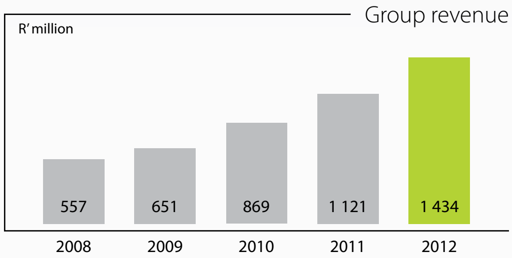
HomeChoice HOLDINGS LIMITED

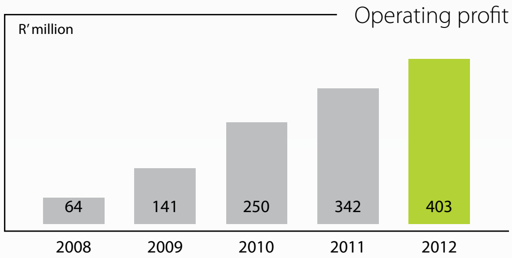
INTEGRATED ANNUAL REPORT 2012

contents

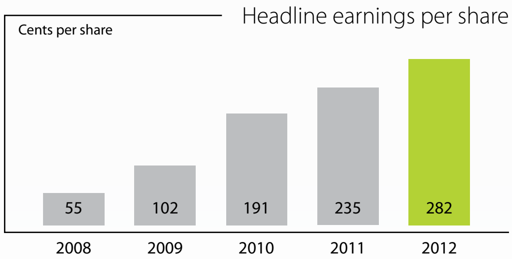
2012 highlights



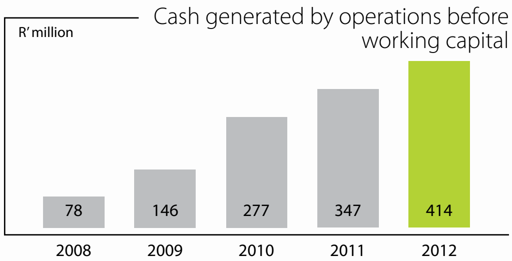
revenue
increased to R1,43 billion, up
28%



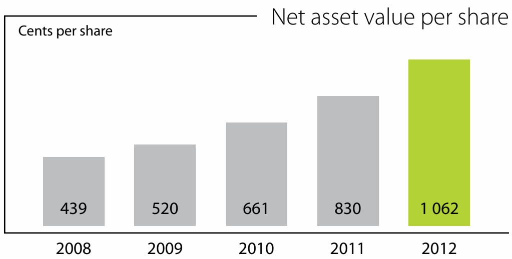
operating profit
increased to R403 million, up
18%



headline earnings per share
increased to 282 cents, up
20%



cash generated by operations before working capital
increased to R414 million, up
19%



net asset value per share
increased to 1 062 cents, up
28%


HomeC

commitment to integrated reporting

HomeChoice Holdings has pleasure in presenting its integrated annual report to shareholders for the 2012 financial year. This report builds on the enhanced disclosure contained in last year's first integrated report and is aimed at providing shareholders with greater insight into the group's sustainability and prospects.

The directors and management remain committed to the philosophy of integrated reporting which will assist stakeholders in assessing the group's ability to create and sustain value in the short, medium and longer term. We endeavour to provide shareholders with accurate, balanced and transparent reporting, and to continually enhance financial disclosure and align governance standards with best practice.

While integrated reporting is only a requirement for listed companies in terms of the King Code of Governance in South Africa (King III), the group has adopted integrated reporting and this greater level of disclosure will enable investors to evaluate our performance, track-record and prospects against those of the other listed companies in the retail sector.

The 2012 report has been expanded to provide an understanding of our business model, strategies and targets, as well as the major risks facing the business. Throughout the report we have tried to show how we manage relationships with our customers in meeting their needs for quality merchandise and innovative financial services, manage the risk of credit and continually enhance the customer experience.

HomeChoice recognises that the sustainability of the business is based on our ability to create value for shareholders, customers and employees and by contributing to the sustainable development of communities and the environment.

Report scope and content

The report covers the integrated sustainability performance and activities of HomeChoice Holdings Limited and its subsidiaries (the group) for the period 1 January 2012 to 31 December 2012. The group operates principally in South Africa where it derives the majority of its revenue and profit, with 8% of customers being based in Botswana, Lesotho, Namibia and Swaziland.

The reporting complies with International Financial Reporting Standards (IFRS) and the Companies Act, while management has also considered the guidelines of the Integrated Reporting Committee of SA. Abridged financial statements have been published in the integrated annual report for the first time and the complete annual financial statements are available on the website.

The principle of materiality has been applied to the financial and non-financial content and disclosure contained in the report.

The group's external auditor, PricewaterhouseCoopers Inc, expressed an unmodified audit opinion on the group's annual financial statements. The financial statements have been prepared under the supervision of the Chief Financial Officer Annalize Kirsten CA (SA).

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 of the report

The audit and risk committee has oversight responsibility for integrating reporting and for the preparation of the integrated annual report. The committee confirms the report fairly represents the integrated performance of the group and recommended the report for approval by the board of directors. The board accordingly approved the 2012 integrated annual report for release to stakeholders.

Cape Town, 15 March 2013

GROUP overview


August 2012 Catalogue

group profile

HomeChoice Holdings is a leading credit-based direct marketing retailer selling homeware merchandise and financial services products to the rapidly expanding urban middle-income mass market in southern Africa.

Established in Cape Town in 1985, the group has evolved from a start-up mail order business into a multi-channel direct marketer with a customer base of more than one million people. Marketing channels include direct mail through the catalogue, electronic channels such as the Internet, mobile phone and electronic mail, and telemarketing through inbound and outbound call centres.

Capitalising on the extensive credit records of its loyal customer base, the group expanded into financial services with the launch of FinChoice in 2007 to offer personal loans to HomeChoice customers of good credit standing.

FoneChoice was launched in 2011 in response to the rapidly increasing demand for mobile smartphones and computer products, and this technology is now offered on credit to HomeChoice customers.

The head office from which HomeChoice, FinChoice and FoneChoice operate is owned by the group and is based in Wynberg, Cape Town. The group's primary distribution centre is in Cape Town and a new R155 million distribution facility is being built for completion in late 2013. The group employs 898 people, including 467 staff in the call centres.

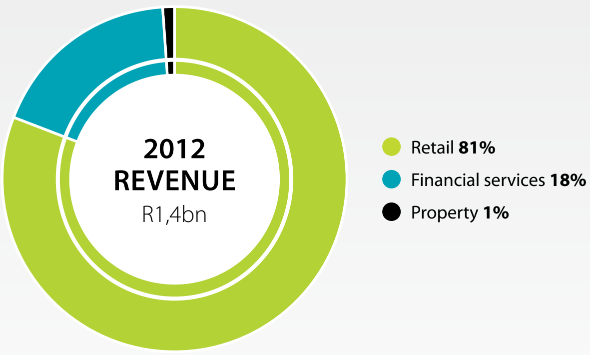
The group also sells its products outside the borders of South Africa and customers in Botswana, Lesotho, Namibia and Swaziland collectively account for 8% of retail sales.

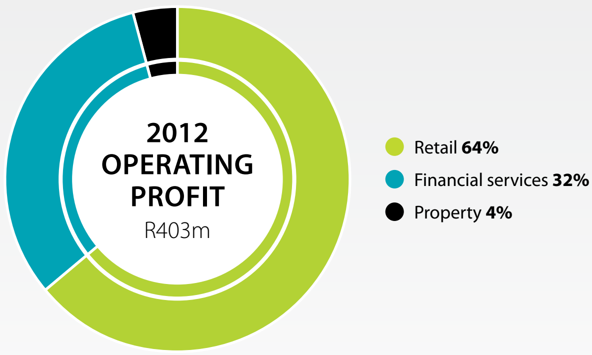
Further detail on the group is available at www.homechoiceholdings.co.za

Our group customer

- Database of 1,3 million customers
- Aged between 25 and 45
- 84% of customers are female
- Urban mass market (LSM groups 4 to 8)
- 92% of customers live in SA
- Employed, with a monthly household income of R3 000 to R8 000
- 82% of business is with existing customers of known credit standing

HomeChoice HOLDINGS LIMITED





RETAIL

HomeChoice

HomeChoice is a multi-channel direct marketing retailer offering an extensive range of household textiles and homeware merchandise through a convenient shopping experience, together with a home delivery service. Credit is available to the middle-income mass market customer on terms of six, 16 and 24 months.

FoneChoice

FoneChoice is a direct marketing start-up business selling laptop computers and mobile smartphones on credit to HomeChoice customers. Products are offered on terms of 24 and 36 months.

FINANCIAL SERVICES

finchoice

FinChoice is a niche provider of unsecured personal loan products solely to HomeChoice customers with good credit records. Loan terms range from one to 24 months. Customers are able to transact on their loan accounts conveniently 24 hours a day, accessing further credit over time as needed.

PROPERTY

The group owns the head office building and a new distribution centre being developed in 2013.

The group has also acquired a property adjacent to the head office building for possible future expansion.

647 041

parcels despatched to our customers in 2012

26 973

Facebook followers

48 195

hours invested on training our staff

12

interesting **insights** about us **in 2012**

At HomeChoice we understand that our performance with regard to social and environmental issues is as important as our financial sustainability. This page highlights some key non-financial metrics that underpin how we do business.

4,98

4 981 499 website visitors in 2012

electricity consumption per employee down

35%

since 2010 to

3 533

kilowatt hours in 2012

278

Santa Shoe boxes **donated**

1 323

children and teachers supported by the HomeChoice Development Trust

1st

Voted as the **country's favourite e-commerce website** in the 2012 South African e-Commerce Awards

269 266

calls with customers

R3m

donated to the **HomeChoice Development Trust** in 2012

216

staff participated in community events

R295 000

in **bursaries** to staff and customers

488

tonnes of materials recycled in 2012

mobi visits in 2012

1 238 021

business model and strategy

Business philosophy and values

The business philosophy is driven by the values which are integral to the way business is conducted across the group:

In defining the values three primary stakeholders have been identified, namely customers, employees and shareholders. The vision for each of these primary stakeholders has been defined and entrenched in the company values and business philosophy.

Group business model

Brand consistency

Direct marketers need to present their "shop" or "branch" visually to overcome the distance relationship and the lack of physical interaction which customers have with traditional retail stores. The visual image of the direct marketing material, catalogue and Internet is therefore the "shop" or "branch" which offers a consistent experience to customers across all channels. Ordering, distribution and delivery processes are also centralised which again ensures consistency for all customers.

Richness of data

The business has extensive data on customer purchasing and payment behaviour and uses this information to generate sales. Segmentation models are developed from this data to select customers to receive marketing offers. Response rates are predicted for each marketing campaign. Pre-campaign testing is used to determine the response to the product, the pricing, the credit offer and creditworthiness of customers. Offers are targeted at customers who are responsive and the expected response behaviour is overlaid with payment behaviour to create a predictable level of profitability for each campaign.

Group strategy

The group's strategy is to sell products and services to urban middle-income mass market female customers through multi-channel direct marketing.

Strategic process

The group's strategic planning process is aligned with the five-year financial planning model and two-year operating company key focus areas. As part of this process the group's strategy is reviewed annually to ensure it remains relevant and takes account of the current macro-economic environment, changing market dynamics, the needs of customers and that it continues to meet the needs of shareholders for sustained wealth creation.

1

ORGANIC GROWTH of existing businesses through multi-channel direct marketing

2

Expand the **GROUP CUSTOMER BASE** using the HomeChoice brand and margin

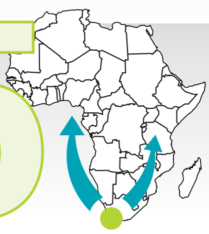
3

Apply **CREDIT RISK EXPERTISE** and customer data to grow businesses profitably

4

Capitalise on growth in the Internet and mobile phone to **DRIVE ONLINE SALES**

5



Identify opportunities for **NEW BUSINESSES** in growing market segments

Scalable and efficient model

Store-based retailers are dependent on new retail space to extend their footprint and exposure to new customers. HomeChoice can increase its scale and reach speedily and cost efficiently by upweighting its marketing efforts. This includes increasing the volume of catalogue mailings, expanding e-mail and mobile campaigns and increasing telephone contact. The Internet is not constrained by the sales infrastructure and is highly efficient. Call centres can also be leveraged to optimise sales by adjusting commission structures and incentivising agents. Call centres are also highly scalable to manage increased capacity and seasonality, with new agents being trained within six weeks.

Business model

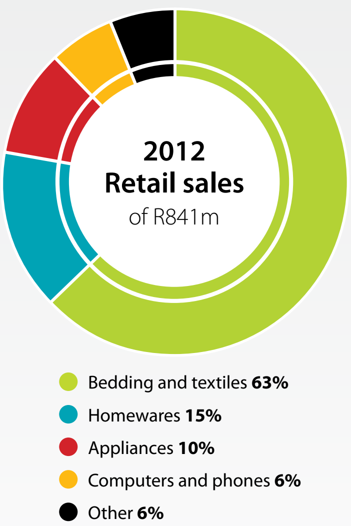
HomeChoice and FoneChoice

1

OWN-BRAND PRODUCT AND DIRECT SOURCING

The HomeChoice merchandise strategy is based on offering innovative and exclusive own-brand products to decorate a customer's home. This own-brand strategy has been central to the retail offer since inception, and gives buyers greater control over margins. Leveraging international trends, products are designed and developed in the HomeChoice trend studio and sourced directly from suppliers, mainly from Asia.

63% of the product range is fashion-oriented textiles and bedding. Other categories include homewares, appliances, electronics and furniture.



2

DIRECT RETAIL MODEL

As a direct marketer, HomeChoice is distinct from traditional "bricks and mortar" retailers. Customer relationships are conducted over a distance and the primary "shop" is the catalogue and Internet site allowing customers to shop at their convenience at any time.

Multiple, integrated marketing channels are used to attract customers, sell products and fulfil all customer service requirements. These range from direct mail through catalogues and print advertising, electronic channels such as the Internet, electronic mail and mobile phone and telemarketing through inbound and outbound call centres.

5 576 163 catalogues sent to customers

4 981 499 internet site visitors

1 238 021 mobi visitors

1 238 407 e-mail list

7 592 528 outbound calls

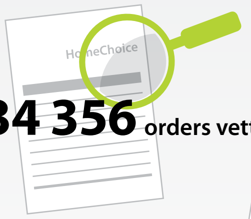
3

CREDIT RISK MANAGEMENT

Credit is an enabler of sales to the mass middle-income market. The group maintains a conservative approach to credit risk management with terms weighted towards shorter terms.

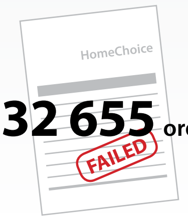
Credit metrics are used throughout the business to drive both credit and marketing strategy, including customer base segmentation, new business channel mix optimisation and providing insight into the rate of growth of new merchandise categories. Bespoke scorecards, supplemented with internal and external vetting procedures and online credit bureau data, are used to predict the level of risk of a customer.

Customers can pay via multiple channels, including the South African Post Office, supermarkets as well as traditional banking facilities. HomeChoice operates a dedicated collections call centre with more than 80 collection agents, which is supplemented by external collection agencies. Customers with overdue accounts are contacted and "promise to pay" arrangements agreed and diarised for follow-up.



934 356 orders vetted

701 701 orders passed



232 655 orders failed

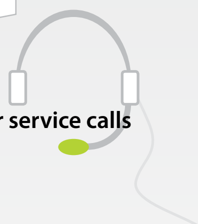
4

OPERATIONAL EXCELLENCE

Managing the complexity of the distance relationship requires efficient back-end processes to ensure a consistent customer experience across all platforms. This requires ongoing investment in systems and people, particularly in the management of the inbound and outbound call centres.

An efficient distribution network is an important driver of customer satisfaction, however, delivery to mass market homes is complex. HomeChoice has developed its own distribution network to all major urban centres, delivering over 50% of merchandise in South Africa directly to customers' homes, with the balance delivered through the South African Post Office .

647 041 parcels despatched



1 283 345 customer service calls

11 delivery hubs throughout South Africa

Business model
FinChoice

1

LEVERAGING THE HOMECHOICE CUSTOMER BASE

FinChoice leverages the HomeChoice database, marketing platform and credit information by marketing personal loans directly to selected customers of good standing – who are responsive to credit offerings and have proven payment behaviour.

Customer acquisition costs are therefore low due to the cross-selling and bad debt is lower than traditional financial services businesses. This represents a substantial cost saving to the group and reflects in the higher FinChoice margin.

2 317 708 catalogue inserts

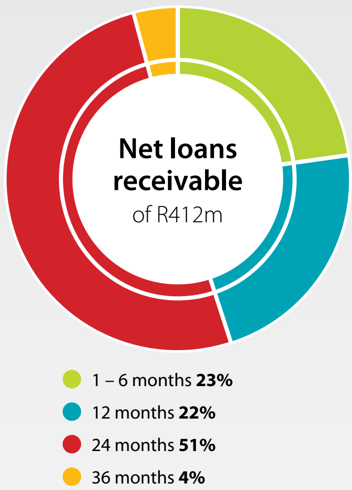
3 312 046 SMSs sent

918 238 outbound calls

2

FLEXIBLE AND CONVENIENT PRODUCTS

Loan products are designed to be flexible, convenient and fast. Customers are able to transact on their loan accounts via call centres, seven days a week, and also have 24/7 access to a mobile phone self-service channel, KwikServe. Applications for initial loans are completed within 10 minutes. Loan repayments are collected directly from the customer's bank account.



30 078 new loans advanced

3

OPERATIONAL INNOVATION AND CREDIT RISK MANAGEMENT

FinChoice's operational innovation is a key driver of repeat loan request from customers. Over 75% of customers take a repeat loan over time. FinChoice KwikServe, a mobile phone self-service platform, enables customers to manage their accounts 24 hours a day from their cell phone.

FinChoice grants repeat loans to recently paid-up customers with good repayment records while active customers are eligible to apply for further credit once they have paid down a sufficient portion of the original loan capital.

The repayment behaviour of repeat loan customers is superior to new business as behavioural models are based on actual loan repayments, as well as current repayment behaviour at HomeChoice.

72% **of customers registered for KwikServe**

75% **of customers take a repeat loan over time**

entrenching **sustainability** in the business

As part of the annual strategic planning process key imperatives are identified that will enable the group to achieve its goals and ensure sustainable growth for stakeholders. These material sustainability topics, which were presented to shareholders for the first time in the 2011 integrated annual report, provide the platform for the development of the annual key focus areas for each operating business. Management defines the sustainability issues for each business and performance indicators are identified for each topic. These sustainability performance indicators are entrenched in departmental and individual performance objectives.

The following pages include a report back on the group's performance against the strategic objectives for 2012, highlight challenges encountered during the year, detail the 2013 strategic objectives and plans to mitigate the key risks facing the business. Two new material sustainability topics have been included for 2013, namely "Managing the risk of buying" and "Optimising supply chain efficiency", while "Managing customer demand" has been integrated into the remaining topics.

