and participation on the board committees. Fees are determined in US Dollars and may be paid in an alternative currency dependent on the country of residence. The fees recognise the responsibilities of non-executives to provide their expertise throughout the year on an ongoing basis and, therefore, a per meeting fee or per committee fee has not been adopted. Non-executive directors who perform a similar role for the main operating subsidiaries may be remunerated for those functions. Fees are proposed by executive directors and discussed by the remuneration committee. The remuneration committee recommends the fees to the board for final approval by shareholders.
CONTRACTS	Non-executive directors do not have service contracts with the company but receive letters of appointment. 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 do not receive any payments linked to organisational performance, nor are they entitled to participate in the long-term share incentive schemes.

The policies form the underlying basis for the fees tabled for shareholder approval.

The committee agreed to propose a maximum annual fee of US Dollars 40 000 per non-executive director to be tabled for shareholder approval.

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. The board approved a fee of a maximum of US Dollars 40 000 per annum for the financial year ended 31 December 2021.
CONTRACTS	Rick Garratt had a consultancy agreement with the South African operating company and was remunerated for services and related benefits provided in terms of the agreement.
OTHER	No non-executive directors received any payments linked to the group's performance nor did any participate in the long-term share option incentive schemes.

The committee is satisfied that the remuneration for 2019 has been applied in accordance with the Remuneration policy.

Directors' remuneration and shareholding

The remuneration and benefits paid to each director and directors' shareholding in the share incentive schemes 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
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**
Amanda Chorn		**126**	**186**	**–**	**–**	**–**	**–**	**–**	**–**	**312**
Richard Garratt	4	**126**	**6 895**	**–**	**–**	**–**	**–**	**–**	**–**	**7 021**
Eduardo Gutierrez-Garcia	5	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Robert Hain		**126**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**126**
Pierre Joubert	6	**361**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**361**
Charles Rapa		**141**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**141**
		1 054	**7 081**	**–**	**–**	**–**	**–**	**–**	**–**	**8 135**
Total		**1 054**	**7 081**	**6 485**	**1 257**	**7 742**	**–**	**336**	**542**	**16 755**
2018										
Executive directors										
Gregoire Lartigue		–	–	329	–	329	–	–	–	329
Shirley Maltz		–	–	3 969	397	4 366	–	3 056	306	7 728
Paul Burnett		–	–	1 674	628	2 302	–	–	41	2 343
		–	–	5 972	1 025	6 997	–	3 056	347	10 400
Non-executive directors										
Stanley Portelli		164	–	–	–	–	–	–	–	164
Amanda Chorn		113	179	–	–	–	–	–	–	292
Richard Garratt	4	113	8 992	–	–	–	–	–	–	9 105
Eduardo Gutierrez-Garcia	5	–	–	–	–	–	–	–	–	–
Robert Hain		113	–	–	–	–	–	–	–	113
Charles Rapa		133	–	–	–	–	–	–	–	133
		636	9 171	–	–	–	–	–	–	9 807
Total		636	9 171	5 972	1 025	6 997	–	3 056	347	20 207

Notes

1. *Benefits include retirement fund contributions and benefits appropriate to expatriate staff employed in Mauritius operations.*
2. *Fair value of share scheme awards at taxable value on vesting date.*
3. *Gross value of dividends received on unvested FSP shares.*
4. *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.*
5. *Eduardo Gutierrez, as a representative of ADP II Holdings 3 Limited on the HIL board, does not earn any directors' fees.*
6. *Pierre Joubert was appointed to the board on 10 May 2019. He is a member of the audit and risk committee.*