1 Driving consistent financial performance

2 Managing the risk of buying

3 Growing our customer base

4 Managing the risk of credit

5 Enhancing the customer experience

6 Optimising our supply chain efficiency

7 Implementing leading information systems

8 Managing talent and driving transformation

material sustainability topics

driving consistent **financial** performance

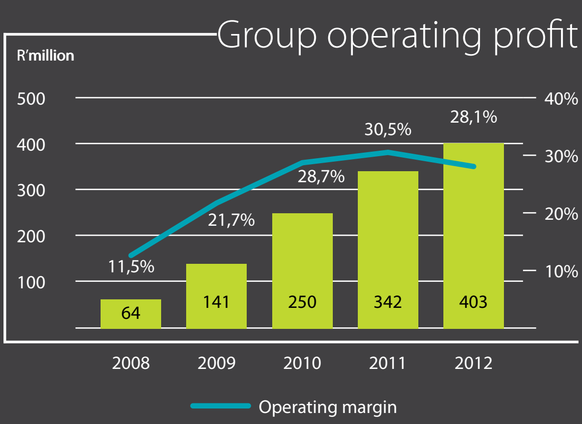
Objectives and performance in 2012	
• Improve returns to shareholders	• Revenue increased 27,9% to R1,4 billion • Operating profit increased 17,9% to R402,9 million • Operating margin 28,1% (2011: 30,5%) • Headline earnings per share increased 20,1% to 282,1 cents (2011: 234,8 cents) • Return on equity of 29,8% (2011: 31,9%) • No interim dividend paid in 2012 following decision to delay proposed listing on JSE. Dividend payments will be resumed in 2013
• Increase focus on cost control	• Group trading expenses as a % of revenue reduced from 28,8% to 27,8%
• Continue to develop forecasting and financial analysis capabilities	• Five-year financial forecasts integrated with longer-term operational plans
• Prepare for a potential listing in 2012	• Extensive planning undertaken for a proposed listing. Decision taken to delay listing as market conditions were not conducive. All listing requirements are in place should the group proceed with a listing in the future

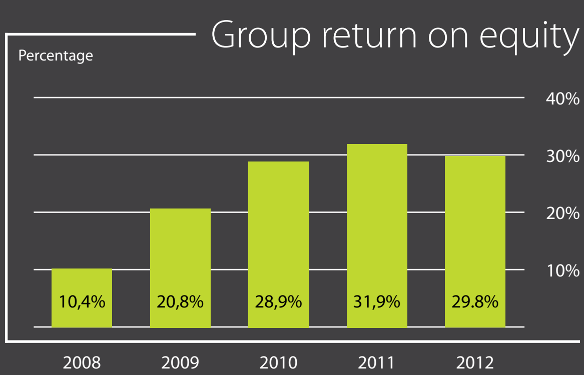
Challenges encountered in 2012

- Gross profit margin was impacted by a weaker Rand and higher warehousing and distribution costs
- Tough economic climate negatively impacted on customer demand, resulting in increased marketing activities to achieve revenue targets
- Deteriorating credit environment impacted on credit performance, especially in the second half of the year
- The delay in the proposed listing on the JSE in 2012 meant that the group needed to secure alternate sources of funding to supplement internally generated cash

Objectives for 2013	Action plans and targets
• Deliver competitive returns to shareholders through efficient management of revenue growth and capital • Drive efficiencies through an increased focus on cost management and reduce expenses as a % of revenue	• Gross profit margin of 48% – 52% • Operating profit margin of 25% – 30% • Return on equity of 27% – 32% • Dividend cover of 2,8 times • Implement alternative sources of finance to fund growth

Key risks	Risk mitigation
• Inability to sustain and fund revenue growth at targeted margins	• Revenue growth driven through targeted direct marketing model, supported by investment in customer acquisition planned for 2013 • Employee performance and incentives aligned with achieving financial targets • Strong balance sheet with low gearing supports option of supplementing internally generated cash with debt finance
• A further worsening in the credit environment resulting in increased debtor costs	• Careful monitoring of credit performance and tightening of policy
• Extended Rand weakness and volatility against the US dollar	• Proactively manage product mix and componentry to limit impact of exchange rate movements
• Industrial action negatively impacting on employment and growth in the economy, and on the group's ability to service customers	• Continued strategic focus on maintaining an employed female customer base • Independent home delivery service mitigates impact of SA Post Office strikes





managing the risk of buying

Objectives and performance in 2012	
• Organic growth through extension of existing ranges, and test and introduce new concepts and ranges	• Retail sales up 25,5% to R841 million (2011: R670 million) • Strong growth in customer demand for newer product categories • Introduced FoneChoice which generated retail sales of R55 million
• Optimise product margins by effectively controlling inbound margins and clearance rates	• Gross profit margin of 51,1% was affected by Rand weakness, but remained within target range of 48% – 52% • Health of stock deteriorated from 87% to 85% • Inventory turn of 4,1 (2011: 3,9)
• Improve supplier governance	• Implemented revised supplier take-on processes during the year
• Develop merchandise IT systems and technology to enhance processes to manage the risk of buying	• Implemented Direct Tech merchandise system to enhance forecasting and planning capabilities • Refined open-to-buy management processes and communication, developing automated model and enhanced reporting for deployment in 2013

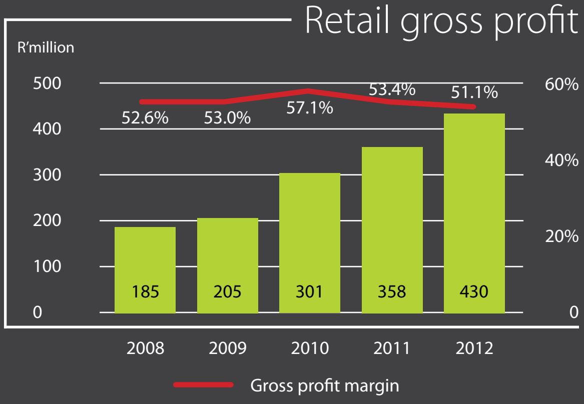
Challenges encountered in 2012

- Managing inventory complexities resulting from a shift in customer acquisition channel from media to catalogue
- Managing the growth of new categories and textiles
- Underforecast of demand for bedding in the fourth quarter of the year impacting on inventory cover
- Changes to the merchandise offer to mitigate the effect of the weakening Rand impacted on customer demand
- Improving stock health without compromising margins

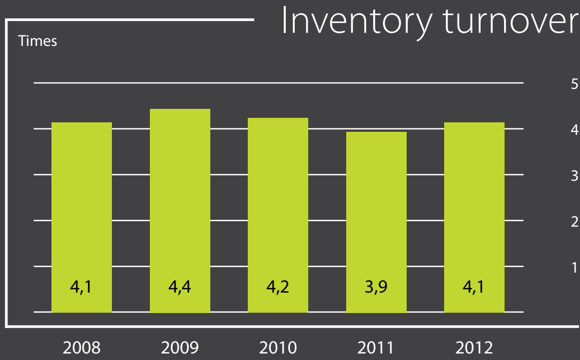
Objectives for 2013	Action plans and targets
• Organic growth through extension of existing ranges, and test and introduce new ranges • Optimise product margins by effectively controlling inbound margins and clearance rates • Enhance creative and sourcing skills of buyers • Improve supplier governance, compliance and quality standards • Improve product packaging and presentation • Maintain customer demand through product innovation	• Gross profit margin target of 48% – 52% • Inventory turn of 4 – 4,5 times • Attend international trade fairs and continue to invest in our innovation studio • Review supplier scorecards and agreements and upgrade quality lab

Key risks	Risk mitigation
• Ability to source desirable merchandise at targeted gross profit margins given the current volatility of the Rand	• Experienced merchandise team which keeps abreast of global trends • In-house innovation studio • Ability to test new products before offering to customer base • Own-brand strategy and ability to re-engineer product offer to maintain margins
• Poor forecasting of trends or demand may result in stock shortages which negatively impact on the customer experience, or over-stocking impacting on margins	• Robust business review processes • Disciplined buying and planning formula • Use of an advanced retail forecasting system • Monitoring of markdowns and an effective clearance strategy
• Deterioration in quality of merchandise	• Dedicated quality control team • Partner with local and offshore quality auditors • Quality control inspection area included in new warehouse operation
• Exposure to country risk and dependency on key suppliers	• Group has a wide base of committed suppliers with relationships built over a number of years • Key suppliers are assessed for their contingency plans against loss of production facilities • Alternate sources of supply are evaluated

Retail gross profit



Inventory turnover



growing our customer base

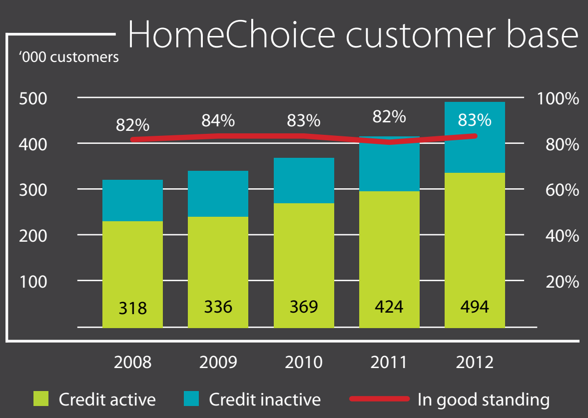
Objectives and performance in 2012	
• Increase acquisition activities to support customer database expansion	• Attracted 156 000 new HomeChoice customers (2011: 116 000) • Increased retail sales per new customer by 26,2% to R1 388 • Effective use of response and credit scorecards enabled successful implementation of a purchased prospect lists acquisition channel • Retail sales through the direct sales agent channel increased by 83,0% • Granted 30 100 new FinChoice loans (2011: 24 600) • FinChoice penetration of new eligible HomeChoice customers increased to 21% (2011: 20%)
• Focus on merchandise, marketing and credit offers to retain and grow spend by existing customers	• Increased sales per existing customer by 3,7% to R1 393 • Tighter credit and marketing selections impacted on demand, with the HomeChoice repurchase rate decreasing to 64,3% from 65,5%
• Develop customer segmentation model to align with the customer relationship management module of the new ERP system	• Developed conceptual framework for customer lifecycle • Model enhancements have enabled better scenario planning capability
• Controlled growth of repeat FinChoice loans through innovation and improved loan offering	• Increased repeat FinChoice loan disbursements by 32,5% to R460 million • Introduced new one-month KwikAdvance loan • Average loan balance increased 7,1% from R5 171 to R5 537

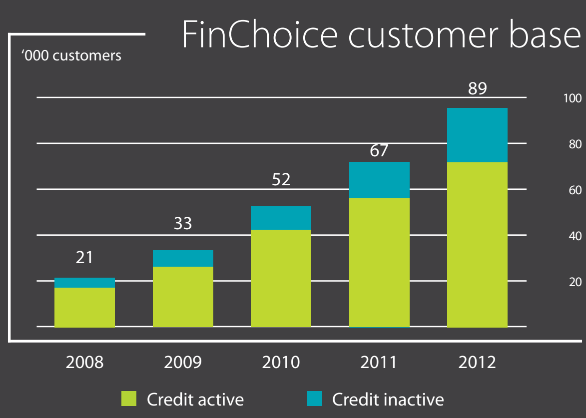
Challenges encountered in 2012

- Tightening of pre-marketing credit acceptance criteria reduced customer demand
- Increased cost of customer acquisition
- Enhancing risk-response scorecards to optimise efficiency of purchased lists
- Increasing debt consolidation strategies from competitors resulting in higher early settlement attrition
- Postal worker strikes impacted on the efficiency of the inbound mail channel
- Managing weight restrictions for marketing material

Objectives for 2013	Action plans and targets
• Expand customer database to support revenue growth targets • Retain customers and grow spend • Reduce cost of acquiring new customers • Enhance customer analytics and better understand shopping habits of customers • Increase usage of electronic channels • Ensure compliance when the Protection of Personal Information (POPI) Bill is enacted	• Growth in customer database of 10% – 12% • Enhance mobi and USSD functionality to support "Our brand in her hand" strategy • Increase customer acquisition through electronic channels

Key risks	Risk mitigation
• Growing the customer database to support the group's growth targets without compromising the health of the list	• Customer segmentation based on purchase and payment history enables predictive campaign outcomes • Scalable, multi-channel campaigns targeted at attracting creditworthy customers • Ability to test campaigns prior to being rolled out to the customer base • Focus on alternative market segments and opportunities, including electronic channels
• Ability to retain customers that have paid up their initial loan, especially in light of debt consolidation strategies in the market	• Reduced initiation fee for repeat loans • Ease of use of FinChoice KwikServe
• Introduction of POPI may negatively impact marketing activities	• Project team to ensure legislative compliance while minimising impact on business processes
• Tightening of risk policy increases cost per new customer acquired	• Continued development of scorecards • Improve marketing offers to customers





managing the risk of credit

Objectives and performance in 2012	
• Maintain a stable level of credit risk and performance	• Deteriorating credit environment impacted on credit performance • Planned increase in new HomeChoice customer acquisition resulted in increased bad debt write-offs • HomeChoice debtor costs as a % of revenue increased from 10,0% to 12,6% • FinChoice debtor costs as a % of revenue increased from 29,3% to 30,5%
• Continue to review and enhance scorecards and credit vetting processes	• Ongoing review and development of credit scorecards and processes across the group • New customer acceptance rates (excluding purchased lists) declined from 49,8% to 49,3% due to tightened credit policy • Substantial revisions to fraud processes
• Enhance credit offer to make it more attractive to customers	• Developed personalised credit marketing through print and electronic channels • Successfully tested extension of retail credit terms for launch in 2013
• Improve customer experience of credit	• Created on-line capability for instant credit vetting at telephonic point-of-sale • Instant credit decisions up from 56,1% to 70,6% of new credit applications
• Improve collections efficiencies through dialler technology	• HomeChoice collection costs as a % of gross collections increased from 3,5% to 4,1%
• Develop FinChoice credit policy and processes for new products and concurrent loans to existing customers	• Developed credit policies and processes to support the new KwikAdvance product and enable multiple loan functionality
• Further enhance group customer exposure processes	• Additional group exposure metrics are reviewed by the credit risk team • Average group balance increased by 16,2% to R3,792

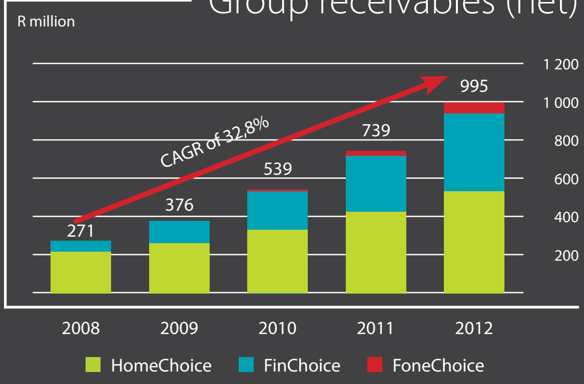
Challenges encountered in 2012

- Credit environment remained challenging, with increasing levels of debt review applications and customer indebtedness
- Significant increase in new customer acquisition in HomeChoice, which incurs a higher bad debt charge than existing customer sales
- New acquisition channels showed higher risk initially and this was contained through model developments through the year
- Internet sales channel targeted by fraud syndicates

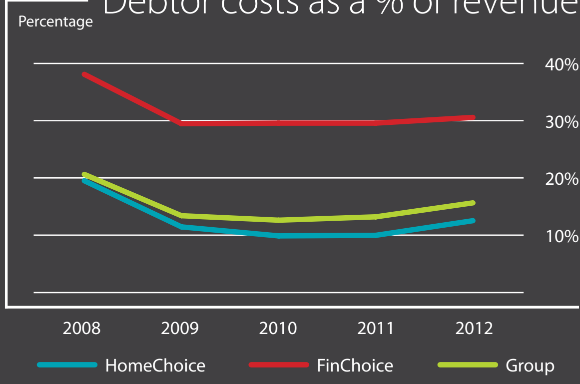
Objectives for 2013	Action plans and targets
• Monitor and contain group credit exposure • Maintain a stable level of credit risk and performance • Maintain quality of the books through strong vetting and back-end processes • Make credit offer more attractive to customers and to support "Our brand in her hand" strategy • Continue to review and enhance scorecards and vetting processes	• Increase instant credit vetting decisions to 75% • Launch 24-month terms in the retail business • Further enhance collections processes and efficiency

Key risks	Risk mitigation
• Increasing indebtedness in the market negatively impacting on the ability to maintain the optimal quality of the book and grant credit at acceptable risk levels	• Careful monitoring of credit performance and tightening of policy • Reduction in credit limits and loan values • Regular monitoring of customer debt levels and group exposure metrics • Highly predictive scorecards which are constantly reviewed to enhance predictive powers
• Risk of increasing incidence of debt review applications leading to higher bad debt	• Debt review customers monitored and internal review processes enhanced
• Ability to prevent fraudulent orders with the increased use of electronic channels	• Strict new customer credit granting and vetting criteria • Automated business rules flag orders with higher fraud risk

Group receivables (net)



Debtor costs as a % of revenue



enhancing the customer experience

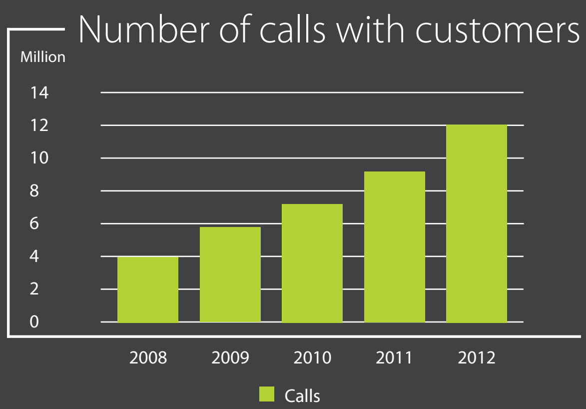
Objectives and performance in 2012	
• Ensure consistency of service across all direct marketing channels	• "Customer First Project" has continued to focus on enhancing the customer experience, however, some planned system enhancements delayed by preparation for the ERP implementation • Regular feedback from network of mystery shoppers
• Reduce delivery times on orders	• Order processing time reduced by 35% for existing customers and 40% for new customers • Delivery times to customers improved from 6,4 to 5,5 days country-wide
• Track the customer experience index (CEI) and ensure corrective measures are taken	• CEI score of 87% against a target of 90% • Introduced a customer interactive voice response (IVR) survey for customer feedback after every call
• Improve stock availability when orders are received	• Some deterioration in availability of stock at time of order experienced in the second half of the year with the shift in demand
• Enhance mobile interaction to create platform for sales growth	• Enhanced FinChoice KwikServe functionality and increased registered customers to 72% of the active loan customer base • Piloted KwikServe query and payment functionality to HomeChoice customers
• Develop and pilot FinChoice mobile website (mobi site)	• Decision taken to delay mobi site and focus on KwikServe due to its high customer usage

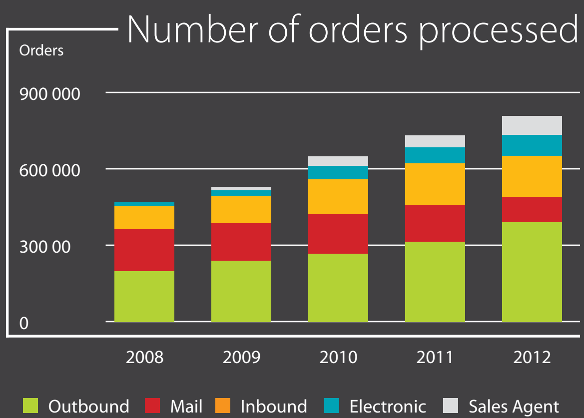
Challenges encountered in 2012

- Higher levels of attrition in some of the call centres resulted in training being focused on new employees
- Experienced some backlogs in addressing customer queries, impacted by transport and postal strikes resulting in increased number of order queries

Objectives for 2013	Action plans and targets
• Ensure a high quality service across all channels and enhance customer feedback mechanisms • Improve stock availability when orders are received • Reduce delivery times • Strategic focus on "Our brand in her hand" by investing in the Internet and mobi platform • Improve packaging and presentation to the customer	• Expand use of IVR survey for customer ratings • Target 90% customer experience index (2012: 87%) and ensure corrective measures taken • Enhance KwikServe and drive registrations and self-service utilisation to improve contact centre efficiencies • Develop and pilot mobi site, replicating key KwikServe functionality • Implement electronic customer statements

Key risks	Risk mitigation
• Impact of high levels of staff attrition on meeting customer service targets	• Key performance actions aligned to ensure high levels of customer service and repurchase rates • Constant monitoring of calls, service levels and query resolution targets • Training and retraining of staff and regular performance reviews to ensure improved customer service • Quality assurance processes throughout the customer cycle





optimising our supply chain efficiency

Objectives and performance in 2012	
• Improve warehouse and distribution processes and systems to ensure a faster, cost-effective service	• Implementation of improved stock management practices • 61% improvement in number of warehouse orders despatched completed within 24 hours • Wireless handheld picking and stock movement system introduced • Improvement in delivery time of orders to 5,5 days from 6,4
• Develop a new warehouse for occupation in 2013	• Design completed and construction commenced during the year • Will increase capacity from 80 000 m^3 to 200 000 m^3 • On target for 2013 completion
• Extend home delivery network to ensure greater control over the delivery of merchandise to customers	• Home delivery network in South Africa increased from 49% to 51% • Number of delivery hubs increased to 11
• Improve supplier logistics	• Dedicated shipping co-coordinator recruited

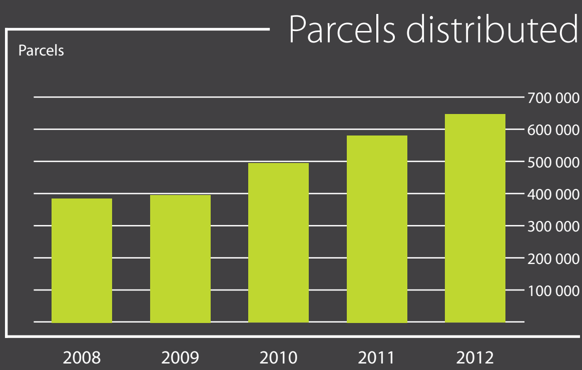
Challenges encountered in 2012

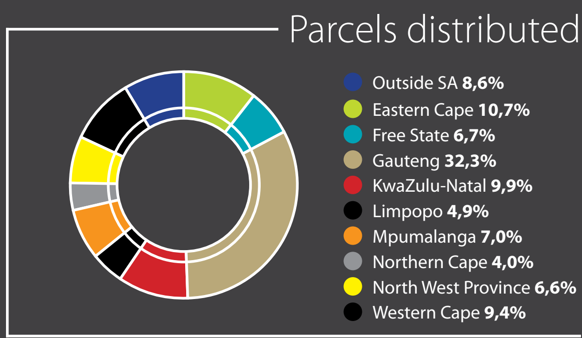
- Labour unrest in the South African transport, port and post office industries
- New routing from Pakistan and port congestion impacted on shipping times
- Experienced extended manufacturing lead times on imported product
- Capacity constraints at the distribution centre

6

Objectives for 2013	Action plans and targets
• Ensure a time and cost-effective supply chain through initiatives to reduce lead times on – procuring merchandise – handling within the distribution centre – delivery to our customer – handling returns • Expand the home delivery network • Increase distribution centre capacity and enhance operational and system processes	• Improve the number of delivery days to customers to 5 days • Extend the coverage of the home delivery network in South Africa from 51% to 55% • Increase delivery hubs from 11 to 13 • Complete the new distribution centre and introduce new processes to optimise operations (total investment of R155 million)

Key risks	Risk mitigation
• Strong growth in distribution and warehouse capacity requirements	• New distribution centre under construction and due for commissioning in 2013
• Risk of stock losses and operational disruptions on move to new distribution centre	• Detailed project plans with executive oversight
• Potential strikes and labour unrest impacting on SAPO delivery	• Increase of home delivery network coverage • Focus on converting customers still receiving post office deliveries in home-serviced areas to home delivery





implementing leading information systems

Objectives and performance in 2012	
• Design and develop systems and processes for new ERP system	• Planning and design process completed • ERP implementation now phased across 2013 and 2014 to facilitate extended design phase
• Redevelop HomeChoice e-commerce platform and website	• Web platform redesigned and piloted • Rollout in Q1 2013
• Implement merchandise planning system	• Direct Tech system successfully implemented
• Enhance FinChoice KwikServe	• Improved functionality, introduced new KwikAdvance product and added free channel for airtime purchases. Customer endorsement remains strong with an uptake of 72% of the loan customer base
• Develop and pilot mobi site for FinChoice	• Mobi site vendor selection in progress • Delivery of phased mobi site functionality planned for 2013
• Align data between business units to develop a group view of customers	• FinChoice customer behaviour data integrated into HomeChoice campaign profiling
• Optimise the operation and value derived from current information systems	• Enhanced server, storage and telecommunications capacity. Automation of batch environment has reduced reliance on human intervention

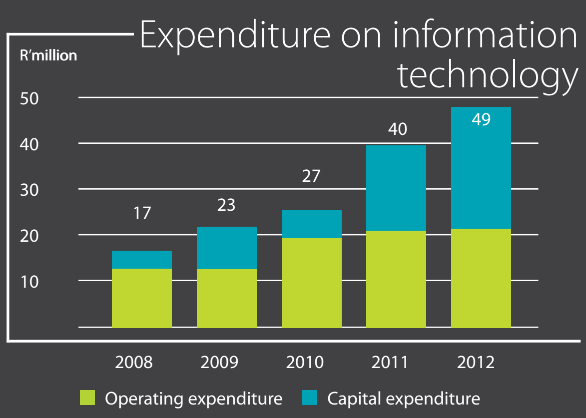
Challenges encountered in 2012

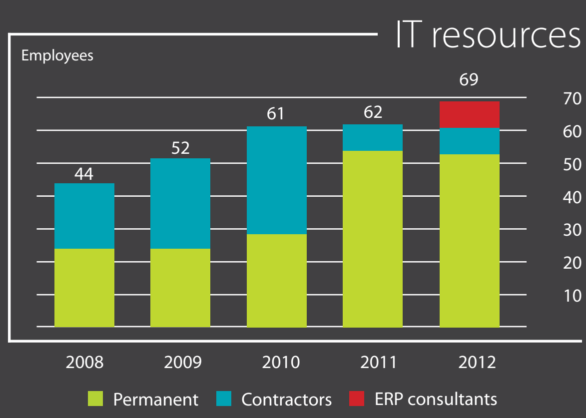
- Complexity of the ERP design phase resulted in the project being temporarily placed on hold during the year until a resource plan was agreed
- Pressure on IT resources to manage system change and development requests within cost and resource constraints
- Sourcing skilled IT specialists remains a challenge in South Africa

7

Objectives for 2013	Action plans and targets
• Complete the ERP design and build phase to enable implementation in 2014 • Enhance e-commerce with deployment of new web and mobi sites • Integrate enhancements to the credit offer within the debtors system • Implement and optimise IT infrastructure and processes at the new warehouse • Enhance dashboard reporting of key business metrics	• Capital expenditure of R30 million committed for 2013 • Implement the finance and procurement modules of the ERP

Key risks	Risk mitigation
• Introduction of an ERP system has change management and implementation risks	• Dedicated project management team utilising specialist internal and external resources • Retention of legacy skills knowledge and contingency development in legacy systems until migration completed • Robust change control processes
• Managing the business demand for system innovation and improvements to legacy systems within cost and IT resource constraints	• Operating board prioritises projects • Regular engagement with business to prioritise systems delivery and optimise resource utilisation • Significant investment in IT development and resource capacity





managing talent and driving transformation

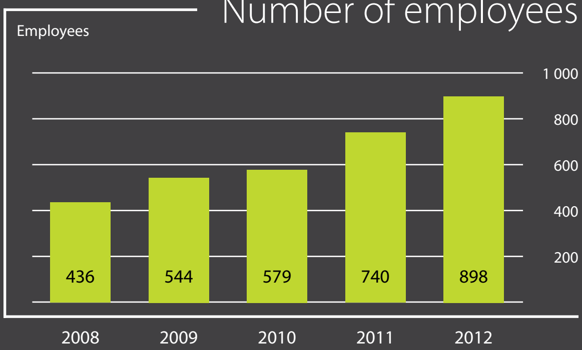
Objectives and performance in 2012	
• Implement a recruitment software solution to streamline recruitment processes and selection decisions	• System implemented which enables maintenance of recruitment database, tracking of processes and enhanced reporting throughout the recruitment process
• Reduce attrition by further entrenching the employee value proposition	• Annual staff turnover increased from 18% to 22% – call centre staff 29% (2011: 20%) – specialist staff 17% (2011: 18%) • 84% of total attrition was within the call centres
• Improve diversity within senior and top management and increase representation of disabled employees	• Increased black representation at top management from 8% to 14% • Overall black representation increased from 82% to 85% • 1% of workforce has a disability • BBBEE (level 6) score of 53,95 (2011: 50,96)
• Enhance specialist skills through the development of learning pathways for credit, retail and marketing divisions	• 21% of specialist talent trained • Hours spent in training increased 67% to 48 000

Challenges encountered in 2012
• Increase in attrition within call centres which resulted in high levels of recruitment
• Securing specialist skilled talent in a highly competitive market

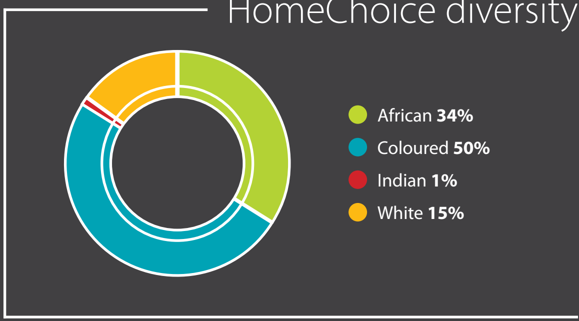
Objectives for 2013	Action plans and targets
• Review and promote the employer value proposition to new and existing staff • Address scarcity of skills through training, development and career pathing • Continued focus on driving transformation and improve diversity in the business	• Reduce attrition in the call centres through enhanced recruitment processes, coaching, training support and implementing a Team Leader Development Programme • Invest 1,5% of payroll on skills development • Target eight training days per employee • Implement a HR Information System in 2013 • Maintain level 6 BBBEE score

Key risks	Risk mitigation
• Scarcity of skills and a competitive labour environment impacting on the ability to attract, retain and develop staff with the necessary direct marketing, retail and financial services skills	• Annual remuneration benchmarking conducted to ensure market competitiveness • Implementation of a management strategy encompassing the entire employment lifecycle • Defined career paths for critical roles with supporting development plans • Succession management plans implemented where possible for key employees
• Continued high levels of attrition within the business	• Targeted retention strategy formalised with a focus on leadership development in the call centres, revised recruitment processes and coaching interventions
• Uncertainty of proposed amendments to labour legislation which may impact on the distribution centre's outsourced workforce	• Monitor proposed legislation • Develop alternate employment arrangements where appropriate

Number of employees



HomeChoice diversity



a compelling competitive advantage

1

Extensive experience and brand loyalty in mass market

The group has an unwavering focus on the urban middle-income mass market. Over the past three decades it has developed extensive knowledge of direct marketing, credit management and customer behaviour in this target market. HomeChoice managed to create a strong brand and loyalty with its predominantly female customer base. In 2012, 82% of group business was generated from existing customers with known credit records. The strength of the brand is evidenced in HomeChoice being voted as the public's favourite e-commerce website at the 2012 South African eCommerce Awards.

2

Well-positioned in growing market segment

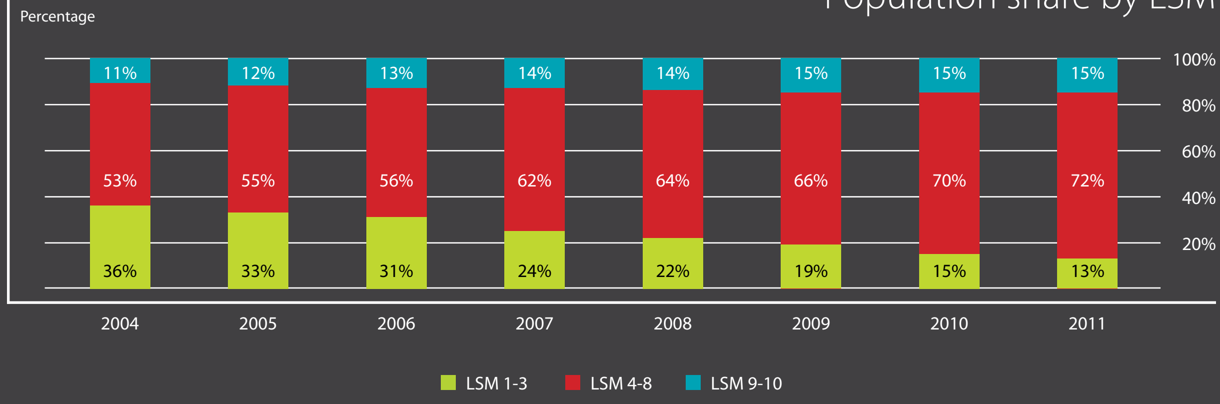
The middle-income mass market has grown strongly in the past 10 years. The LSM 4 to 8 target market in which the group operates accounted for 53% of the country's population in 2004 and this has grown to 72% in 2011 (Source: South African Audience Research Foundation). Growth has been driven by real wage increases, more people entering formal employment, increasing social grants and growing levels of urbanisation. Customers are expected to continue to migrate up the LSM spectrum as they benefit from rising living standards and higher income. HomeChoice remains committed to this market segment.

3

Strength of the direct marketing model

Direct marketing offers customers a convenient experience that suits their lifestyle and time constraints. The multi-channel contact points ensure accessibility to customers at all times and enable the group to serve a geographically dispersed customer base without the limitations of a physical store presence. The direct marketing model enables the business to predict purchasing behaviour, response rates and future profitability of marketing campaigns. Customers are segmented based on their propensity to respond and on their probability of default, using behaviour and response scorecards. Revenue can be adjusted by increasing or decreasing marketing activity.

Population share by LSM



4

Positioned to benefit from growth in online retailing

Online retail sales are expected to show strong growth in South Africa in the next few years, driven by increased access to the Internet and mobile smartphones. HomeChoice is capitalising on the growth in online retailing with an increasing proportion of customers using electronic sales channels. While online retail sales accounted for an estimated 1% of retail sales in South Africa in 2011, 7% of HomeChoice sales were through the Internet and 72% of FinChoice customers are registered on the KwikServe mobile channel.

5

Expertise in managing the risk of credit

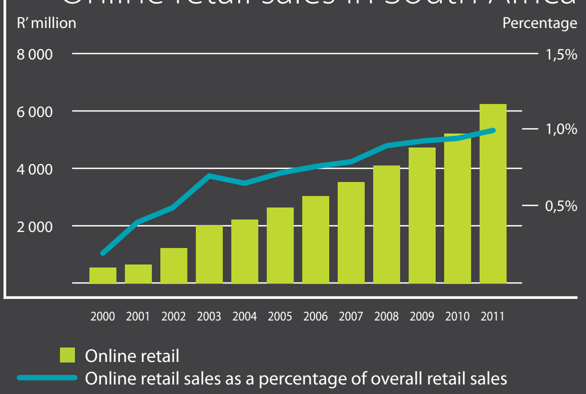
The business model is based on using credit as an enabler of sales to the mass market female customer base. The group has extensive experience in mass market credit management and the purchasing and credit history of over one million customers is used to inform credit decision-making processes. HomeChoice filters new customers for the group. Strict and consistent credit and affordability criteria, together with internally developed scorecards, are applied to all new credit applications. New customers are granted a low credit exposure, allowing the group to observe payment behaviour without significant exposure risk.

6

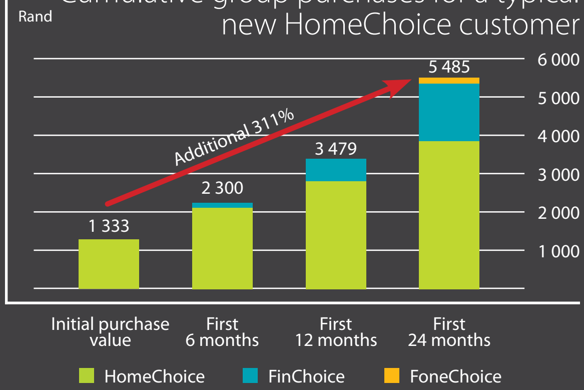
Ability to leverage the customer base

HomeChoice has a database of over 1,3 million customer records. FinChoice leverages the HomeChoice database by direct marketing personal loans to selected credit-proven customers. This ensures that FinChoice offers are marketed to relatively low-risk prospects and the business therefore has a stable loan book with an acceptable risk of bad debt. The same leverage and credit expertise has been applied with the launch of FoneChoice which markets mobile phones and laptops to HomeChoice customers with good credit records.

Online retail sales in South Africa



Cumulative group purchases for a typical new HomeChoice customer



7

Expanding presence in Africa

Africa presents an attractive medium to long term-growth opportunity. Currently 8% of the group's retail sales are generated from customers in Botswana, Lesotho, Namibia and Swaziland. As a direct marketer the group does not face many of the challenges, risks and costs encountered by traditional retailers expanding into Africa. Sustained economic growth and the increasing spending power of the emerging middle class in several African countries makes the sub-Saharan region attractive for growth. Increasing Internet penetration and broader bandwidth, together with the rapid growth in mobile phone ownership in Africa, will support growth of online marketing on the rest of the continent.

8

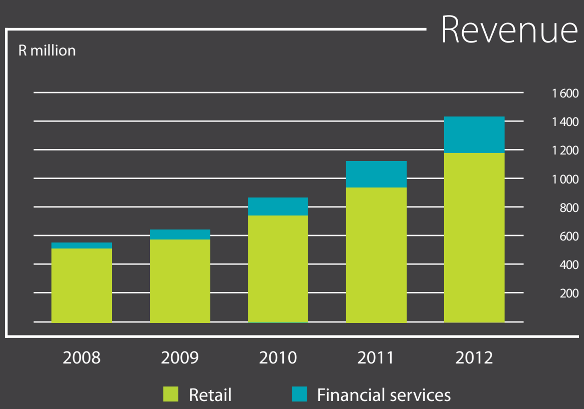
Track record of organic growth

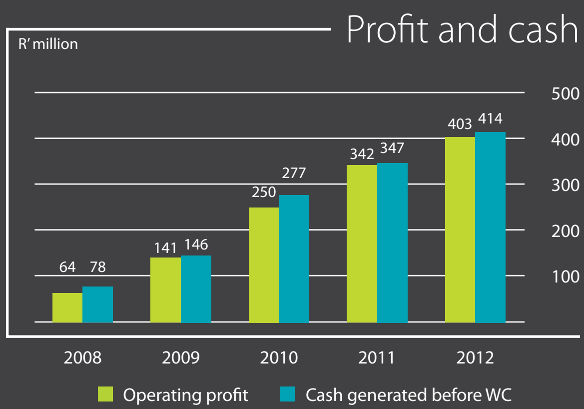
HomeChoice has a proven record of delivering organic and cash generative growth. Over the last five years revenue has grown at a compound annual growth rate (CAGR) of 27,0%. This has been driven through product innovation and merchandise range extension. Tight cost management and strict credit granting has contributed to the 29,3% CAGR in operating profit. A feature of the group's performance has been the increasing operating profit contribution from FinChoice which accounted for 32% of the group's operating profit in 2012, only six years after being launched.

9

Entrepreneurial and experienced management

Specialised direct marketing skills are scarce and highly sought after. The ongoing investment in people has enabled the group to retain key skills and attract some of the leading talent in the industry. The executive team has a healthy balance of industry and company experience, with homegrown talent complemented with externally recruited specialists. The executive directors of the group each have over 10 years' service, while the HomeChoice and FinChoice operating board directors have an average of 15 years' experience in their areas of specialisation.





10

Focused strategies for sustainable growth

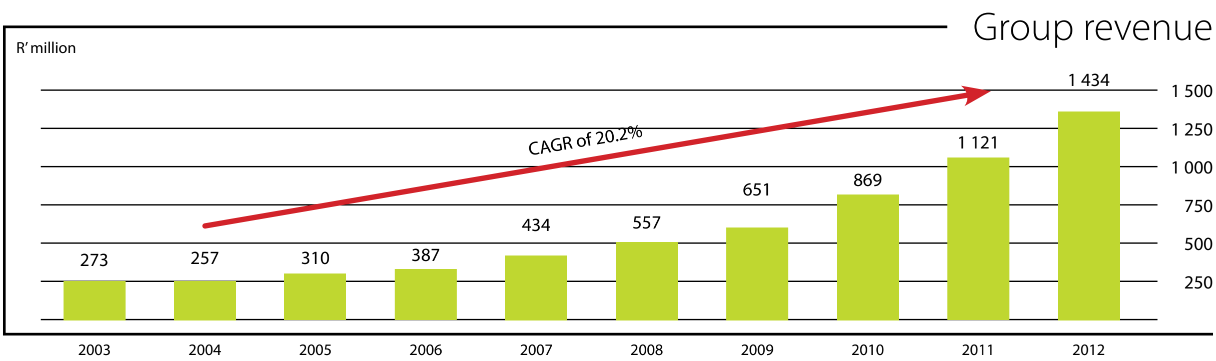
Organic growth strategies are aimed at ensuring continued competitive advantage in the retail and financial services markets. These strategies include broadening the merchandise range, attracting new customers, increasing revenue from existing customers, enhancing the customer experience through technology and expanding warehousing capacity and the distribution network.

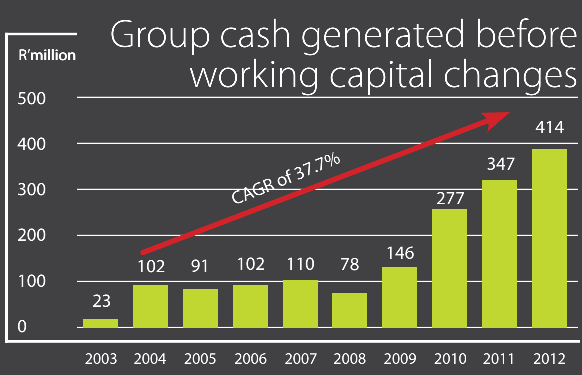
targets

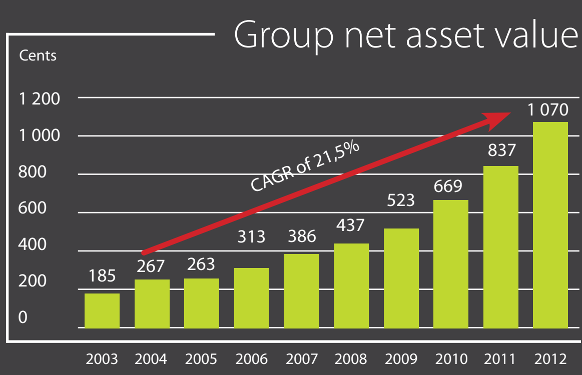
Stakeholder	Performance indicator	Medium-term target	2012	2011	2010	2009	2008
Shareholders	Gross profit margin (%) *	48 – 52	**51,1**	53,4	57,1	53,0	52,6
	Operating profit margin (%)	25 – 30	**28,1**	30,5	28,7	21,7	11,5
	Return on equity (%)	27 – 32	**29,8**	31,9	28,9	20,8	10,4
	Distribution cover (times) **	2,2 – 2,8	**5,6**	2,8	3,5	3,3	2,2
Customers	Growth in the customer base (%)	10 – 12	**16,5**	14,9	9,9	5,6	15,6
Employees	Employee attrition (%)	20	**22,0**	18,0	not reported		
	Skills development expenditure to salary (%)	1,5	**1,0**	1,5	1,2	1,4	1,3
	Black employees (%)	80	**85**	82	84	84	85
	Female employees (%)	67	**66**	68	74	73	75
	Audited BBBEE rating	5	**6**	6	8	not audited	
Community	Donations to the HC Development Trust (% of profits)	1,0	**1,0**	1,0	0,9	1,0	2,3

* *The group's revenue recognition accounting policy was amended during 2012 to include delivery fee income in "retail sales". This is considered to better reflect the nature of the group's operations as a direct marketing retailer. Delivery fee income was previously included under "fees from ancillary services". The medium-term target has been amended to reflect this change. There is no impact on the operating profit margin.*

** *Shareholders were previously advised that the board elected not to declare an interim dividend for the 2012 financial year. Refer to the Chairman's Report on page 50 for details.*







wealth creation

Sustainability can ultimately be measured by the value created by the group for and by its stakeholders.

To create wealth for its stakeholders on a sustainable basis the group needs to ensure the following:

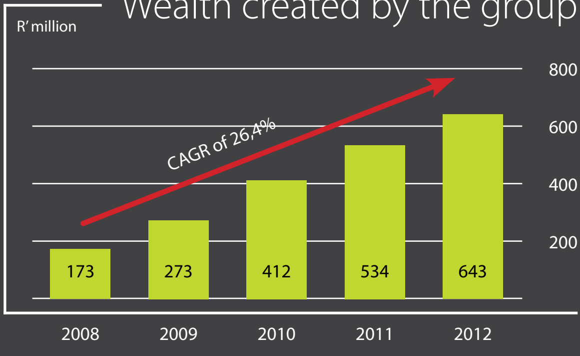
- the retail and financial services offerings remain compelling and competitive;
- organic growth is complemented by new distribution channels and markets;
- prudent credit, expense and capital management continue to be applied across the business; and
- the employee value proposition remains appealing to attract and retain skilled people.

	2012		2011 *	
	R'000	**%**	R'000	%
Revenue	**1 434 359**		1 121 060	
Interest received	**2 624**		2 975	
Other net gains and losses	**759**		2 028	
Other income	**5 036**		2 095	
Paid to suppliers for goods and services	**(799 380)**		(593 776)	
Wealth created	**643 398**	**100,0**	534 382	100,0
Distribution of wealth:				
Employees				
Remuneration to employees	**180 003**	**28,0**	142 213	26,6
Taxation and duties				
South African normal taxation	**98 046**	**15,2**	92 020	17,2
Customs duty	**46 951**	**7,3**	33 465	6,2
Community				
The HomeChoice Development Trust	**3 000**	**0,5**	2 500	0,5
Other donations and bursaries	**439**	**0,1**	744	0,1
Providers of capital				
To lenders as finance charges	**6 236**	**1,0**	6 156	1,2
To shareholders as reduction of share premium and dividends paid	**50 450**	**7,8**	65 674	12,3
Reinvested				
Reinvested in the group to finance future growth	**258 273**	**40,1**	191 610	35,9
	643 398	**100,0**	534 382	100,0

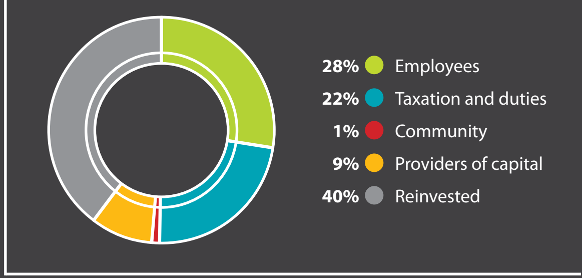
** Amounts have been restated as disclosed in note 11 of the abridged annual financial statements*

Total taxation and duties, including value-added tax and employee's tax channelled through the group amounted to R222,0 million (2011: R185,0 million).