					As at 31 December 2018		Awarded in 2019		Sold during 2019			As at 31 December 2019		
	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 June 2012	23 June 2016	31 March 2024	195 000	10.64			**15 905**	**10.00**	**159 050**	**179 095**		
	ESOS	27 Aug 2013	27 Aug 2017	31 March 2024	50 000	11.00						**50 000**		
	ESOS	31 March 2014	31 March 2018	31 March 2024	100 000	14.44						**100 000**		
	ESOS	20 March 2015	20 March 2019	20 March 2025	40 500	33.70						**40 500**		
	ESOS	1 May 2016	1 May 2020	1 May 2026	52 000	28.00							**52 000**	**468 000**
					437 500				**15 905**		**159 050**	**369 595**	**52 000**	**468 000**
	FSP	4 May 2017	4 May 2021	4 May 2021	150 000	36.25							**150 000**	**5 550 000**
	FSP	23 October 2018	31 March 2022	31 March 2022	48 300	38.00							**48 300**	**1 787 100**
	FSP	4 April 2019	31 March 2023	31 March 2023			**120 000**	**38.00**					**120 000**	**4 440 000**
					198 300		**120 000**						**318 300**	**11 777 100**
					635 800		**120 000**		**15 905**		**159 050**	**369 595**	**370 300**	**12 245 100**
Paul Burnett	ESOS	20 March 2015	20 March 2019	20 March 2025	12 000	33.70						**12 000**		
	ESOS	1 May 2016	1 May 2020	1 May 2026	12 000	28.00							**12 000**	**108 000**
					24 000							**12 000**	**12 000**	**108 000**
	FSP	4 May 2017	4 May 2021	4 May 2021	20 000	36.25							**20 000**	**740 000**
	FSP	23 October 2018	31 March 2022	31 March 2022	7 500	38.00							**7 500**	**277 500**
	FSP	4 April 2019	31 March 2023	31 March 2023			**20 000**	**38.00**					**20 000**	**740 000**
					27 500		**20 000**						**47 500**	**1 757 500**
					51 500		**20 000**					**12 000**	**59 500**	**1 865 500**

[1] *Realisation value is calculated as being the taxable benefit of the sale.*
[2] *Fair value is calculated using a 30-day VWAP at 31 December 2019 of R37.00 and assumes a 100% vesting probability for all unvested awards.*

SOCIAL AND ETHICS **COMMITTEE REPORT**

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

Refer to page 87 for details on committee membership and activities.

Our B-BBEE scorecard

Our B-BBEE status level for 2019 is non-compliant. However, the business, in conjunction with our external service provider, has developed a comprehensive plan to improve our level to be compliant.

Business owners have been identified for each of the five scorecard elements and will be responsible to drive the plans within their areas of responsibility and influence. We have set a medium-term target to be level 8.

Our people

Our total employment complement of more than 1 900 employees is reflective of our target market, with 92% of our employees from historically disadvantaged groups.

Pleasing progress was achieved in the transformation of senior management during 2019, with close to a third of management now comprising designated individuals (30%, up from 27% in 2018) and middle management has improved to 38%. This progress is, in no small measure, the successful outcome of development programmes implemented within the organisation, bursary awards that make further studies more affordable for our staff, and our learnership programme that increases skills levels in the economy.

The learnership programme currently provides 15 unemployed youths with the opportunity to attain an NQF 4 National Certificate in Contact Centre qualification. A further 50 registered learnerships were actioned this year, up from 15 in 2018 and with an aim to increase to 100 in 2020.

Aligned with our digital transformation strategy for our customers, we are also digitalising internal processes. Online training modules were made available from 2018, with 46% of operations training and 85% of specialist training being conducted online, at the convenience of the employee. More than 34 000 learning interventions were offered to our 1 900+ employees during the year.

Our wellness programme, ChoiceCare, launched on-site counselling services to support employees on matters related to stress, anxiety, depression and other mental health issues.

homechoice development trust

Our community – corporate social investment

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

During the year, R4.1 million was donated for the benefit of early childhood development. Since inception the HCDT has donated just over R35.7 million to beneficiaries assisting more than 27 000 children under the age of six to receive a quality start to education.

HomeChoice, in partnership with the Gary Kirsten foundation, has co-funded, through donations of R4.6 million, to build a cricket centre at the Chris Hani Secondary School in Khayelitsha. This cricket centre will enable the township schools to have sporting facilities for community use.

Refer to pages 38 to 41 for further details on the HCDT.

Our suppliers

Our supplier and enterprise development (SED) programme 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 (ISPs) who are an integral part of our logistics network delivering customers' orders directly 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 ISPs to manage their businesses effectively (learning and development plan and budget)
  - Ensuring sustainable growth of our ISPs by establishing hubs around the country to ensure an even and consistent flow of delivery
- Independent ChoiceCollect providers (ICPs) who are in partnership with the group to provide operational support for our newly introduced ChoiceCollect containers
  - Provide finance to our ICPs, by way of interest-free loans, to assist them in starting up their service and delivery management business in township areas

Loans and other related assistance to ISPs and ICPs amount to R1.8 million with 22 small businesses benefiting from them.

- 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
  - R13.4 million was earned by them in 2019

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 2019 financial year was to ensure 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 loadshedding mitigation plan to ensure that the South African operations and, in particular, its contact centre, is capable of operating during loadshedding 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 CPA 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.

In the year under review the net promoter score is 71.7%, up from 70% in 2018.

Ethics

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

I would like to express my gratitude to the staff, communities and shareholders who are contributing to those goals to which HomeChoice has chosen to make a meaningful, sustained and positive impact.

Eduardo Garcia-Gutierrez
Chairman

APPENDIX

SUMMARISED **FIVE-YEAR REVIEW**

		2019*	2018**	2017***	2016	2015
Statements of comprehensive income						
Revenue	(Rm)	**3 484**	3 247	2 993	2 664	2 233
Retail sales	(Rm)	**1 951**	1 860	1 749	1 498	1 197
Retail gross profit	(Rm)	**924**	922	896	738	607
Other operating costs	(Rm)	**(1 785)**	(1 550)	(1 408)	(1 268)	(1 064)
Operating profit	(Rm)	**679**	763	744	648	580
Profit before taxation	(Rm)	**582**	676	659	585	550
Statements of financial position						
Non-current assets	(Rm)	**733**	605	559	578	563
Trade and other receivables	(Rm)	**3 188**	2 903	2 642	2 215	1 787
Inventories	(Rm)	**349**	304	257	214	170
Cash and cash equivalents	(Rm)	**80**	108	130	187	88
Other current assets	(Rm)	**–**	–	4	5	4
Total assets	(Rm)	**4 351**	3 920	3 592	3 199	2 614
Total equity	(Rm)	**2 946**	2 684	2 373	2 030	1 751
Non-current liabilities	(Rm)	**649**	828	742	719	282
Current liabilities	(Rm)	**756**	408	477	450	581
Total equity and liabilities	(Rm)	**4 351**	3 920	3 592	3 199	2 614
Statements of cash flows						
Cash generated from operations	(Rm)	**437**	474	359	277.0	358.5
Capital expenditure	(Rm)	**116**	126	56	46.4	187.3
Dividends paid	(Rm)	**195**	213	175	158.0	228.3
Returns and margin performance						
Gross profit margin	(%)	**47.4**	49.6	51.2	49.3	50.7
Operating profit margin	(%)	**19.9**	23.5	24.8	24.3	26.0
Return on equity	(%)	**16.7**	20.9	23.3	22.5	23.7
Net debt:equity ratio	(%)	**30.2**	27.6	28.2	28.7	26.2
Net asset value per share	(cents)	**2 827**	2 573	2 278	1 973	1 719
Share performance						
Headline earnings per share	(cents)	**436.0**	507.7	504.1	414.6	389.1
Dividends declared/paid	(cents)	**166.0**	194.0	191.0	158.0	148.0
Dividend cover	(times)	**2.6**	2.6	2.6	2.6	2.6
Weighted shares in issue, net of treasury shares	('000)	**104.6**	104.2	103.6	102.4	101.5

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

SUMMARISED GROUP **STATEMENT OF FINANCIAL POSITION**

	2019 Rm	% change	2018 Rm
Assets			
Non-current assets			
Property, plant and equipment	**471**	1.5	464
Intangible assets	**169**	45.7	116
Right-of-use asset	**67**	100.0	–
Financial assets at fair value through profit and loss	**24**	–	24
Deferred taxation	**2**	100.0	1
	733	21.2	605
Current assets			
Inventories	**349**	14.8	304
Taxation receivable	**1**	100.0	–
Trade and other receivables	**3 188**	9.8	2 903
Trade receivables – Retail	**1 581**	5.0	1 506
Loans receivable – Financial Services	**1 583**	17.5	1 347
Other receivables	**24**	(52.0)	50
Cash and cash equivalents	**80**	(25.9)	108
	3 618	9.1	3 315
Total assets	**4 351**	11.0	3 920
Equity and liabilities			
Equity attributable to equity holders of the parent			
Stated and share capital	**1**	–	1
Share premium	**3 010**	0.2	3 005
Reorganisation reserve	**(2 961)**	–	(2 961)
	50	11.1	45
Treasury shares	**(18)**	>100.0	(3)
Other reserves	**33**	83.3	18
Retained earnings	**2 881**	9.8	2 624
Total equity	**2 946**	9.8	2 684
Non-current liabilities			
Interest-bearing liabilities	**537**	(29.0)	756
Lease liabilities	**57**	100.0	–
Deferred taxation	**51**	(22.7)	66
Trade and other payables	**4**	(33.3)	6
	649	(21.6)	828
Current liabilities			
Interest-bearing liabilities	**391**	>100.0	92
Lease liabilities	**18**	100.0	–
Taxation payable	**16**	(65.2)	46
Trade and other payables	**283**	6.0	267
Provisions	**–**	(100.0)	3
Bank overdraft	**48**	100.0	–
	756	85.3	408
Total liabilities	**1 405**	13.7	1 236
Total equity and liabilities	**4 351**	11.0	3 920