Wealth created by the group



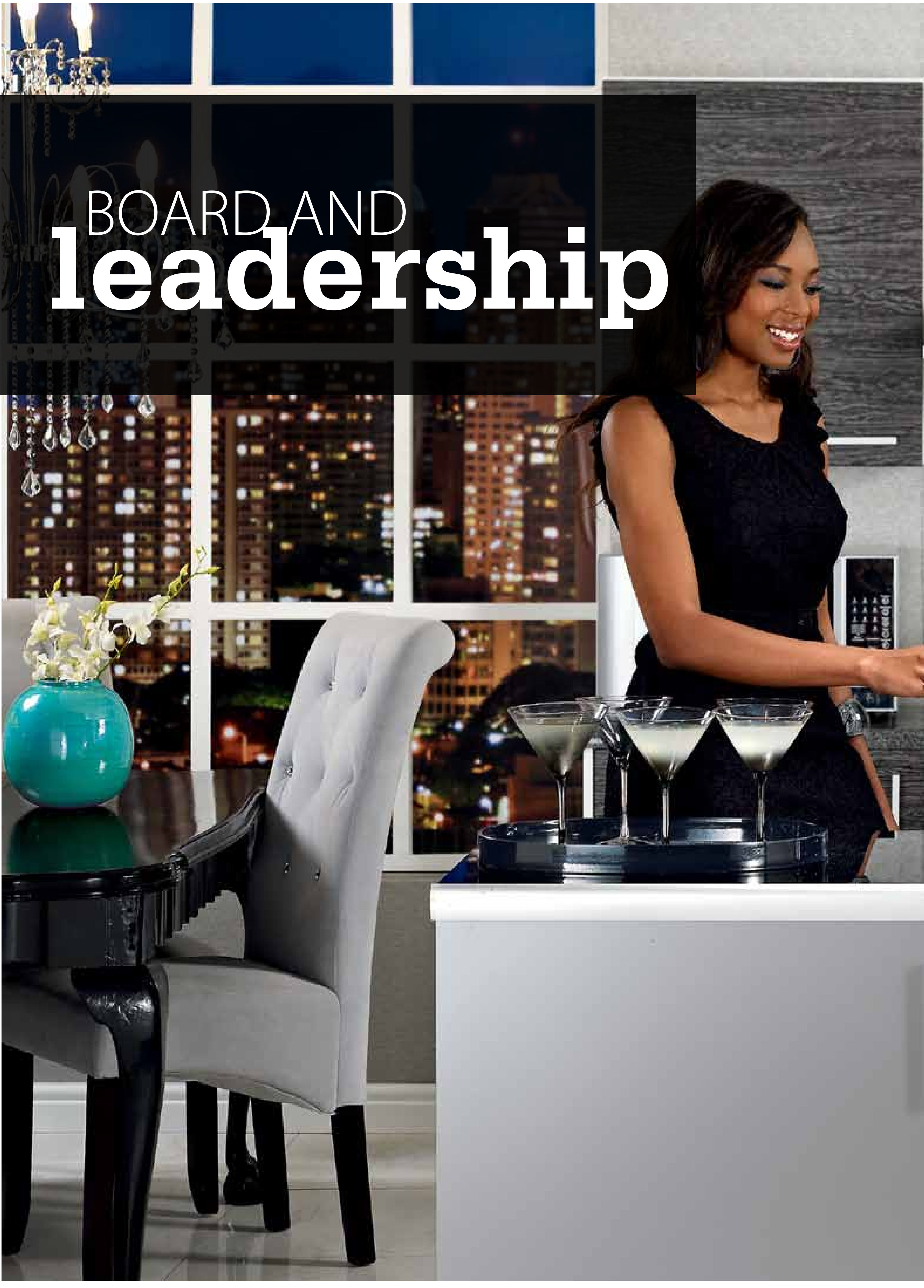
Distribution of wealth created



our stakeholder **engagement**

	Description and objectives of engagement	Key engagement issues
Primary stakeholders		
CUSTOMERS	The group has a database of over 1,3 million predominantly female customers in the mass middle-income market. Engaging with these customers enables the group to retain loyalty, understand her needs and enhance the brand, which should generate further revenue and ensure the sustainability of the business.	• Merchandise offering • Personal loans • Service levels • Product delivery • Credit offering
EMPLOYEES	898 people are employed at the group's head office and distribution centres. By creating a rewarding working environment and investing in personal development, the group aims to retain key employees, minimise labour turnover and accelerate transformation.	• Training and skills development • Remuneration and benefits • Performance management • Personal development
SHAREHOLDERS	Shareholders provide the group with capital and active engagement enables investors to make informed decisions and provides greater insight into the group's performance and prospects.	• Trading and financial performance • Dividend payments • Capital management • Prospects
Secondary stakeholders		
SUPPLIERS	The merchandise team engages with suppliers offshore and locally to ensure the group can offer exclusive, innovative, quality, value-for-money products which will ensure continued loyalty from customers. The group also engages with a wide range of suppliers of services to ensure the efficient operation of the business.	• Product exclusivity and innovation • Product availability • Quality and safety standards • Delivery lead times • Continuity and efficiency of supply • Payment terms and BEE accreditation of suppliers
REGULATORY BODIES	The increasingly complex legislative and regulatory environment requires the group to develop a thorough understanding of current, new and proposed regulation to ensure compliance and adherence to best practice.	• Legislation • Regulation • Compliance • Governance practices
COMMUNITY	As a responsible and caring corporate citizen the group supports the upliftment of communities in which it operates, with a focus on early childhood development in disadvantaged communities.	• Financial support • Staff donations • Volunteering support

Means of engagement	Outcome of engagement
• Monthly catalogue mailings and regular telephonic contact with call centre agents • Electronic engagement through the Internet, including social media, e-mail and SMS • Feedback through customer surveys, the mystery shopping network and the customer call centre	• R1,4 billion revenue generated (2011: R1,1 billion) • 629 000 merchandise items sold (2011: 580 000) • 226 000 personal loans granted (2011: 170 000) • 5,6 million catalogues distributed (2011: 4,1 million) • 1,5 million unique website visitors (2011: 1,3 million) • 12,3 million calls with customers (2011: 8,7 million) • 27 000 followers on Facebook (2011: 20 000) • Voted South Africa's favourite e-commerce website
• Internal media including intranet, e-mail and notice boards • Monthly presentations by the CEO and senior management, fireside chats and team meetings • Performance reviews, training needs analysis and annual talent management • Employee wellness programme	• Staff turnover 22% (2011: 18%) • Skills development spend R1,8 million (2011: R1,5 million) • 48 000 hours training (2011: 29 000) • Black staff as a percentage of total staff increased to 85% (2011: 82%) • Black representation at senior and top management 17% (2011: 17%)
• Annual general meeting and other formal shareholder meetings • Interim and annual reports • Media releases on company performance and developments • Investor website	• Extensive engagement with potential investors relating to the proposed listing of the group • Top rated annual report by a non-listed company in the Chartered Secretaries Southern Africa Awards
• Establishing alliances with suppliers • Supplier meetings and negotiations • Supplier take-on documentation and processes • Attending trade fairs • Regular site visits • Quality audits	• Strong demand for group's merchandise offering • Maintain own-brand strategy • Acceptable customer return rates • Good value services that support growth
• Regulatory returns • Audits • Membership of industry bodies • Ongoing liaison with regulatory bodies	• Compliance with all relevant legislation and regulation • All statutory returns submitted
• Funding through the HomeChoice Development Trust (HDT) • Requests for funding assistance • Regular visits to beneficiaries • Annual feedback on funds utilised • Quarterly trustee meetings • Feedback to customers and staff	• Group donated R3,0 million to HDT (2011: R2,5 million) • Donations to date total R11 million • Supported seven NPOs through 30 projects in 2012 • Bursaries worth R295 000 awarded to staff and customers • 216 staff participated in community events



BOARD AND leadership

June 2012 Catalogue

board of directors

Rick Garratt (66)

BCom, CA(SA), appointed 1991
Executive chairman.

Rick has been the executive chairman since 2007. Prior to that he was the chief executive officer.

Rick founded the group in 1985 and has been involved with all operational aspects. He was previously a partner at Ernst & Young.

Shirley Maltz (41)

BCom, CPE, LPC, appointed 2004
Chief executive officer of HomeChoice retail.

Shirley joined the group in 2001, overseeing the credit and operations division, as well as all marketing activities. She was appointed deputy chief executive officer in 2006 and to her current position in 2007.

Prior to joining the group she was a fund manager at Mercury Asset Management (SA) and Fleming Martin (SA).

John Bester (66)

BCom (Hons), CA(SA), appointed 2009
Lead independent director.
Chairman of audit and risk committee and member of remuneration committee.

John spent 16 years in the accounting profession and was a partner at Ernst & Young. His experience in commerce and industry includes serving as the financial manager of Toyota Marketing South Africa, financial director of Warner Lambert South Africa, and financial director and chief financial officer of the Norwich Holdings Limited Group of Companies.

He is currently a non-executive director of Personal Trust International, Clicks Group, Sovereign Foods and Western Province Rugby, and chairs a number of audit committees.

Amanda Chorn (54)

BA, LLB, LLM, appointed 2005
Independent non-executive director.

Amanda is an attorney of the High Court of South Africa and currently resides in the United Kingdom where she is a director of various companies.

Amanda provides consultancy services to private clients, specialising in international structuring.

Pierre Joubert (47)

BCom, CA(SA), appointed 2009
Non-executive director.
Member of the audit and risk committee.

Pierre has served in senior positions in several companies, including financial director of Reumech Equipment, commercial director of the Connection Group, financial director of Software Connection Limited and chief executive of Connection Group Holdings.

In 2002 he joined Rand Merchant Bank as a senior equity transactor and is currently head of equities trading.

Willem Jungschläger (56)

BA (Hons), PhD, appointed 2009
Independent non-executive director.
Chairman of remuneration committee and member of audit and risk committee.

Willem has over 30 years' experience as a human relations and human performance specialist.

For the last 20 years he has consulted to and trained large organisations, both nationally and internationally, in the retail, electricity, mining and transport industries.

His experience includes serving as HR director of the Laser Transport Group, senior psychologist at the Koeberg Nuclear Power Station and training officer for the Ford Motor Company.

Annalize Kirsten (44)

BCompt (Hons), CA(SA), appointed 2002
Chief financial officer.
Chief operating officer of HomeChoice retail.

Annalize joined the group in 1999 and was appointed financial director in 2002. She is responsible for the group's finance and information technology, as well as the retail operations. Annalize was deputy chief operating officer before being appointed to her current position in 2007.

She was previously with PricewaterhouseCoopers and a company involved in grain trading.

From left to right: **John Bester, Amanda Chorn, Shirley Maltz, Annalize Kirsten, Willem Jungschläger, Rick Garratt and Pierre Joubert**

operating
board

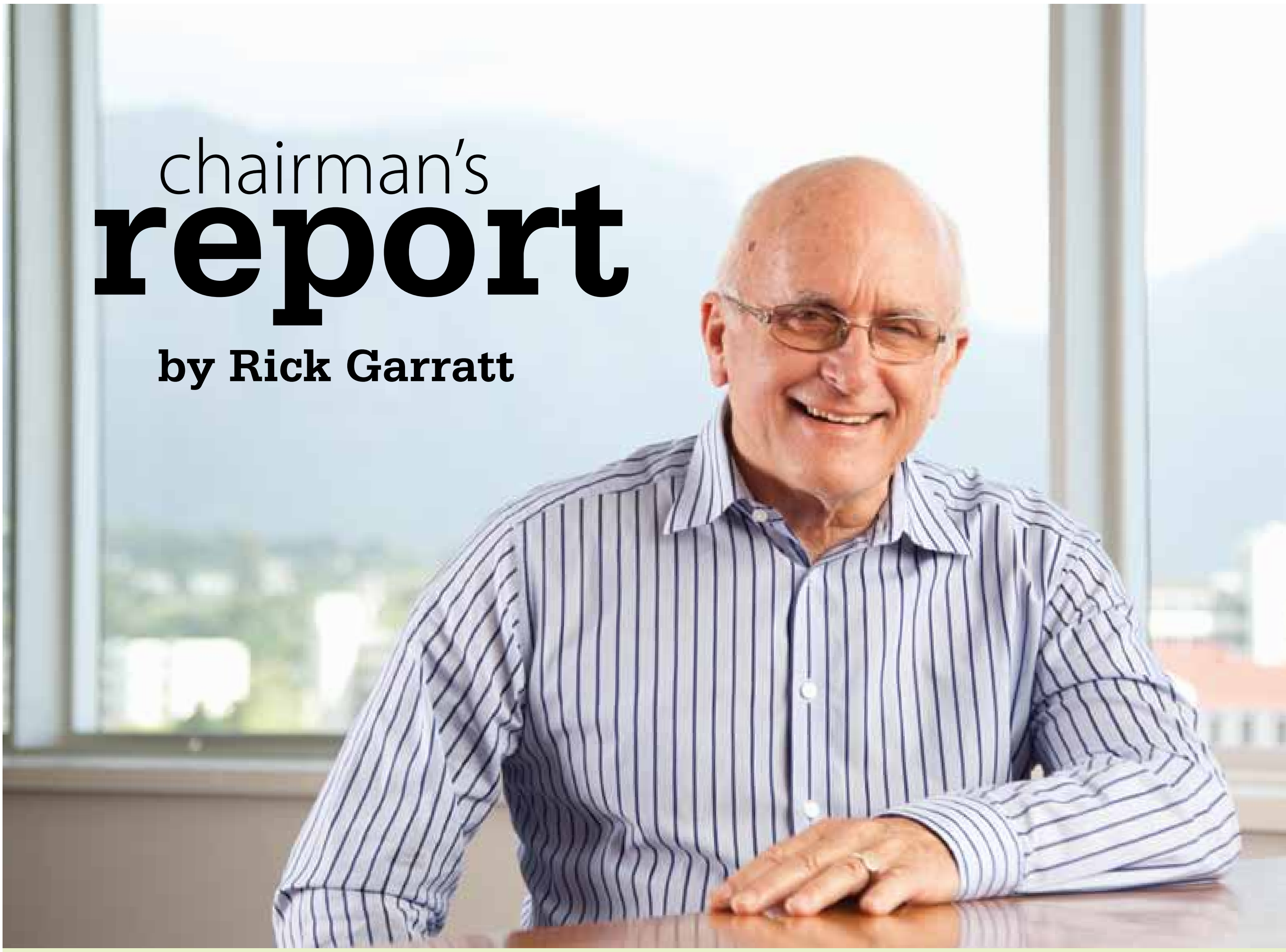
(From left to right) **Leanne Buckham** (46) – Retail CEO (from 2013)
Rick Garratt (66) – Chairman (founded group in 1985) | **Elmori Bester** (38) – Human Resources Director (joined group in 2010)
Mike Roux (52) – Credit Risk Director (2007) | **Guy Wills** (38) Logistics Director (2012)
Annalize Kirsten (44) – Group CFO and Retail COO (1999) | **Anthea Abrahams** (42) – Marketing Director (2007)
Glenda Jacobs (31) – Finance Director (2007) | **David Dalling** (39) – FoneChoice CEO (2010)
Cathy MacKenzie (44) – Merchandise Director (2009) | **Sean Wibberley** (42) – FinChoice CEO (2006)
Shirley Maltz (41) – Retail CEO (2001) | **Louis Pretorius** (47) – ICT Director (2010)
Phumla Tshabalala (37) – Operations Director (designate) (2012)

REPORTS TO shareholders

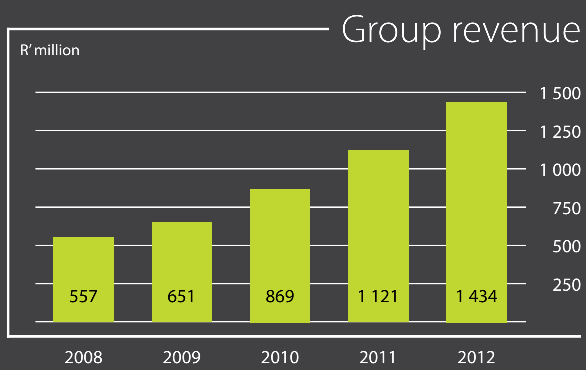

April 2013 Catalogue

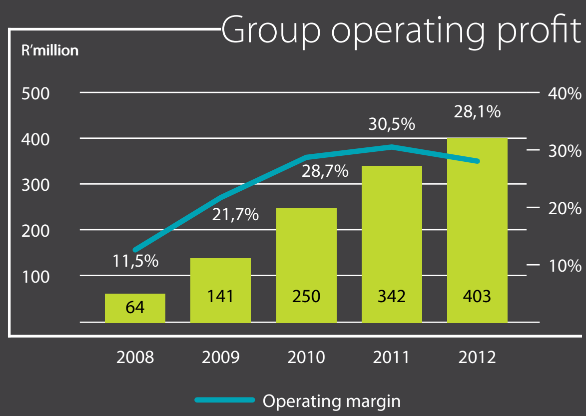
chairman's report

by Rick Garratt



"The group delivered strong financial results and gained market share despite the difficult retail and deteriorating credit environment."





Against the background of an increasingly competitive trading environment and deteriorating credit conditions, the group again delivered strong financial results in 2012.

Group revenue increased by 27,9% to R1 434,4 million, with the HomeChoice retail business growing revenue by 25,5% and FinChoice by 40,6%. These results were achieved despite the group tightening credit-granting criteria during the year, particularly in the second half.

The 17,9% increase in operating profit to R402,9 million is somewhat disappointing. The growth in operating profit was below the revenue increase owing to two main factors: firstly, pressure on the gross profit margin which declined from 53,4% in 2011 to 51,1%, largely as a result of the depreciation of the Rand; secondly, HomeChoice debtor costs which increased from 10,0% to 12,6% of revenue. This was driven by the worsening credit environment and a planned higher volume of new customer acquisition, which has a higher bad debt experience than existing customers.

FinChoice has experienced a slight increase in bad debt levels but maintained a strong operating profit margin of 50,7% (2011: 51,2%). The group has responded with tightening of credit policies and marketing cutbacks, and the positive effects are being seen in early customer vintages.

Headline earnings per share grew by 20,1% to 282,1 cents and has shown an annual compound growth rate of 25,0% since 2007.

Shareholders were previously advised that the board elected not to declare an interim dividend for the 2012 financial year. This followed our decision to delay the proposed listing on the JSE as the directors believed it prudent to retain higher levels of capital to fund growth and expansion. We are committed to resuming dividend payments in 2013 and have proposed a dividend of 50 cents per share which will be payable in May 2013.

Trading and credit environment

Retail sales in the country remained resilient in the past year despite consumer spending power weakening. South Africans faced increasing cost pressures from higher electricity and utility tariffs, rising food inflation, higher transport costs and increased medical expenses. At the same time the level of real wage increases in most sectors is declining, unemployment remains unacceptably high and consumer sentiment has weakened, with the biggest decline in confidence being in the low income groups.

Despite credit-related marketing cutbacks to existing customers of higher risk, HomeChoice has gained market share and increased retail sales by 25,5% to R841,5 million. This compares most favourably to overall retail sales growth in the country of 8,9% for 2012, as measured by Statistics SA.

Growth in HomeChoice has been driven by a 34,3% increase in new customers and good demand from existing customers for our innovative, own-brand merchandise ranges to decorate their homes. In the past year we enhanced the appeal of our merchandise by extending our core product categories such as bedding, textiles and homewares, and expanding our offering in the newer categories of furniture and electronics.

The credit environment has deteriorated due mainly to higher levels of consumer over-indebtedness and strong growth in unsecured lending, although growth moderated slightly late in the year. However, concerns surrounding the formation of a credit bubble persist and the group is maintaining a cautious approach to granting credit in 2013.

Interest rates are currently at their lowest levels in almost four decades. Consumers have benefited from these low interest rates as credit has become more affordable and reduced the cost of credit.

Group net receivables increased by 34,7% to R1 billion in 2012, with growth of 25,0% in HomeChoice and 38,8% in FinChoice.

Debtor costs as a percentage of revenue increased to 15,9% (2011: 13,2%) due to the faster growth rate of the FinChoice (and FoneChoice) book and the increased debtor costs in HomeChoice.

Please refer to Managing the Risk of Credit Report on page 86 for further details.

Listing on the JSE

Shareholders will be aware that the group was considering a possible listing on the JSE in the second half of 2012, primarily to fund growth and expansion.

We stated that a listing would be dependent on favourable market conditions.

Considerable progress was made with the listing process. However, after extensive engagement with potential investors locally and offshore, it became clear that the uncertain market environment was not conducive to raising capital on suitable terms through a listing.

The board accordingly took a decision to postpone the listing and we will continue to monitor market conditions to find a more appropriate time to list the company.

Investing for growth

The group remains committed to investing for sustainable growth, despite the decision not to proceed with the listing. We will continue to invest to improve capacity and service through other internal and external sources of funding.

The board is confident that it has access to financing facilities that will enable it to continue its growth plans.

Capital expenditure of R165 million is planned for 2013, including the development of the new distribution centre, racking and equipment for the facility, the new ERP system and other software development.

Board and governance

As a group we are committed to sound corporate governance practices which will contribute to the sustainable creation of shareholder value. We endorse the principles of and comply in all material respects with King III, electing to explain any departures from the recommendations of the code.