SUMMARISED GROUP **STATEMENT OF COMPREHENSIVE INCOME**

	2019 Rm	% change	2018 Rm
Revenue	**3 484**	7.3	3 247
Retail sales	**1 951**	4.9	1 860
Finance income	**1 093**	7.6	1 016
Fees from ancillary services	**440**	18.6	371
Cost of Retail sales	**(1 027)**	9.5	(938)
Other operating costs	**(1 785)**	15.2	(1 550)
Credit impairment losses	**(717)**	28.7	(557)
Other trading expenses	**(1 068)**	7.6	(993)
Other net gains and losses	**(1)**	(80.0)	(5)
Other income	**8**	(11.1)	9
Operating profit	**679**	(11.0)	763
Interest income	**4**	33.3	3
Interest expense	**(101)**	13.5	(89)
Share of loss of associates	**–**	–	(1)
Profit before taxation	**582**	(13.9)	676
Taxation	**(127)**	(14.2)	(148)
Profit and total comprehensive income for the year	**455**	(13.8)	528
Earnings per share (cents)			
Basic	**436.0**	(14.0)	506.8
Diluted	**428.7**	(14.2)	499.8
Headline earnings per share (cents)			
Basic	**436.0**	(14.1)	507.7
Diluted	**428.7**	(14.4)	500.8

SUMMARISED GROUP **STATEMENT OF CHANGES IN EQUITY**

	Stated and share capital Rm	Share premium Rm	Treasury shares Rm	Reorganisation reserve Rm	Other reserves Rm	Retained earnings Rm	Equity attributable to owners of the parent Rm
Balance at 1 January 2018 as originally presented	1	3 003	(3)	(2 961)	13	2 320	2 373
Change on initial application of IFRS 9	–	–	–	–	–	(11)	(11)
Restated balance as at 1 January 2018	1	3 003	(3)	(2 961)	13	2 309	2 362
Changes in equity							
Profit and total comprehensive income for the year	–	–	–	–	–	528	528
Shares issued	–	2	–	–	–	–	2
Dividends paid	–	–	–	–	–	(213)	(213)
Share incentive schemes	–	–	–	–	5	–	5
Total changes	–	2	–	–	5	315	850
Balance at 1 January 2019	**1**	**3 005**	**(3)**	**(2 961)**	**18**	**2 624**	**2 684**
Change on initial application of IFRS 16 (note 1.2)	**–**	**–**	**–**	**–**	**–**	**(3)**	**(3)**
Restated equity at the beginning of the period	**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 31 December 2019	**1**	**3 010**	**(18)**	**(2 961)**	**33**	**2 881**	**2 946**

SUMMARISED GROUP **STATEMENT OF CASH FLOWS**

	2019 Rm	% change	2018 Rm
Cash flows from operating activities			
Operating cash flows before working capital changes	**718**	(7.5)	776
Movements in working capital	**(281)**	(7.0)	(302)
Cash generated from operations	**437**	(7.8)	474
Interest received	**4**	33.3	3
Interest paid	**(93)**	9.4	(85)
Taxation paid	**(174)**	11.5	(156)
Net cash inflow from operating activities	**174**	(26.3)	236
Cash flows from investing activities			
Additions of property, plant and equipment	**(44)**		(70)
Proceeds on disposal of property, plant and equipment	**–**		1
Additions of intangible assets	**(72)**		(56)
Investment in associates	**–**		14
Financial assets at fair value through profit and loss	**11**		19
Net cash outflow from investing activities	**(105)**	14.1	(92)
Cash flows from financing activities			
Proceeds from the issuance of shares	**5**		2
Purchase of shares to settle forfeiture share scheme obligations	**(15)**		–
Proceeds from interest-bearing liabilities	**315**		271
Repayments of interest-bearing liabilities	**(243)**		(207)
Principal elements of lease payments	**(12)**		–
Dividends paid	**(195)**		(213)
Net cash outflow from financing activities	**(145)**	(1.4)	(147)
Net decrease in cash and cash equivalents and bank overdrafts	**(76)**		(3)
Cash, cash equivalents and bank overdrafts at the beginning of the year	**108**		111
Cash, cash equivalents and bank overdrafts at the end of the year	**32**	(70.4)	108

GROUP SEGMENTAL ANALYSIS

	2019						2018					
	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	**3 484**	**2 613**	**871**	**61**	**–**	**(61)**	3 247	2 501	746	58	–	(58)
Retail sales	**1 951**	**1 951**	**–**	**–**	**–**	**–**	1 860	1 860	–	–	–	–
Finance income	**1 093**	**482**	**611**	**–**	**–**	**–**	1 016	484	532	–	–	–
Fees from ancillary services	**440**	**180**	**260**	**61**	**–**	**(61)**	371	157	214	58	–	(58)
EBITDA	**751**	**442**	**362**	**36**	**(34)**	**(55)**	821	453	357	33	(22)	–
Depreciation and amortisation	**(73)**	**(117)**	**(11)**	**–**	**–**	**55**	(59)	(54)	(4)	(1)	–	–
Interest received	**3**		**3**		**72**	**(72)**	3		2		66	(65)
Interest paid	**(68)**		**(68)**		**(72)**	**72**	(62)		(63)		(64)	65
Segmental operating profit	**613**	**325**	**286**	**36**	**(34)**	**–**	703	399	292	32	(20)	–
Interest income	**1**	**1**		**–**	**–**	**–**	–	–		–	–	–
Interest expense	**(32)**	**(12)**		**(20)**	**–**	**–**	(27)	(5)		(22)	–	–
Profit before taxation	**582**	**314**	**286**	**16**	**(34)**	**–**	676	394	292	10	(20)	–
Taxation	**(127)**	**(68)**	**(55)**	**(5)**	**1**	**–**	(148)	(89)	(60)	(3)	4	–
Profit after taxation	**455**	**246**	**231**	**11**	**(33)**	**–**	528	305	232	7	(16)	–
Segmental assets	**4 351**	**2 359**	**1 725**	**340**	**1 211**	**(1 284)**	3 920	2 443	1 465	343	704	(1 035)
Segmental liabilities	**1 405**	**1 035**	**840**	**253**	**561**	**(1 284)**	1 236	583	816	278	594	(1 035)
Gross profit margin (%)	**47.4**	**47.4**					49.6	49.6				
Segmental results margin (%)	**17.6**	**12.4**	**32.8**	**59.0**			21.3	16.0	39.1	55.2		
Operating cash flows before working capital changes	**718**	**415**	**355**	**36**	**33**	**(55)**	776	418	347	33	(22)	–
Movements in working capital	**(281)**	**(72)**	**(212)**	**–**	**3**	**–**	(302)	(108)	(191)	–	(3)	–
Cash generated/(utilised) by operations	**437**	**343**	**143**	**36**	**30**	**(55)**	474	310	156	33	(25)	–
Capital expenditure												
Property, plant and equipment	**44**	**43**	**1**	**–**	**–**	**–**	70	68	2	–	–	–
Intangible assets	**72**	**49**	**23**				56	45	3	–	8	–

ADMINISTRATION

Country of incorporation
Republic of Malta

Date of incorporation
22 July 2014

Company registration number
C66099

Company secretary
George Said
governance@homechoiceinternational.com

Registered office
93 Mill Street
Qormi
QRM3012
Republic of Malta

Auditors
PricewaterhouseCoopers
Republic of Malta

Corporate bank
Butterfield Bank (Jersey) Limited

JSE listing details
Share code: HIL
ISIN: MT0000850108

Sponsor
Rand Merchant Bank, a division of FirstRand Bank Limited

Transfer secretaries
Computershare Investor Services Proprietary Limited

SHAREHOLDERS' **DIARY**

Financial year-end
31 December

Annual general meeting
June 2020

Distributions to shareholders
April and September

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

www.**homechoiceinternational**.com

HiL PLC