Governance processes continued to be enhanced during the year to align with changes in the legislative and regulatory environment. The board established a social and ethics committee in compliance with the Companies Act. This committee has oversight responsibilities for issues influencing the sustainability of the business, including social and economic development, corporate citizenship, consumer relations and employment matters.

Members of the audit and risk committee were elected by shareholders for the first time at the annual general meeting in May 2012, while the group's remuneration policy was presented to shareholders for a non-binding advisory vote at the same meeting.

The group also published its first integrated annual report in 2012, as required by King III. It was most pleasing that the report was ranked first in the category for non-listed companies in the 2012 Chartered Secretaries SA/JSE Annual Report Awards.

Please refer to the Corporate Governance Report on page 94.

Managing talent and driving transformation

Transformation is a strategic imperative and the group improved its overall score on the Department of Trade and Industry's scorecard to 53,95 (2011: 50,96), maintaining its level 6 BBBEE status in 2012.

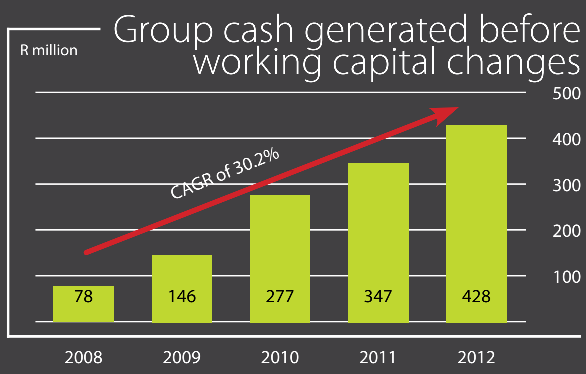
Black staff representation across the group improved to 85% (2011: 82%) and increased to 14% (2011: 8%) at the top management level. Female employees comprise 66% (2011: 68%) of the total staff complement.

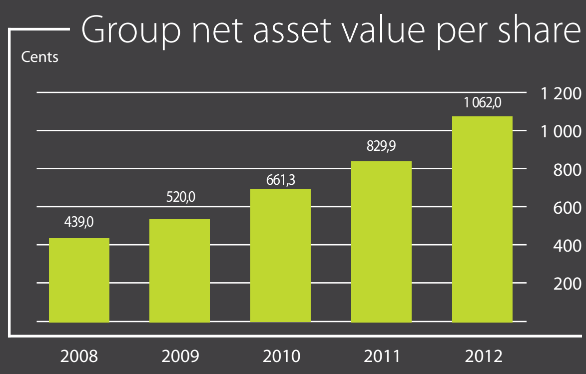
Employee headcount increased by 21,4% to 898 at year-end in 2012. The majority of this growth has been at the middle management level where the group has focused on strengthening its leadership and growing the pool of specialist talent.

Employee turnover has deteriorated to 22% (2011: 18%), with 84% of the attrition being in the call centres where the turnover rate was 29%. This was driven by increased performance expectations from management.

Turnover at the specialist and management levels was stable, with the attrition rate less than 7%. The group has set a medium-term target of improving total staff turnover to 20%.

Please refer to the Social and Ethics Committee Report on page 106.





Executive appointments

Shirley Maltz, the chief executive officer (CEO) of the HomeChoice retail business, has been promoted to Group CEO. Shirley joined the group over 12 years ago and has had widespread exposure across the business during this time.

Under Shirley's leadership of HomeChoice since 2007 the business has experienced strong growth. The board has every confidence in her ability to lead the group on its continued growth path and we wish her success in her new position.

Shirley has assumed several of my responsibilities as her appointment is part of a phased transition where I will ultimately relinquish my executive role to become non-executive chairman.

We are pleased to welcome Leanne Buckham who was appointed CEO of the retail business in February 2013 to succeed Shirley. Leanne is a chartered accountant who has returned from working in London for the past 22 years. She was most recently a principal of a large European private equity firm where she was responsible for investments in the retail and consumer sectors, and served on the boards of investee companies, including fashion retailer New Look.

Our retail operating board was strengthened with the appointment of Guy Wills as logistics director and Phumla Tshabalala as designate operations director respectively. We bid farewell to Rob Ross, our former logistics director, who retired after 26 years' service with the group.

Rob joined HomeChoice one year after we started and played a critical role in the development of the group. I thank him for his contribution and wish him a long and enjoyable retirement.

Prospects

Continued merchandise innovation will be key to driving sales growth in the competitive retail environment in the year ahead. Customer demand for merchandise for the first 11 weeks of the new financial year has continued at similar levels to 2012. FinChoice continues to grow its shorter-term consumer debt book in line with budget.

The group will continue to adopt a cautious approach to credit granting and tighten credit risk policies as required. Bad debt levels are expected to increase owing to higher levels of consumer indebtedness but management is confident that adequate provisions have been raised.

In light of the group's cautious approach in 2013 and in the absence of any marked deterioration in the economic or trading environment, the directors believe that the group will sustain its growth, albeit not at the level of recent years.

Appreciation

The performance in 2012 is a tribute to the commitment, energy and hard work of our directors, management, specialists and employees.

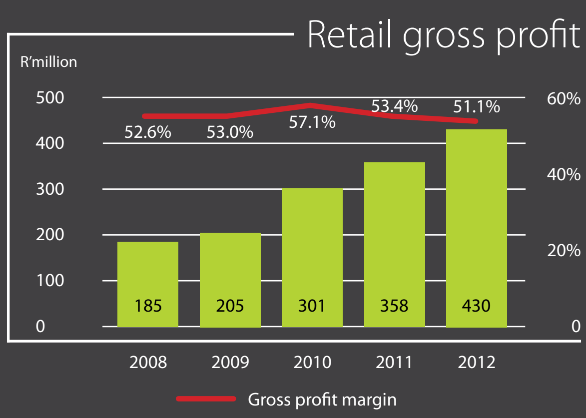
Thank you to our loyal customers who have supported us in increasing numbers in the past year, as well as our shareholders, suppliers and business partners for your support in the past year.

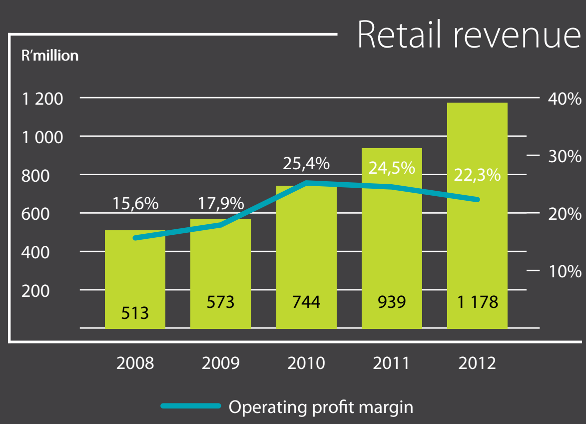
Rick Garratt
Chairman

CEO's report: retail

by Shirley Maltz

"We have remained committed to our target customer, the black urban female, and continued to focus on offering her products that represent value, quality and exclusivity."





Overall retail sales in the country, as measured by Statistics SA, have remained resilient in the face of a tightening consumer environment and grew by 8,9%. Sales growth, however, slowed in the second half of the year as consumers faced increasing cost pressures. The level of real wage increases is also declining in most sectors, and this, together with higher levels of consumer indebtedness, has resulted in a deterioration in the credit environment.

We have remained committed to our target customer, and continued to focus on offering her products that represent value, quality and exclusivity, through our call centres and electronic channels.

Against this trading environment, HomeChoice has performed well with revenue increasing by 25,5% to R1,2 billion. This comprises R841,5 million of retail sales, R206,7 million of finance charges and R129,8 million in fee income. It is disappointing that operating profit for the year rose by only 14,4% to R263,0 million, with the growth being below the rate of revenue growth due to higher debtor costs and the lower gross profit margin.

While the gross profit margin came under pressure and declined to 51,1% (2011: 53,4%), it remains well within the medium-term target range of 48% to 52%. The margin was impacted by the weakening of the Rand, increased warehousing costs, higher customer acquisition as well as the introduction of lower margin merchandise categories such as furniture and electronics, and laptops and mobile phones in FoneChoice.

Debtor costs as a percentage of revenue increased to 12,6% (2011: 10,0%). This increase was due to both the deterioration in the credit environment as well as increased bad debts following higher levels of customer acquisition during the year. An increase in bad debt was anticipated with the shift in sales towards new customers. However, we have also experienced greater levels of delinquency within the portfolio and have taken steps during the year to tighten credit policy. We are taking a cautious view of the current credit environment and have increased our provisioning levels acccordingly.

The reduction in the gross margin and the increase in debtor costs was partially off-set by a reduction of other costs. Trading expenses have been well managed during the year, and as a percentage of revenue decreased from 32,3% to 30,4%.

The merchandise team continued to bring innovative, exciting products to our customer, reflected in the 25,5% increase in retail sales to R841,5 million (2011: R670,5 million). This was driven by strong growth in the core textile ranges of bedding, as well as good growth in the newer ranges of furniture and electronics.

The number of pages in our monthly catalogue, which is the equivalent of trading space for a direct retailer, was increased by 12,6%. Although the business is primarily call centre based, the focus on our electronic presence continues to produce good results. The number of website visitors increased by 22,8% to 5,0 million and mobi visitors by 249,2% to 1,2 million. We were delighted to be voted by our customers as the country's favourite e-commerce website in the 2012 South African e-Commerce Awards, particularly as putting "Our brand in her hand" is a strategic focus for the group.

Managing the risk of buying

Our success as a retailer is determined by our ability to forecast trends, interpret them for our customer base and to consistently offer her innovative products while managing our risk. Our merchandise team travels extensively and the in-house trends studio uses multiple forecasting tools and researches international retailers to bring a high level of innovation to our customer.

The catalogue offering further increased as a percentage of total sales from 75,6% to 80,2%. The single product offers to customers carry higher risk on product selection and the continual shift towards the catalogue is positive. The core offering remains textiles, with a specific focus on the bedroom. Bedding represents 67,4% of HomeChoice sales and we continue to offer outstanding product innovation in this area. Despite the growth of the new categories bedding continued its strong growth of 18,4% in 2012.

It is critical that when we make buying errors we are able to respond quickly to rectify them. Our buying process enforces this discipline on the team. However, in the past year we overbought in our ornate bedding range and were not able to clear some of the product fast enough. This impacted both the health of stock and the margin to a lesser degree.

The fluctuation of the Rand poses an ongoing challenge for the team, with significant weakening in the currency over the reporting period. However, the team responded by re-engineering products and reconfiguring the product offer where possible. Minimal price increases were passed on to the customer to allow us to remain competitive, yet we managed to hold our gross profit margin within the targeted levels.

Stock levels closed the year under forecast at R110,2 million which is an increase of 19,6%. Although we were focusing on clearance and tighter stock management, sales volumes in the last quarter were higher than anticipated. As a result we have opened the 2013 year lower than we would like, which ultimately negatively affects the customer experience and we are focusing on increasing our stock levels to historic norms.

Please refer to the Managing the Risk of Buying Report on page 79.

Optimising supply chain efficiency

A significant driver of a customer's experience with HomeChoice is the time it takes for new trends and fashion to reach the catalogue, and the time from the customer ordering to receiving the product. An indication of our own efficiency is the lead time on replenishment of stock in the warehouse.

Lead times improved in the first half of the year, however the impact of labour strikes in the transport, port and post office sectors in the second half of the year was felt across the supply chain, while a new routing on imports from Pakistan and port congestion impacted on shipping times.

More efficient processes within the warehouse and distribution centre resulted in a 14,1% improvement in delivery times to customers.

However, we experienced significant challenges within the existing warehouse owing to the increasing volumes of parcels being dispatched. This will be addressed through the development of the new warehouse which is on schedule for completion in the second half of 2013. This new facility will increase our storage capacity from 80 000 m^3 to 200 000 m^3.

Furniture continues to pose delivery challenges owing to the size and weight of the products as well as complexities in managing returns and damages. Despite strong demand, furniture sales are therefore being restricted to specific delivery hubs until we are confident that the delivery management issues have been resolved.

Growing our customer base

As a direct retailer without physical stores, one of the biggest drivers of our growth is new customers on our database. This is important both from generating merchandise sales and from creating an "excess" of names or "buffer" that gives us the opportunity to remove customers from mailing selections to manage risk.

One of the primary group strategies is to use the retail business to drive group customer acquisition. The retail business has both the strong brand and the margin to absorb the cost of new name acquisition for the group. During 2011 we took the decision to invest to a greater degree in new customer acquisition in 2012. While this impacted on the retail performance in 2012, we remain committed to this strategy as the increased acquisition for the group impacts positively on the FinChoice bad debt experience and ultimately on the group.

Customer acquisition was highly successful during the performance period, with new customers increasing 34,3% to 156 000. Sales value per new customer increased 26,2% to R1 388 and this was driven by increased sales of catalogue product to new customers rather than traditional lower-priced acquisition products. As a result of this growth and credit strategy, retail sales to existing customers declined to 70,1% of total sales (2011: 79,0%).

The acquisition of new customers was supported by growth in our electronic acquisition channel. This was supplemented by pre-scored purchased lists for which we developed response and risk scorecards, and the performance of the direct sales agent team. The higher level of acquisition for the year resulted in an increase in the cost per new customer acquired to R591 (2011: R421).

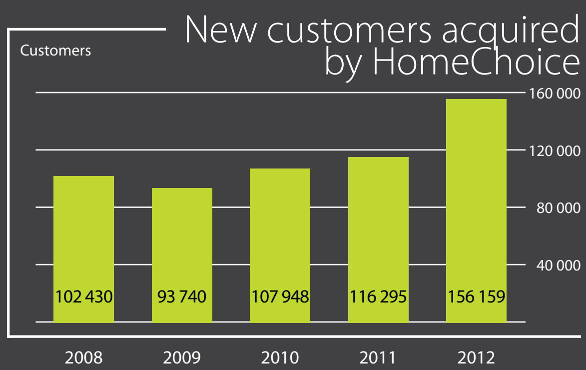
Our customer base increased to 494 000 (2011: 424 000). This growth was lower than the number of new customers owing to attrition and marginally declining existing customer repurchase rates which fell from 65,5% to 64,3%. This was significantly impacted by tightening existing customer credit strategy within monthly mailing selections. During the reporting period existing customer credit exclusions within our catalogue mailing increased from 8% of customers available to mail to 18%. These existing customer credit exclusions impacted on existing customer demand throughout the period. Despite these shifts in credit policy, existing customer demand, although lower than last year, remained within targeted levels and sales value per existing customer increased by 3,6% to R1 393.

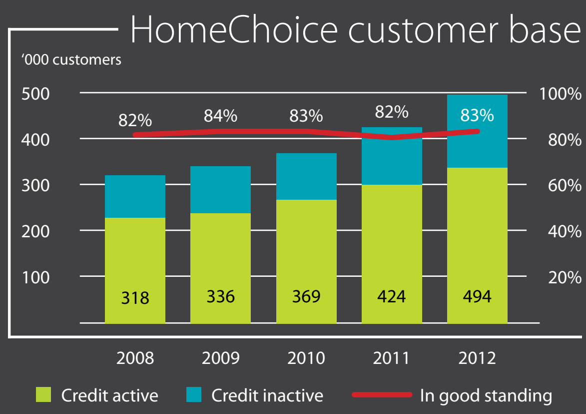
Our call centres remain the primary order source. However, through the strategy of "Our brand in her hand" we plan to increase sales through electronic order sources such as the Internet and mobi site and saw a pleasing 39,9% sales increase in these order sources. The strategy will be supported by the new HomeChoice website, which was launched in January 2013, and the new mobi site which is scheduled to go live late in 2013.

Managing the risk of credit

Credit is integral to merchandise sales in our targeted LSM 4 to 8 customer segment and accounts for 93,7% (2011: 94,7%) of HomeChoice's sales.

Unsecured lending continued its rapid growth during 2012. While the stable interest rate environment has been supportive of the credit market, the higher level





of consumer indebtedness and rising cost pressures has resulted in a deterioration in the credit environment. This has led to increasing delinquency levels and a consequent increase in applications for debt review. The deteriorating credit health of consumers was confirmed by the TransUnion Consumer Credit Index which fell to 44,4 in the first quarter of 2013 from 49,4 in the last quarter of 2012.

Within this environment HomeChoice's gross trade receivables increased 27,3% to R648,5 million and debtor costs as a percentage of revenue increased to 12,6% (2011: 10,0%). The primary driver of this increase is the higher bad debt write-offs from increased customer acquisition, market deterioration reflected in worsening portfolio performance and the consequent increase in provisioning levels.

As indicated to shareholders in the 2011 integrated report, we planned substantial growth in new customer acquisition. The acquisition of new customers in the retail business is regarded at group level as an investment in new names. This strategy results in a higher level of bad debts as new customers carry higher levels of credit risk than existing customers. This negatively affects both bad debt write-offs and the overall health of the debtors' book in the year of acquisition.

We also experienced true identity fraud that we believe was co-ordinated syndicated fraud through our electronic channels. A portion of this fraud was detected, and although the fraud defences have been tightened, significant bad debt write-offs are anticipated from the undetected portion. New delinquency levels were higher than anticipated but started to come back in line towards historic norms in the second half of the year.

The inclusion of pre-scored acquisition campaigns attracted an improving level of risk which resulted in new customer acceptance rates increasing from 49,8% in 2011 to 54,8% in 2012. This was primarily due to the impact of new risk and response scorecards implemented within the purchased prospect lists, which have an above average acceptance rate due to the pre-scoring of prospects. Excluding this new channel, acceptance rates declined to 49,3% as the risk policy was marginally tightened in response to the deteriorating credit environment.

As referred to above we increased the existing credit exclusions from 8% to 18% in the year under review. This was due to a deterioration in existing performance. Early risk metrics for sales to existing customers demonstrate that the tightening of the credit and selection policies has stabilised the risk levels of existing customers, and this will improve the quality of the debtors' book over time.

HomeChoice successfully tested the extension of instalment credit terms to 24 months on higher-priced products for top-rated customers, which accounted for 8,8% of credit sales in 2012. The shift towards longer average credit terms in the HomeChoice book reduces monthly cash collections in the short term, although these term shifts will ultimately lead to higher levels of cash on the book and greater profitability over the life of the contract.

Due to the factors described above the provision for doubtful debt was increased to 18,9% (2011: 17,4%) of the gross debtors' book, reflecting the continued application of conservative provisioning policies. This provides adequately for expected future bad debt write-offs given the level of new customer balances in the debtors' book and existing customer performance.

At year-end 75,3% of customer accounts were in good standing and able to buy on credit compared to 77,8% in 2011. This change is a result of the increased proportion of new customer balances, as well as the higher risk experienced in existing customer business.

Although the credit performance for the period has been disappointing we believe the new policies will result in improved performance on the credit vintages. However, we do not anticipate an improvement in debtor costs in 2013 due to possible further deterioration in the credit market.

Please refer to the Managing the Risk of Credit Report on page 86 for further detail.

Enhancing the customer experience

As a direct marketing retailer HomeChoice interacts with customers across a range of channels but does not have a face-to-face relationship. Managing the distance relationship is complex and the group strives to ensure consistent customer service and speed of delivery across all platforms. HomeChoice has over 350 agents in its inbound and outbound call centres. Training of agents is focused on customer service and these call centres generated 78% (2011: 74%) of sales in 2012. Enhancements to the website during the year also ensured consistent service.

A "Customer First" project aims to enhance the customer experience by focusing on continued investment in people, processes and systems to bring the customer closer to the business. Enhanced query resolution processes were introduced during the year and we have seen a pleasing reduction in the number of outstanding queries. Due to the success of FinChoice KwikServe, HomeChoice also piloted a service-orientated customer application using the same technology which was well received by customers.

Reducing delivery times on orders is key to enhancing the customer experience. All order sources are channelled into one centralised operation to ensure consistency and during the year the order processing time improved by 35%, while the average delivery time improved from 6,4 days in 2011 to 5,5 days in 2012.

After-call surveys are conducted to track the shopping, ordering, delivery, payment and query resolution experience with approximately 10% of customers concluding their calls with direct agent feedback on their experience through an automatic voice recording system. The customer feedback from these surveys links directly into each agent's performance management framework and is resulting in improved customer experience. Finally, a customer experience index is used to track the quality of service and this enables management to track experience over time and address areas requiring improvement.

An innovative online credit-vetting capability was developed to complete credit applications instantly at the telephonic point of sale, improving acceptance rates as well as increasing the average order value. Internet and call centre improvements resulted in an increase in instant credit decisions from 56,1% in 2011 to 70,6% of new credit applications in 2012.

Implementing leading information systems

Information is critical in a direct marketing environment and the group has a strategic reliance on integrated technology solutions. The group plans to invest approximately R78 million on information technology over the next two years, including R41 million on the implementation of an ERP system in 2014.

The Direct Tech merchandise planning system was implemented, as referred to in the Managing the Risk of Buying Report, and a wireless handheld picking and stock movement system was introduced into the warehouse.

New IT developments are also aimed at enhancing the customer experience by empowering them to interact with the group across all platforms 24/7 and to support the strategy of "Our brand in her hand". The new website was completed during the period and was rolled out to our customers in January 2013.

FoneChoice

FoneChoice completed its first full year of operation in 2012, generating revenue of R72,8 million and increasing its debtors' book to R57,4 million. The business, which was launched in 2011, offers HomeChoice-branded laptops, mobile phones and smartphones to the HomeChoice customer base.

FoneChoice leverages off the HomeChoice expertise in direct marketing, merchandising, sourcing and logistics, and off FinChoice's robust credit and collections system.

The majority of FoneChoice products and services are offered over 24-month terms, with higher value laptops on 36-month terms. Products are marketed through inserts in the HomeChoice monthly catalogue.

FoneChoice expects continued strong demand for laptops, computer accessories and high-end smartphones throughout 2013. The business will continue to leverage off the HomeChoice database for customer acquisition, and align its merchandise and software offerings with HomeChoice's electronic strategy.

Prospects

HomeChoice will continue to pursue its organic growth strategy by expanding its customer database, attracting new customers and retaining quality customers through repeat business.

Credit and customer selection policies have been tightened in response to the deteriorating credit environment and will be further tightened if required. Bad debt write-offs are, however, expected to increase in 2013 due to the high volume of new customers acquired during 2012.

Plans for the year ahead include the completion of the new distribution and warehouse facility in Cape Town, broadening the existing merchandise range and launching new ranges, as well as enhancing product presentation and packaging. The coverage of the home delivery network in South Africa will be extended from 51% to 55% and two additional delivery hubs will be opened.

Technology and systems development to enhance the customer experience include the completion of the design and build phase for the ERP system, the launch of the new mobi site and improved KwikServe functionality.

Despite continuing credit tightening and a challenging retail environment, HomeChoice expects to continue to show satisfactory growth in revenue and operating profit in the year ahead.

Thanks and appreciation

As staff numbers increase with the rapid growth in the business, it is increasingly difficult to keep in touch with everyone. However, I sincerely appreciate the time that each and everyone takes to chat to me about their concerns or ideas. It is these chats and ideas that shape my view of the business and ultimately inform our business strategies. Although it has been a challenging year, and 2013 is unlikely to be any different, I believe each one of us has contributed to our success, and I thank you.

To my executive colleagues, I have once again had an enormous amount of fun working through the challenges we encountered during the year. The sense of teamwork and fun is central to who we are as a team and contributes to a large part of our success. To my successor, Leanne, welcome to the team and best of luck.

At the heart of our business are our loyal customers. Thank you for choosing HomeChoice to transform your home and we look forward to sharing our world with you in the year ahead.

SMaltz.

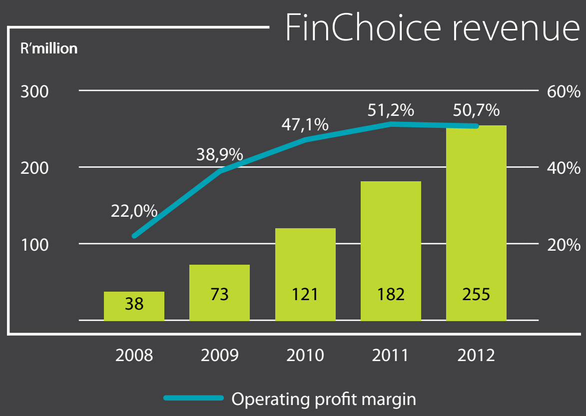
Shirley Maltz
Chief executive officer

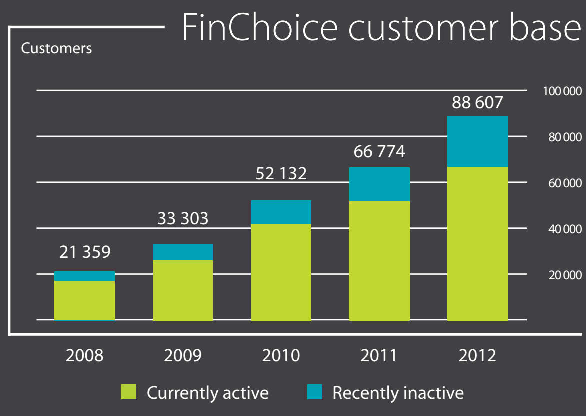

COLOUR
BEAUTIFUL HOMES

CEO's report: FinChoice

by Sean Wibberley

"Since its formation FinChoice has marketed exclusively to HomeChoice customers of known and acceptable credit risk with a proven record of repaying retail credit."





FinChoice maintained its growth momentum in 2012 and increased revenue by 40,6% to R255 million in its sixth year of trading in the highly competitive unsecured lending market.

The year was marked by continued innovation in loan products and increased demand from customers. This is reflected in the 33,9% growth in loan disbursements to R656 million and an increase of 30% in active loan accounts. The health of the FinChoice debtors' book remained sound during the period, although management began tightening credit policy towards the end of the year owing to concerns around the macro lending environment.

The operating margin declined from 51,2% to 50,7% with the operating profit 39,4% higher at R129,5 million. FinChoice increased its contribution to group profits from 26,5% in 2011 to 32,1% in 2012. The reduction in operating margin was driven by an increased provision for doubtful debts to 11,4% of gross receivables (2011: 10,6%) which management believes is prudent in the current environment.

Revenue and operating profit benefited from a once-off payout of approximately R9,7 million for credit life insurance business written between 2009 and 2011. Excluding the impact of this income, operating profit increased by 29,0% from 2011. An additional R5,4 million of revenue and operating profit was earned for credit life insurance business written in 2012, and this revenue stream will continue into the future.

Unsecured lending environment

The past year has seen continued strong growth in unsecured lending in South Africa, although the rate of growth slowed in the latter part of 2012. Market commentators have speculated on the unsecured lending market overheating owing to the high levels of consumer indebtedness in the country.

Statistics from the National Credit Regulator (NCR) for the third quarter of 2012 report a 38% year-on-year increase in the combined gross debtors' book for unsecured and short-term lending in the country to R141 billion (Q3 2011: R102 billion).

An area of particular concern is the growth in loan sizes and the length of instalment terms. In the year to September 2012 over 60% of the value of all unsecured and short-term loans disbursed in the country were on terms longer than 36 months. During this same period 75% of loans disbursed were for amounts greater than R15 000.

A key driver of this growth has been the increase in debt consolidation strategies where competitors have sought to gain market share by settling the existing loans of a customer. The consolidation loan is typically a single large loan which is made more affordable to the consumer by extending the repayment period over several years.

We are concerned by the exposure to event risk inherent in such long-term unsecured credit. At the same time, the growth in debt consolidation can mask credit stress in the consumer, as distressed consumers are able to restructure their debt and may on the surface appear to be performing well. A slowdown in credit supply could expose these stressed customers and lift bad debt levels in the industry.

FinChoice has experienced a steady increase in the number of customers choosing to go under the NCR's debt counselling process. Approximately three-quarters of our customers who enter into debt review are performing well at FinChoice, an indication of increased stress in the market. We have established automated processes for engaging with debt counsellors to reach restructuring agreements, and are encouraged that the yield from our debt review book is superior to our handover recoveries.

The abuse of garnishee orders by some debt collectors came under the spotlight in the second half of 2012. Regulatory pressure looks set to limit or even outlaw garnishee orders and this will have a negative impact on the efficacy of legal collection strategies for those lenders that rely on garnishee collections. FinChoice employs external debt collection agencies to recover written off loans. The use of garnishee orders represents an insignificant proportion of these recoveries and management does not expect any meaningful impact should the use of garnishee orders be curtailed.

FinChoice loans strategy

FinChoice follows a strategy of controlled growth which seeks to maximise customer acquisition rather than the value of loans disbursed. The FinChoice loans book represented only 0,3% of the combined unsecured and short-term lending market at September 2012.

Since its formation in 2007 FinChoice has marketed loan products exclusively to HomeChoice customers of known and acceptable credit risk, with a proven record of repaying retail credit. HomeChoice essentially "cleanses" prospective loan customers by leveraging its retail gross margin and lower exposure credit offering to contain the cost of bad debt. The best quality customers are filtered through to FinChoice and receive pre-qualified loan offers.

FinChoice limits longer-term exposure risk through its strategy of focusing on shorter-term lending to a maximum term of 36 months. The six-month term product accounted for 56% of new loans and 52% of repeat loans in 2012. The new 36-month term product was introduced in 2012 strictly for top-rated customers and this book comprised only 4,1% of the total loan portfolio at year-end.

In response to the concerns related to overheating in the macro lending environment, FinChoice has focused increasingly on short-term products (six-month and a new one-month product). We also reduced maximum loan sizes for our lower risk scorecard categories for our 36- and 24-month longer-term products. In 2013 we will be tightening credit policy further, and therefore anticipate slower disbursement growth in the year ahead as a result of this defensive strategy.

The average term of a FinChoice loan at year-end 2012 is 17,8 months, with an average balance of R5 537. This compares to the combined unsecured and short-term lending market average of R17 731 in Q3 2012. The NCR does not provide data on the average term of loans in the market, however, the Regulator disclosed that the market disbursed 78% of loans on terms greater than 24 months over the period.

Credit risk is further mitigated by assessing a customer's payment performance at both HomeChoice and FinChoice before further credit is granted. The current low interest rate environment has maintained pressure on interest margins for our unsecured loans of 12 months and longer. FinChoice has mitigated this impact on the business by booking more than half of new customers on the six-month term product and by introducing a one-month product, KwikAdvance. Both these products attract a higher, regulated interest rate which is not linked to the Reserve Bank's repurchase rate.

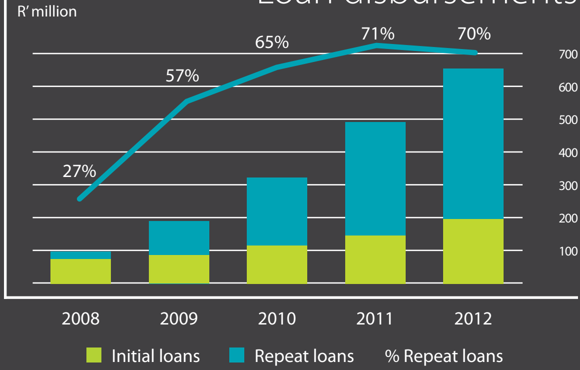
Continued product innovation

As a niche provider in the unsecured loans market, FinChoice aims to differentiate itself by offering flexible, convenient, fast and innovative products and services. During 2012 the 36-month product was launched as a retention product for the best-paying, proven loan customers, with a maximum loan value of R20 000. Due to management caution in the present unsecured lending climate, the roll-out of this product was contained to under 5% of total disbursements and we will continue to restrict this long-term product in 2013.

KwikAdvance, the new one-month loan product launched late in 2012, is our first multiple loan product. Customers are now able to have two concurrent loans: a longer-term loan for their lending needs and the short-term KwikAdvance loan to cater for cash flow needs. Customer response to the new multi-loan product has been encouraging and management plan to focus the demand mix towards this short-term product in 2013. This low-exposure one-month product also enables FinChoice to take on additional credit-proven customers from the HomeChoice base who do not receive a monthly paid salary, such as self-employed customers.

The KwikServe mobile self-service channel launched in 2011 is key to the group's strategy of "Our brand in her hand". This is a free service to all customers with a standard mobile handset and enables 24/7 access to their loan account, empowering customers to transact securely after hours at their convenience. Customers can access loan account balances, apply for a repeat loan or request an instalment skip. Customer engagement through KwikServe has been most encouraging.

Loan disbursements



Growing our customer base

New loans disbursed increased by 37,4% to R195,4 million as 30 078 (2011: 24 600) new loans were booked in the financial year.

New loan disbursements are considered an investment as each new customer represents an opportunity for repeat business. Approximately 75% of new customers take a repeat loan over time.

Repeat loan disbursements grew by 32,5% to R460,2 million, representing 70% (2011: 71%) of total loan disbursements. This is higher quality business as repeat loans have a lower acquisition cost and a better repayment performance than new loans.

The average loan balance in FinChoice increased 7,1% from R5 171 in 2011 to R5 537 in 2012.

Managing the risk of credit

Strict credit and collections policies ensured that risk, bad debt and fraud levels were maintained within the expected parameters as FinChoice adopted a more conservative strategy and focused increasingly on shorter-term products.

FinChoice repeat loan vintages continued to show stable risk levels. New loans booked from the HomeChoice base reflected marginally increased early vintagers in the fourth quarter of 2012. The strategy of using the lower instalment sizes and product margins of the HomeChoice retail business to filter credit-proven customers into the FinChoice qualified base remains a key strength of the business model.

While our risk filter in powerful, even the most effective filter will accept some higher risk customers in a deteriorating market. In response, new customer credit policy has been tightened at both HomeChoice and FinChoice. The provision for doubtful debt has been increased to 11,4% (2011: 10,6%) of gross receivables, which management believes is prudent in the current environment.

Debtor costs as a percentage of revenue increased to 30,5% (2011: 29,3%), reflective of the higher provision held. Revenues benefited from the once-off payout of insurance revenue of R9,7 million. Excluding this impact, debtor costs increased to 31,7%.

Please refer to the Managing the Risk of Credit Report on page 86 for further detail.

Enhancing the customer experience

The self-service mobile channel, KwikServe, was extended to the remainder of the customer base in 2012. Through this service FinChoice leverages mobile technology available on any cellular handset to empower customers to transact securely and conveniently on their loan accounts 24 hours a day, 365 days a year.

Customer acceptance of this channel continues to exceed our expectations, and management is confident in its strategy of empowering customers through mobile technology.

Implementing leading information systems

KwikServe was enhanced with the introduction of the KwikAdvance product detailed above, as well as extending the service offering to include facilities for customers to purchase airtime and to update their financial details.

The favourable customer response to KwikServe resulted in management postponing the planned development of the FinChoice mobi site to focus more resources on KwikServe.

The loans management technology and operational platforms continue to serve the needs of the business and have scaled comfortably to accommodate the growing customer base. Management is confident that the IT and telephony systems are scalable to meet the growth of the business.

Prospects

FinChoice will continue to pursue its strategy of targeting credit-proven HomeChoice customers and leveraging its existing loans customers for repeat business.

Due to the concerns in the macro lending environment, management is adopting a more guarded approach to credit extension in 2013. We will be containing disbursement growth through a combination of tightening acceptance rates, limiting loan sizes and focusing a higher proportion of demand towards our shorter-term products. We will also closely monitor debt review applications.

Management anticipates continued good revenue growth in 2013, although not at previous levels due to the base effect of this growing business and our more defensive credit stance for 2013.

Thanks and appreciation

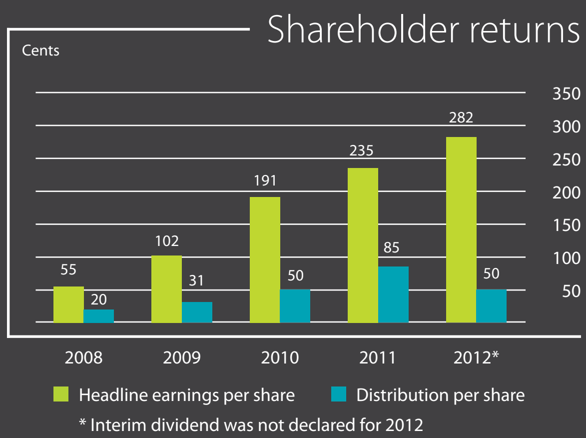
I would like to thank our customers for their continued loyal support. I would also like to thank the executive team and all staff for their innovation, dedication and commitment to serving our customers.

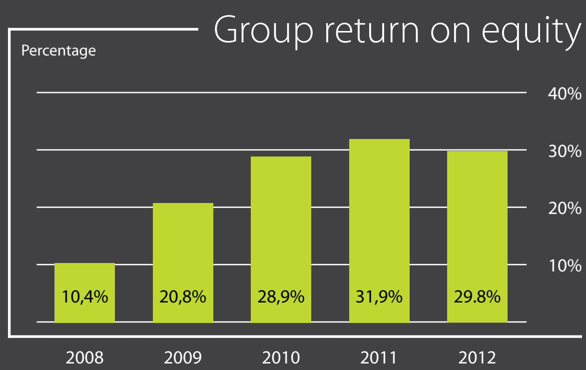
Sean Wibberley
Chief executive officer

Chief financial officer's report

by Annalize Kirsten

"The group produced a good financial performance with revenue increasing by 27,9% to R1 434,4 million and operating profit by 17,9% to R402,9 million."





Overview

Economic growth remained subdued in 2012 with widespread labour unrest, high levels of unemployment and political uncertainty all weighing down on an already volatile currency. Several of these factors contributed to global ratings agencies downgrading South Africa's credit rating in the final quarter of the year.

While interest rates have remained low and stable during the period, declining consumer confidence, rising living costs and increasing consumer debt levels are all negative for the retail environment.

In this economic and trading climate, the HomeChoice Group again produced a good financial performance, despite pressure on debtor costs during the second six months of the year. Group revenue increased by 27,9% to R1 434,4 million and operating profit increased by 17,9% to R402,9 million. Operating profit growth was lower than revenue growth owing to the reduction in operating margin from 30,5% to 28,1%. The operating margin declined mainly due to higher debtor costs and the reduction in the gross profit margin from 53,4% to 51,1% .

Headline earnings per share (HEPS) increased by 20,1% from 234,8 cents in 2011 to 282,1 cents in 2012. HEPS has shown an annual compound growth rate of 25,0% since 2007.

The board did not declare an interim dividend for the 2012 financial year. This followed the decision to delay the proposed listing on the JSE and the directors elected to retain higher levels of capital to fund growth and expansion. The board plans to return to a dividend cover level of between 2,2 and 2,8 times in future years.

The group's financial position continued to strengthen over the period, with the net asset value per share increasing 28,0% to 1 062,0 cents. Return on equity is at 29,8% compared to 31,9% in the previous year and well within the medium-term target of 27% to 32%.

Performance review and targets

	Medium-term targets	2012	2011	2010	2009	2008
Revenue (Rm)		**1 434,4**	1 121,1	869,4	651,2	557,0
Growth in revenue (%)		**27,9**	28,9	33,5	16,9	28,2
Retail sales * (Rm)		**841,5**	670,5	527,5	387,3	352,6
Growth in retail sales (%)		**25,5**	27,1	36,2	9,8	21,5
Gross profit margin (%)	48% – 52%	**51,1**	53,4	57,1	53,0	52,6
Operating profit (Rm)		**402,9**	341,6	249,7	141,5	64,0
Growth in operating profit (%)		**17,9**	36,8	76,5	120,9	(42,5)
Operating profit margin (%)	25% – 30%	**28,1**	30,5	28,7	21,7	11,5
Operating cash flow before working capital changes (Rm)		**413,7**	346,8	277,3	145,9	78,3
HEPS (cents)		**282,1**	234,8	191,0	102,1	54,9
Growth in HEPS (%)		**20,1**	22,9	87,1	86,0	(40,5)
Distribution cover (times)	2,2 – 2,8	**5,6**	2,8	3,5	3,3	2,2
Net asset value per share (cents)		**1 062,0**	829,9	661,3	520,0	439,0
Return on equity (%)	27% – 32%	**29,8**	31,9	28,9	20,8	10,4

* *Restated to include the charge of getting the goods to the customer. Refer to note 11 in the abridged annual financial statements.*

Financial performance

This detailed commentary on the group's financial performance should be read in conjunction with the abridged financial statements on pages 108 to 123, and the audited annual financial statements on the website.

Statement of comprehensive income

Revenue

Group revenue increased by 27,9% to R1 434,4 million and has almost trebled since 2008. The revenue mix has been relatively stable over the last five years (refer to graph below).

Gross profit margin

The gross profit margin declined from 53,4% to 51,1% in 2012, but remains well within the medium-term target of 48% to 52%. The medium-term target has been adjusted to take into account the restatement of retail sales as referred to in the table on the previous page.

Finance charges earned

Finance charges earned increased by 30,5% to R363,5 million, which is slightly above revenue growth at 27,9% owing to a shift of customers to slightly longer repayment terms.

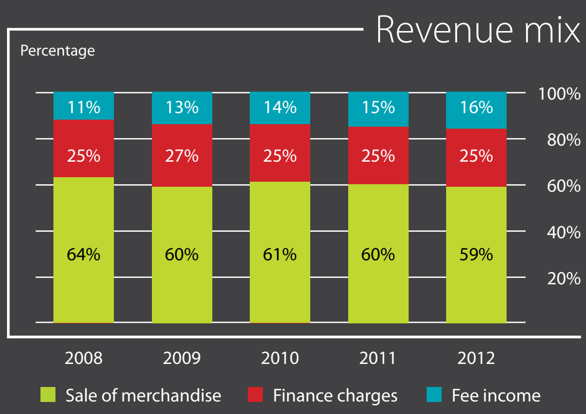
Fees from ancillary services

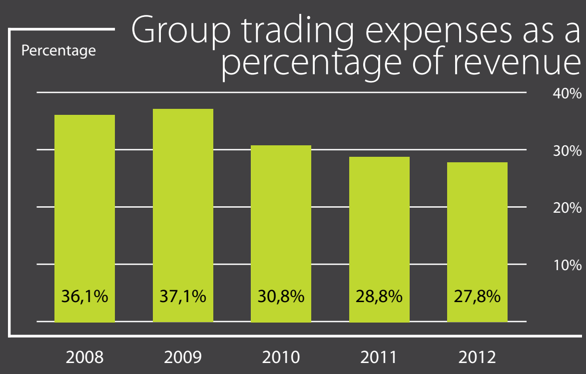
Retail sales have been restated to include the charge of getting the goods to the customer and fees from ancillary services were reduced accordingly. Fees from ancillary services are up 33,6% on 2011 and compared to revenue growth of 27,9%. This is largely due to the inclusion of R15,0 million of insurance revenue from the financial services business in 2012 of which R9,7 million related to business written between 2009 and 2011.

Debtor costs

Debtor cost as a percentage of revenue increased from 13,2% to 15,9% at group level owing to the increase in the debtor costs and the fact that FinChoice, with a higher debtor cost to revenue, has grown as a percentage of the total group business. FinChoice has a higher debtor cost as a percentage of revenue compared to the retail business as retail sales are included in revenue, whereas in FinChoice the value of the loan is not included in revenue, and therefore not in the denominator.

Please refer to the Managing the Risk of Credit Report on page 86.





Other trading expenses

Cost management and improving efficiencies remain a focus area for management.

	2012 R'000	2011 R'000	Change on prior period %	**Percentage of revenue 2012 %**	2011 %
Marketing costs	**119 789**	98 457	21,7	**8,4**	8,8
Staff costs	**164 490**	129 896	26,6	**11,5**	11,6
Amortisation and depreciation	**11 800**	11 260	4,8	**0,8**	1,0
Other	**102 041**	83 344	22,4	**7,1**	7,4
Other trading expenses	**398 120**	322 957	23,3	**27,8**	28,8

Other trading expenses increased by 23,3%, which is below revenue growth of 27,9%. Other trading expenses as a percentage of revenue reduced from 28,8% in 2011 to 27,8%.

Staff costs increased by 26,6% due to the growth of FoneChoice, the focus on the development of IT systems and the growth in the sales force (direct sales agents and telemarketing) as part of the new customer acquisition strategy.

Operating profit and margin

Group operating profit increased by 17,9% to R402,9 million. Operating margin declined from 30,5% to 28,1% in 2012, within the target range of 25% to 30%. The reduction is a factor of the higher debtor costs and a decline in the gross profit margin.

Taxation

The effective tax rate reduced from 29,0% in 2011 to 28,4% in 2012. In 2011 the tax rate was impacted by a prior year adjustment relating to the proceeds from the sale of a portion of the legal book in 2007. These proceeds were previously assessed and taxed by the South African Revenue Service as a capital gain. The rate has remained slightly above 28% in 2012 due to some non-deductible expenses.

Statement of financial position

The group's financial position continued to improve over the period, with the net asset value per share increasing 28,0% to 1 062,0 cents.

Return on equity is at 29,8% compared to 31,9% in the previous year and well within the medium-term target of 27% to 32%.

Property, plant and equipment

Property, plant and equipment increased by 20,8% to R165,4 million. This is mainly due to the development of a new 24 000 m^2 distribution centre. The total cost is expected to be about R120 million, with an additional R35 million for racking and other equipment, and the facility is due for completion towards the end of 2013.

Intangible assets

Intangible assets almost doubled from R20,9 million to R40,7 million in 2012. This is mainly due to licence fees and development costs of a new ERP system to improve the technology platform of the group and also other software development and licences. For more detail please refer to the Retail CEO's Report on page 58.

Inventories

Inventory increased 19,6% to R110,2 million, which is below the growth in retail sales of 25,5%. This is due to the focus on stock clearing strategies during 2012.

Trade receivables

Trade receivables for retail increased 31,9% to R583,5 million, which is above the growth in retail sales of 25,5%. This is due to slightly longer terms offered to customers and the growth of FoneChoice which sells computer products over 36 months.

Loans receivable

Loans receivable increased by 38,8% to R411,7 million, which is in line with the growth in financial services revenue.

Interest-bearing liabilities

Interest-bearing liabilities increased by 21,6% to R100,2 million. This is due to an increase in a development bond to fund the new distribution centre development.

Trade and other payables

Trade and other payables increased by 31,9% to R112,7 million, in line with the growth of the business.

Statement of cash flows

Cash and cash equivalents reduced to R7,7 million from R46,1 million at the end of 2011.

Operating cash flow before working capital changes increased by 19,3% to R413,7 million, which is slightly higher than the increase in profit before tax of 17,5%. Cash generated from operations is, however, only 7,1% up on last year, at R153,7 million. This is due to the growth in the FoneChoice book and also a higher increase of the FinChoice loans receivable in 2012 compared to 2011, due to a move to slightly longer terms.

Dividends paid in 2012 of R50,5 million are lower than the previous period's R65,7 million of share premium reduction as no interim dividend was declared, as discussed in the Chairman's Report on page 51.

Segmental performance

Retail

The retail business increased revenue by 25,5% to R1 178,0 million and retail sales grew 25,5% to R841,5 million. Retail sales have been restated to include the charge of getting the goods to the customer. This change was made to reflect the true value of the sale, as a sale cannot occur without the customer incurring the delivery charge.

The retail results were disappointing compared to recent years, with the operating profit only increasing by 14,4% to R263,0 million. This is due to a reduction in the operating margin from 24,5% to 22,3% in 2012. This was mainly due to higher debtor costs and the reduction in the gross profit margin, discussed below.

The growth in finance charges earned at 28,6% is higher than the retail sales growth of 25,5% due to a shift of customers to slightly longer repayment terms. Computer products in FoneChoice are sold on 36-month terms which is a longer repayment period than the traditional textile products.

Fees from ancillary services increased by 20,5% over the previous year. This resulted in a reduction of initiation fees as a percentage of revenue owing to higher value items being sold and lower percentage fees charged in terms of the National Credit Act.

Gross profit margin declined from 53,4% to 51,1%. The gross margin was impacted by the 13,6% depreciation in the value of the Rand from the low at the beginning of March 2012 and management took a strategic decision not to pass the full effect of the depreciating currency on to customers. The margin came under further pressure from the significant increase in new customer acquisition during the year which is at a lower profit margin, higher sales of lower-margin product such as furniture, appliances, mobile phones and laptops, as well as increased warehousing costs.

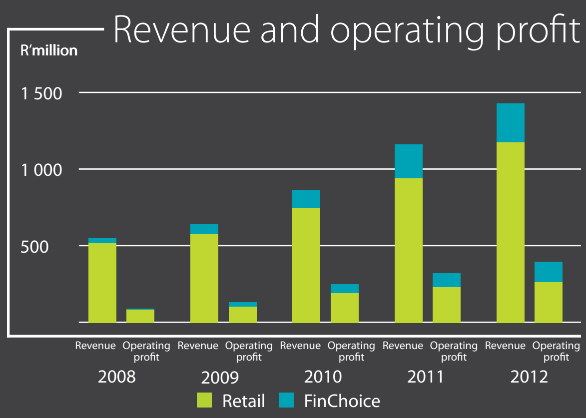
HomeChoice debtor costs increased by 53,7% to R139,4 million and debtor costs as a percentage of revenue increased from 10,0% to 12,6%. This is mainly due to higher bad debt write-offs and increased provisioning to cover future bad debt. These increases are a result of a number of factors:

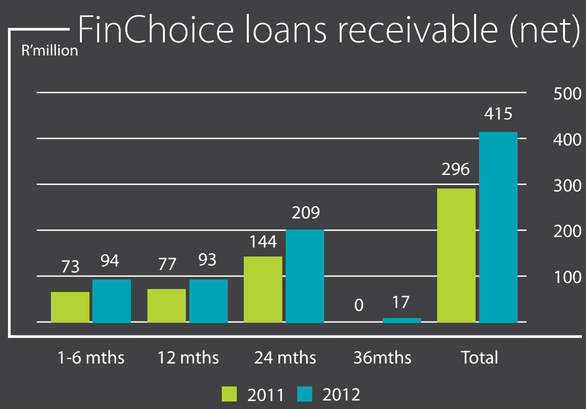
- The growth in new customer sales was higher than anticipated, particularly in the last quarter of 2012.
- The risk experienced from a new customer acquisition channel, namely purchased prospect lists, was initially higher than anticipated. However, after changes to the credit processes the risk was reduced to below the average new customer risk level.
- A worsening credit environment was met by tightening of credit policies during 2012, and although the positive effects of these policy changes are being seen in customer vintages, the bad debt impact of the deteriorating credit climate has affected the bad debt write-off and level of provisioning.

The increase in the provision held against the book provides adequately for expected future bad debt write-offs given the level of new customer balances in the debtors' book. This is expected to reduce in 2013 as the effects of the tighter credit policies become apparent in the debtors' book.

Other trading expenses increased by 18,3% compared to revenue growth of 25,5%, resulting in a reduction of other trading expenses as a percentage of revenue from 32,3% to 30,4%. Staff costs increased by 24,1% due to the growth of FoneChoice, the focus on the development of IT systems and the growth in the sales force (direct sales agents and telemarketing) as part of the new customer acquisition strategy.

Operating cash flow before working capital changes increased 14,4% which is largely in line with the growth of profit before tax of 15,0%. Cash generated from operations is, however, only 7,6% up on last year at R129,7 million. This is largely due to the growth in the FoneChoice book.





Financial services

FinChoice has increased its contribution to group revenue from 16,2% to 17,8% and its contribution to operating profit from 27,2% to 32,1%.

FinChoice has increased revenue by 40,6% to R255,2 million. Included in the financial services business is revenue of R15,0 million from insurance products which was not included in prior years, of which R9,7 million related to business written between 2009 and 2011. Recognition of this revenue was delayed due to negotiations with the insurers. This revenue stream is expected to continue in future years, although at a normalised level.

Finance charges earned in the financial services business grew in line with revenue growth, excluding the impact of the R15,0 million insurance revenue in 2012 referred to above.

Fees from ancillary services are up 54,2% on 2011 and compared to revenue growth of 40,6%. This is largely due to the inclusion of R15,0 million of insurance revenue in fees from ancillary services.

Debtor costs as a percentage of revenue increased from 29,3% to 30,5% and debtor costs increased 46,3% to R77,8 million. This is mainly due to a prudent increase in the provisioning from 10,6% to 11,4% in 2012 in the light of the worsening credit environment.

Other trading expenses increased by 35,0% compared to revenue growth of 40,6%, resulting in reduction of other trading expenses as a percentage of revenue from 19,6% to 18,8%. Staff costs increased by 35,8% due to FinChoice being understaffed towards the end of 2011, in anticipation of the launch of KwikServe. Marketing costs increased by 67,9% mostly due to a more market-related charge from the retail business for the use of customer names.

FinChoice's operating profit increased by 39,4% to R129,5 million, with the operating profit margin reducing to 50,7% from 51,2%.

Operating cash flow before working capital changes increased 39,0% which is less than the increase in profit before tax of 44,0%. This is due to the fact that interest paid is growing at a slower rate than profit growth. Cash generated from operations is 77,6% up, due to the fact that the increase in loan receivables has started to slow down.

Capital management

The capital structure of the group is managed to optimise returns to shareholders while sustaining the growth of the business.

As indicated above, an interim dividend was not declared following the postponement of the listing. The dividend cover for the 2012 financial year will be 5,6 times as a final dividend of 50 cents per share is planned to be declared in May 2013. Dividend cover is expected to resume for the 2013 financial year at 2,8 times, with a medium-term target of between 2,2 and 2,8 times cover.

The directors have assessed the longer-term plans of the group, and particularly the planned growth rate of the business, in the light of not listing during 2012. The board has reviewed the plans and is confident that alternative financing facilities will allow the business to operate at planned levels.

Over the last 10 years the group has developed rolling five-year forecasts for budgeting purposes and to assess funding requirements, to allow for appropriate capital resources to be in place. This is a powerful strategic tool in the business and is used extensively for planning and scenario setting.

Capital expenditure in 2012 was R60 million, an increase of 47% from 2011. This includes R30 million on the new distribution centre development that commenced during 2012 and about R25 million on the development of the new ERP system, other software development and software licences.

Capital expenditure of R165 million is planned for 2013. This includes the completion of the new distribution centre at an estimated total cost of R120 million (R30 million has already been incurred), new racking and equipment of R35 million and the continued investment in the development of the new ERP system, software licences and other software development of approximately R30 million.

Accounting policies and standards

The annual financial statements have been prepared in accordance with the group's accounting policies, which comply with International Financial Reporting Standards (IFRS), Interpretations issued by the International Financial Reporting Interpretation Committee (IFRIC) and the requirements of the Companies Act.

The principal accounting policies applied in the preparation of these financial statements are consistent with those adopted in the previous year, except for the adoption of new standards as described on page 19 of the annual financial statements, available on the website.

Acknowledgements

Thank you to the finance team for their ongoing support, dedication and commitment to produce such a high level of financial reporting. Also, congratulations on winning the award for the top-rated annual report by a non-listed company in the Chartered Secretaries South Africa Awards.

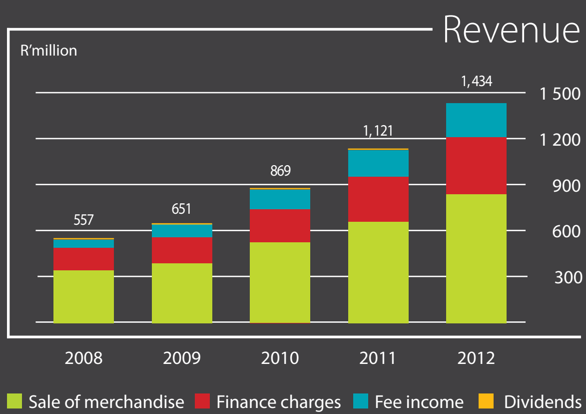
Annalize Kirsten
Chief financial officer

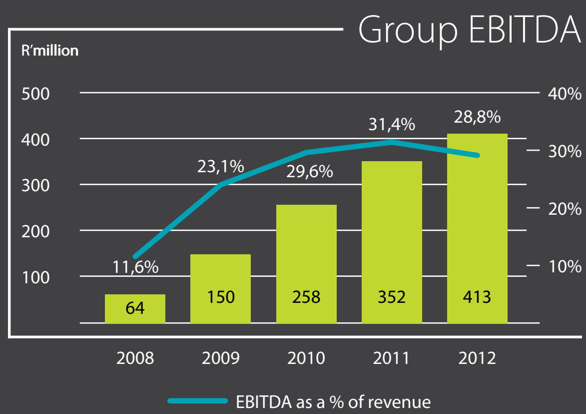
Five year review

GROUP STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2012

	2012 R'000	2011 R'000	2010 R'000	2009 R'000	2008 R'000
Revenue	**1 434 359**	1 121 060	869 442	651 152	556 981
Retail sales	**841 480**	670 466	527 454	387 335	352 623
Cost of retail sales	**(411 403)**	(312 548)	(226 080)	(182 089)	(167 263)
Gross profit	**430 077**	357 918	301 374	205 246	185 360
Gross profit margin (%)	**51,1**	53,4	57,1	53,0	52,6
Finance charges earned	**363 474**	278 454	215 221	174 054	139 027
Fees from ancillary services	**229 405**	171 746	123 707	85 079	60 165
Other net gains and losses	**759**	2 028	(19 330)	(1 011)	(300)
Other income	**5 036**	2 095	3 049	2 076	1 868
Debtor costs	**(227 769)**	(148 087)	(109 681)	(87 237)	(115 605)
Other trading expenses	**(398 120)**	(322 957)	(267 705)	(241 394)	(201 102)
Dividends received	**–**	394	3 060	4 684	5 166
Impairment of available-for-sale investments	**–**	–	–	–	(10 535)
Operating profit	**402 862**	341 591	249 695	141 497	64 044
Growth in operating profit (%)	**17,9**	36,8	76,5	120,9	(42,5)
Operating profit margin (%)	**28,1**	30,5	28,7	21,7	11,5
Interest received	**2 624**	2 975	3 530	4 484	5 937
Interest paid	**(6 236)**	(6 156)	(6 865)	(9 031)	(3 593)
Share of loss of associates	**(2 097)**	(366)	(1 449)	(523)	(3 150)
Profit before taxation	**397 153**	338 044	244 911	136 427	63 238
Taxation	**(112 656)**	(98 048)	(72 577)	(36 513)	(20 210)
Profit for the year	**284 497**	239 996	172 334	99 914	43 028
Growth in profit for the year (%)	**18,5**	39,3	72,5	132,2	(51,8)
Net profit margin (%)	**19,8**	21,4	19,8	15,3	7,7





GROUP STATEMENT OF FINANCIAL POSITION

at 31 December 2012

	2012 R'000	2011 R'000	2010 R'000	2009 R'000	2008 R'000
ASSETS					
Non-current assets					
Property, plant and equipment	**165 438**	136 961	119 865	168 710	117 251
Intangible assets	**40 678**	20 913	8 901	7 152	1 826
Loans to employees	**9 580**	11 664	13 177	8 848	6 790
Investment in associates	**3 951**	1 677	–	–	7 957
Deferred taxation	**13 206**	12 878	8 948	4 963	2 786
	232 853	184 093	150 891	189 673	136 610
Current assets					
Non-current assets held for sale	**–**	–	–	963	–
Available-for-sale investments	**–**	–	41 445	45 192	43 346
Inventories	**110 241**	92 149	69 846	37 786	45 669
Taxation receivable	**11**	1 175	1 075	915	59
Trade and other receivables	**1 020 777**	749 713	543 739	380 051	277 608
Trade receivables – HomeChoice	**526 142**	420 933	325 390	256 819	213 463
Trade receivables – Other retail	**57 386**	21 344	6 360	–	–
Loans receivable – FinChoice	**411 646**	296 580	206 873	119 563	57 733
Other receivables	**25 603**	10 856	5 116	3 669	6 412
Cash and cash equivalents	**10 192**	46 069	45 630	55 891	57 085
	1 141 221	889 106	701 735	520 798	423 767
Total assets	**1 374 074**	1 073 199	852 626	710 471	560 377
EQUITY AND LIABILITIES					
Total equity	**1 070 322**	837 335	669 216	522 527	437 334
Non-current liabilities					
Interest-bearing liabilities	**90 977**	74 895	51 340	85 293	162
Deferred taxation	**60 097**	45 159	35 201	25 084	15 277
Other payables	**3 480**	3 450	3 420	3 390	–
	154 554	123 504	89 961	113 767	15 439
Current liabilities					
Interest-bearing liabilities	**9 178**	7 433	6 279	7 458	535
Taxation payable	**5 850**	2 409	1 936	2 443	1 628
Trade and other payables	**112 718**	85 454	61 228	45 892	41 281
Provisions	**18 934**	17 064	17 400	11 200	700
Loan from non-controlling interest holder	**–**	–	–	7 184	–
Bank overdraft	**2 518**	–	6 606	–	63 460
	149 198	112 360	93 449	74 177	107 604
Total liabilities	**303 752**	235 864	183 410	187 944	123 043
Total equity and liabilities	**1 374 074**	1 073 199	852 626	710 471	560 377
Growth in trade and loan receivables (%)					
Trade receivables – HomeChoice	**25,0**	29,4	26,7	20,3	–
Trade receivables – Other retail	**168,9**	235,6	100,0	–	–
Loans receivable – FinChoice	**38,8**	43,4	73,0	107,1	108,1

GROUP STATEMENT OF CASH FLOWS

for the year ended 31 December 2012

	2012 R'000	2011 R'000	2010 R'000	2009 R'000	2008 R'000
Cash flows from operating activities					
Operating cash flows before working capital changes	**413 710**	346 761	277 349	145 882	78 281
Growth in operating cash flows before working capital changes (%)	**19,3**	25,0	90,1	86,4	(29,1)
Movements in working capital	**(259 992)**	(203 253)	(175 421)	(76 549)	(45 325)
Cash generated from operations	**153 718**	143 508	101 928	69 333	32 956
Growth in cash generated from operations (%)	**7,1**	40,8	47,0	110,4	(48,7)
Net interest received/(paid)	**(3 612)**	(3 181)	(3 335)	(4 547)	2 965
Net dividends (paid)/received	**(50 450)**	394	3 060	(8 415)	4 202
Taxation paid	**(93 441)**	(91 647)	(65 497)	(31 930)	(32 899)
Net cash inflow from operating activities	**6 215**	49 074	36 156	24 441	7 224
Cash flows from investing activities					
Purchase of property, plant and equipment	**(35 464)**	(24 403)	(5 642)	(12 531)	(75 727)
Proceeds on disposal of property, plant and equipment	**–**	300	1 232	690	514
Purchase of intangible assets	**(24 612)**	(16 466)	(3 920)	(5 988)	–
Proceeds from sale of available-for-sale financial assets	**–**	39 811	5 845	–	–
Loans repaid by employees	**3 609**	3 712	328	2 157	–
Investment in associates	**(4 371)**	(1 383)	(2 812)	–	(2 036)
Disposal/acquisition of subsidiary	**–**	–	(146)	(1 846)	–
Net cash (outflow)/inflow from investing activities	**(60 838)**	1 571	(5 115)	(17 518)	(77 249)
Reduction in share premium	**–**	(65 674)	(40 546)	(7 053)	(9 638)
Purchase of treasury shares	**(1 599)**	(2 635)	(904)	(120)	–
Loan from non-controlling interest holder	**–**	–	452	2 230	–
Proceeds from interest-bearing liabilities	**31 585**	74 685	–	72 367	–
Repayments of interest-bearing liabilities	**(13 758)**	(49 976)	(6 910)	(12 081)	(919)
Net cash inflow/(outflow) from financing activities	**16 228**	(43 600)	(47 908)	55 343	(10 557)
Net (decrease)/increase in cash and cash equivalents and bank overdrafts	**(38 395)**	7 045	(16 867)	62 266	(80 582)
Cash, cash equivalents and bank overdrafts at the beginning of the year	**46 069**	39 024	55 891	(6 375)	74 207
Cash, cash equivalents and bank overdrafts at the end of the year	**7 674**	46 069	39 024	55 891	(6 375)

SUPPLEMENTARY INFORMATION

for the year ended 31 December 2012

		2012 R'000	2011 R'000	2010 R'000	2009 R'000	2008 R'000
Profitability						
Gross profit margin	(%)	**51,1**	53,4	57,1	53,0	52,6
Operating margin	(%)	**28,1**	30,5	28,7	21,7	11,5
Operating profit/average shareholder's funds	(%)	**42,2**	45,3	41,9	29,3	15,5
Operating profit/average total assets	(%)	**32,9**	35,5	31,9	29,5	15,5
EBITDA/revenue	(%)	**28,8**	31,4	29,6	23,1	11,6
Effective taxation rate	(%)	**28,4**	29,0	29,6	26,8	32,0
Profit for the year/revenue	(%)	**19,8**	21,4	19,8	15,3	7,7
Return on equity	(%)	**29,8**	31,9	28,9	20,8	10,4
Return on assets	(%)	**23,3**	24,9	22,1	15,7	8,4
Earnings per share						
Attributable	(cents)	**282,1**	237,4	176,2	101,9	43,8
Diluted attributable	(cents)	**280,1**	237,4	176,2	101,9	43,8
Headline	(cents)	**282,1**	234,8	191,0	102,1	54,9
Diluted headline	(cents)	**280,2**	234,8	191,0	102,1	54,9
Solvency and liquidity						
NAV per share	(cents)	**1 062,0**	829,9	661,3	520,0	439,0
Tangible NAV per share	(cents)	**1 021,7**	809,1	652,5	512,9	439,0
Current ratio	(times)	**7,6**	7,9	7,5	7,0	3,9
Acid ratio	(times)	**6,9**	7,1	6,8	6,5	3,5
Inventory turnover	(times)	**4,1**	3,9	4,2	4,4	4,1
Debt/equity ratio	(:1)	**0,1**	0,1	0,1	0,2	0,2
Finance charge cover	(times)	**64,6**	55,5	36,4	15,7	17,8
Number of shares						
In issue	('000)	**103 869**	103 869	103 869	103 869	103 869
In issue, net of treasury shares	('000)	**100 779**	100 899	101 199	100 479	99 609
Weighted average	('000)	**100 860**	101 083	100 896	100 556	98 199
Diluted weighted average	('000)	**101 556**	101 083	100 896	100 556	98 199
Distributions to shareholders						
Distributions paid	(cents)	**50,0**	85,0	50,0	31,0	20,0
Interim	(cents)	**–**	35,0	20,0	11,0	11,0
Final	(cents)	**50,0**	50,0	30,0	20,0	9,0
Nature of distributions	(cents)	**50,0**	85,0	50,0	31,0	20,0
Reduction in share premium	(cents)	**–**	35,0	50,0	17,0	10,0
Dividend paid	(cents)	**50,0**	50,0	–	14,0	10,0
Distribution cover	(times)	**5,6**	2,8	3,5	3,3	2,2
Employee statistics						
Average number of employees		**866**	704	555	511	426
Revenue per employee	(R'000)	**1 656**	1 592	1 567	1 274	1 307
Operating profit per employee	(R'000)	**465**	485	450	277	150
Staff costs as % of revenue	(%)	**11,5**	11,6	13,6	14,7	12,7
Average number of years' service	(%)	**3,6**	3,8	4,5	4,1	4,6
Trade and loan receivable statistics						
Debtor costs as a % of revenue						
HomeChoice	(%)	**12,6**	10,0	9,9	11,5	17,7
Other retail	(%)	**14,5**	14,0	13,7	–	–
FinChoice	(%)	**30,5**	29,3	29,3	17,5	11,8
Group	(%)	**15,9**	13,2	12,6	13,4	20,8
Provision for impairment as a % of gross receivables						
HomeChoice	(%)	**18,9**	17,4	18,1	18,9	24,4
Other retail	(%)	**15,0**	16,0	16,0	–	–
FinChoice	(%)	**11,4**	10,6	10,9	11,2	13,7
Group	(%)	**15,7**	14,7	15,5	16,6	22,4

GROUP SEGMENTAL ANALYSIS

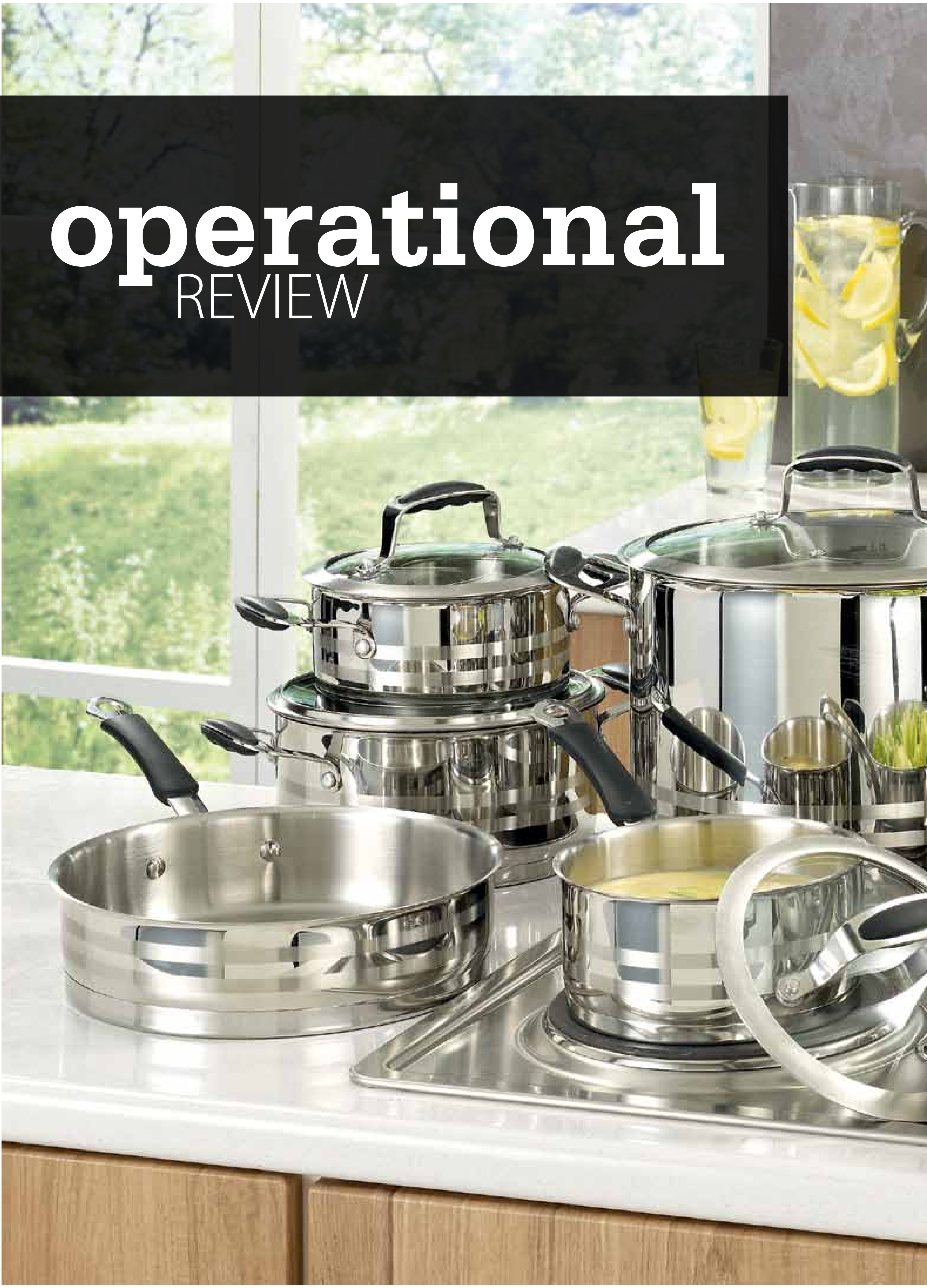
for the year ended 31 December 2012

	2012 R'000	2011 R'000	2010 R'000	2009 R'000	2008 R'000
Segmental revenue	**1 604 898**	1 146 686	886 821	682 761	559 534
Retail	**1 178 017**	939 002	743 901	572 557	513 216
Financial services	**255 153**	181 503	121 454	72 847	37 677
Property	**18 462**	17 435	17 329	17 273	2 362
Other	**153 266**	8 746	4 137	20 084	6 279
Intersegment revenue	**(170 539)**	(25 626)	(17 379)	(31 609)	(2 553)
Revenue from external customers	**1 434 359**	1 121 060	869 442	651 152	556 981
Segmental operating profit/(loss)	**554 520**	350 684	258 545	158 036	72 012
Retail	**262 960**	229 888	188 775	102 573	79 917
Financial services	**129 465**	92 855	57 186	28 370	8 303
Property	**15 782**	15 107	9 761	14 922	66
Other	**146 313**	12 834	2 823	12 171	(16 274)
Eliminations	**(151 658)**	(9 093)	(8 850)	(16 539)	(7 968)
Operating profit from external customers	**402 862**	341 591	249 695	141 497	64 044
Profit/(loss) for the year	**284 497**	239 996	172 334	99 914	43 028
Retail	**190 734**	161 625	134 597	75 483	55 659
Financial services	**71 594**	49 704	28 276	11 372	4 531
Property	**7 601**	7 563	1 875	7 536	(2 139)
Other	**166 226**	30 197	15 415	10 082	(1 533)
Eliminations	**(151 658)**	(9 093)	(7 829)	(4 559)	(13 490)
Operating cash flows before working capital changes	**413 710**	346 761	277 349	145 882	78 281
Retail	**272 960**	238 502	208 414	106 779	79 155
Financial services	**130 766**	94 104	58 360	28 230	8 034
Property	**16 774**	16 253	17 137	16 057	66
Other	**(6 790)**	32	1 091	(259)	(269)
Eliminations	**–**	(2 130)	(7 653)	(4 925)	(8 705)
Cash generated/(utilised) by operations	**153 718**	143 508	101 928	69 333	32 956
Retail	**129 749**	120 547	120 216	95 096	57 057
Financial services	**13 641**	7 681	(27 006)	(32 747)	(23 692)
Property	**16 677**	16 312	16 175	12 673	7 383
Other	**(6 349)**	146	1 101	(2 965)	(267)
Eliminations	**–**	(1 178)	(8 558)	(2 724)	(7 525)
Segmental assets *	**1 374 074**	1 073 199	852 626	710 471	560 377
Retail	**782 937**	597 814	446 841	329 652	289 327
Financial services	**444 326**	340 697	221 313	134 139	64 482
Property	**154 257**	124 856	107 312	108 816	103 701
Other	**9 772**	27 946	79 668	139 579	103 004
Eliminations	**(17 218)**	(18 114)	(2 508)	(1 715)	(137)
Segmental liabilities *	**303 752**	235 864	183 410	187 944	123 043
Retail	**188 172**	133 876	121 348	86 814	53 792
Financial services	**16 896**	26 785	5 451	3 110	478
Property	**98 597**	77 281	58 772	60 323	68 887
Other	**17 305**	16 036	347	39 412	23
Eliminations	**(17 218)**	(18 114)	(2 508)	(1 715)	(137)

** Excluding group loans, including loans to share trust*

	2012 R'000	2011 R'000	2010 R'000	2009 R'000	2008 R'000
Group loans receivable/(payable)	**–**	–	–	–	–
Retail	**42 212**	133 177	111 450	59 213	(4 754)
Financial services	**(270 335)**	(228 484)	(179 602)	(123 046)	(67 392)
Property	**(34 165)**	(33 681)	(42 210)	(44 037)	(36 940)
Other	**262 288**	128 988	110 362	107 870	109 086
Attributable earnings per share (cents)	**282,1**	237,4	176,2	101,9	43,8
Retail	**189,1**	159,9	137,6	77,0	56,7
Financial services	**71,0**	49,2	28,9	11,6	4,6
Property	**7,5**	7,5	1,9	7,7	(2,2)
Other and eliminations	**14,5**	20,8	7,8	5,6	(15,3)
Return on equity (%)	**29,8**	31,9	28,9	20,8	10,4
Retail	**36,0**	40,9	47,4	31,6	24,9
Financial services	**25,2**	25,3	23,7	20,5	9,3

operational REVIEW



September 2012 Catalogue

managing the risk of buying

HomeChoice's merchandise strategy is based on providing innovative, quality, own-brand products to decorate a customer's home, with a focus on sourcing exclusive merchandise which is suitable for direct marketing.

The merchandise offering is the core of the business and managing the risk of buying is therefore key to creating sustainable value for stakeholders.

Customer demand for the product range remained strong throughout 2012 as retail sales increased by 25,5% to R841 million (2011: R670 million). This was driven by the extension of the core product ranges, growth in the newer furniture and electronics categories and high levels of innovation in the bedding range. Sales also benefited from improved product availability and the growth in the customer base.

Own-brand product range

The merchandise range comprises fashion-oriented categories of bedding and textiles, homewares, appliances, electronics and furniture. Core to the merchandise philosophy is assisting customers to decorate their homes and offering a product that is differentiated from what she is able to buy elsewhere.

The product is fully co-ordinated and designed to complete the interior decorated look where customers can purchase the entire room from HomeChoice. The bedding range, for example, presents the whole bedroom to the customer as a well co-ordinated look, from bedding to pillows to curtains, offering the ultimate in ease of shopping. This is unique in the marketplace and sets HomeChoice apart from its competitors.

Products need to be differentiated and feature rich to entice her to purchase because she sees the value in the product.

Free gifts are offered to encourage the customer to purchase or to buy up to a higher price point. Product offers are constructed to have direct marketing appeal, for example, buying entry tier bedding and getting free cushions or buying top tier bedding and receiving a free co-ordinating five piece bedding set and scatter cushions.

A disciplined buying and planning formula is aimed at limiting buying risk by entrenching lessons that have been learnt over time by the merchandise team. Decision-making is informed by extensive knowledge of customer demand, together with insight into forward trends researched by the in-house trend and innovation studio. Buyers travel regularly to international trade fairs sourcing product and monitoring international trends.

The offering within specific merchandise categories is also continually enhanced. The bedding and textiles range, which is by far the largest merchandise category, currently covers over 30 different designs across multiple combinations, tiers and pricing strategies. Extensive innovation in this category resulted in sales growing by 18,4% in 2012, demonstrating the continuing strong customer demand for these products.

HomeChoice tests new categories on an ongoing basis and expands the ranges if the products prove successful. Several new categories have been launched in the past three years, including appliances, electronics and gifting. Products are reviewed at least four times before being included in the range and the team is able to respond speedily to changing trends in customer demand which limits the risk of failure.

New ranges introduced in 2012 included jewellery, cameras, sunglasses, novelty appliances and bakeware. Based on the customer demand and sales of these products, roll-out plans are developed.

The merchandise team is highly experienced, with the average length of service being nine years. The business continues to invest in recruiting additional buyers and planners to energise the pool of talent and to mitigate succession risk.

Product pricing and margins

The gross profit margin declined from 53,4% to 51,1% after being impacted by the depreciation in the Rand, higher warehousing costs and increased sales of lower margin merchandise categories such as furniture, electronics, mobile phones and laptops. Management took a strategic decision not to pass the full effect of the depreciating currency on to customers.

Management has focused on enhancing the own-brand product offering to ensure broad customer appeal with a choice of products from value to premium.

The price architecture was reviewed and the product offering was increased at both the entry tier, with the introduction of products at R199, and at the top tier through extensions in the bedding and furniture ranges. Additional quality features and detail have been included to entice customers to move from the entry tier to the upper tiers at a higher price point, increasing the average value of products sold from R1 045 to R1 161.

As the majority of merchandise is imported and US dollar denominated, managing currency volatility is an ongoing challenge. To maintain margins buyers are able to re-price merchandise or reconfigure the offer to minimise the impact on customer demand.

Optimising supply chain efficiency

HomeChoice strives to create efficiencies across the supply chain by improving lead times on imported merchandise, turnaround times in the distribution centre and delivery times for products to reach customers.

The impact of labour strikes in the transport, port and post office sectors in the second half of the year was felt across the supply chain while a new routing on imports from Pakistan and port congestion impacted on shipping times. HomeChoice has appointed a dedicated shipping co-ordinator to improve the flow of inbound stock to reduce lead times.

Direct offshore sourcing

HomeChoice has been sourcing directly from China and Pakistan for over 25 years and has developed strong partnerships to secure the best offers. Imported manufacture offers a wider variety of products and greater technical detail, at reasonable prices. The buying team works closely with key suppliers to ensure production and quality standards are met.

Risk is mitigated by monitoring the volume of merchandise being supplied by each manufacturer while the allocation of production to different regions is balanced to reduce dependency on individual regions or countries. Management is evaluating new sources of supply to further diversify country risk.

Quality control

The quality assurance department works closely with suppliers and buyers throughout the product lifecycle to ensure merchandise meets and exceeds international quality benchmarks. Products are packaged at source in mail order packaging which is designed to handle the stresses of a home delivery network.

Inventory management

Tight inventory management and better buying processes have ensured improved product availability during the year, with a reduction in out-of-stock orders experienced by customers during the year. Inventory levels were 19,6% higher at year end and the inventory turn improved to 4,1 times (2011: 3,9 times). The stock health showed a slight deterioration but management is confident that this does not pose a stock risk to the business. "Older" stock was at similar levels to last year.

The Direct Tech merchandise planning system was implemented during the year to improve forecasting, ensure better stock availability and enhance customer service. The system will enable the business to react quicker on slower selling products and ensure top selling products are in stock. This will better match stock levels to customer demand and reduce markdowns over time. The benefits of this system will start to be realised from the second half of 2013.

The electronic channels and call centres are also used to manage stock risk. The commission structure of call centre agents can be adjusted to incentivise staff based on customer demand and product availability. Commission rates can be increased to sell over-stocked items to limit markdowns and reduced on products where customer demand exceeds forecasts. Other stock clearance strategies include inserts in monthly customer statements, Internet offers and a clearance retail outlet at the head office.

Improved warehouse efficiency

HomeChoice operates a centralised distribution facility in Cape Town. Upgraded warehouse and distribution processes resulted in a 14,1% improvement in the delivery times to customers, while the business experienced a 60,9% increase in the number of warehouse orders dispatched within 24 hours.

However, several challenges were encountered in the warehouse operations. These included managing high stock levels within the capacity constraints of the existing warehouse and having to secure additional space in a separate location; ageing equipment which resulted in inefficiencies and down-time, as well as high staff attrition rates.

Expanding distribution network

An efficient distribution network is critical to success in direct marketing as fast delivery to the customer is an important driver of customer satisfaction. HomeChoice operates its own home delivery service using owner-drivers and 51% of South African deliveries are direct to customers' homes. The balance of customer deliveries are conducted through the SA Post Office which has over 2 400 branches across the country. In 2012 a total of 647 000 (2011: 581 000) parcels were dispatched to customers.

Managing buying risk in 2013

In the year ahead the existing product ranges will be extended by offering a greater number of styles and depth of range. New business units will also be expanded. The "good, better, best" tiered concept, which is used successfully in the bedding range, will be extended to other product lines such as microwaves. New products will continue to be tested in all business units.

Product inflation and demand are likely to be impacted by the fluctuating exchange rate, price increases of raw materials such as cotton and oil, rising labour costs in China and cost price increases in Pakistan. Lead times on merchandise imported from Pakistan may be negatively affected by power shortages, political instability and changes in shipping routes. Domestically, the worsening credit environment could impact on customer demand.

The merchandise team will focus on improving quality control and enhancing supplier governance processes.

The coverage of the home delivery network in South Africa will be expanded to reach 55% of customers' homes.

Strong growth in customer demand has resulted in the need to expand distribution and warehouse capacity. A new distribution centre is being built in Cape Town which will increase total storage capacity from 80 000 m^3 to approximately 200 000 m^3. The facility will be completed in late 2013 and is expected to meet the group's distribution needs for the next ten years. The move to the new distribution centre poses potential supply chain challenges and management will implement processes to limit the impact on the flow of inbound and outbound merchandise.

growing our customer **base**

HomeChoice expanded its customer base to 494 000 (2011: 424 000) in 2012, driven by the addition of 156 000 (2011: 116 000) new customers. The business experienced higher than normal attrition rates during the year and lower response rates from existing customers which is mainly due to tighter credit selection criteria.

Managing our customer database

A customer base model is used to forecast the required customer base across HomeChoice, FoneChoice and FinChoice to support the group's revenue objectives.

HomeChoice applies a range of data mining and analytical tools to segment the customer database according to risk criteria, responsiveness and purchase behaviour. This allows for an efficient and targeted direct marketing selection process which reduces the risk of campaigns.

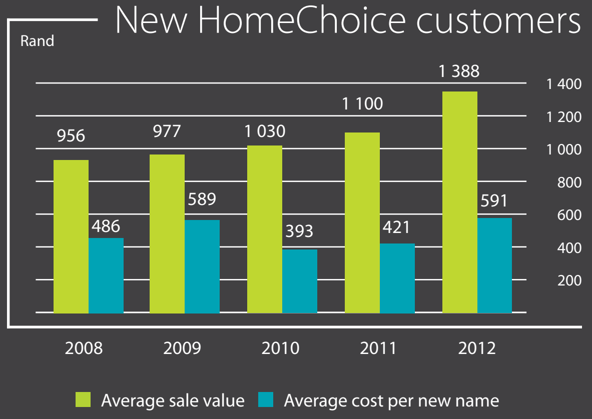
Each campaign is tested on an ongoing basis and upfront response, acceptance rates, subsequent repurchase and delinquency performance is tracked. The data is used to determine the cost of acquiring new customers and their subsequent profitability, and the efficiency of all marketing activities.

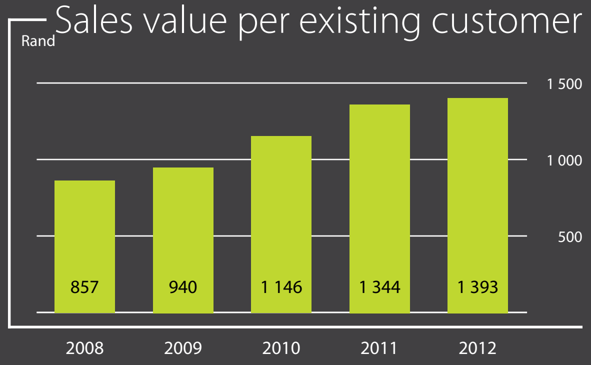
Unlike store-based retailers that are dependent on finding retail space to extend their footprint and exposure to new customers, HomeChoice is able to increase its scale and reach by increasing its marketing efforts. This includes sending higher volumes of catalogues, expanding e-mail and mobile campaigns and increasing contact through the call centres.

The multi-channel marketing approach allows for high levels of flexibility in stimulating customer demand. Management can respond quickly with up-sell and cross-sell strategies to customers through different channels to manage demand effectively.

As a direct marketer, the monthly catalogue which is mailed to customers is the retail shop window. The densities of the catalogues have been increased to reflect the extended and new ranges, and to showcase the latest offering. Over 5,5 million catalogues were distributed in 2012 and sales generated from the catalogue increased to 80,2% (2011: 75,6%) of total sales.

The HomeChoice brand has continued to evolve in 2012 with a greater lifestyle orientation and more focus on cross-selling and upselling of products. The catalogue and website represent a glamorous store filled with aspirational





products to help customers easily realise their décor dreams. Both the FinChoice and FoneChoice brands were reworked during the course of 2012 to align them with the retail brand and to keep them enticing to our customers.

Acquiring new customers

Marketing activities to acquire new customers are aimed at attracting the desired quality of customer in terms of creditworthiness and propensity to purchase HomeChoice and FinChoice products. Merchandise is selected which will drive customer acquisition and is complemented with marketing offers such as gifting and discounting.

HomeChoice experienced a continued shift in targeted customer acquisition channels, with electronic channels accounting for 22,9% of new customers. The Internet is the most efficient channel with the lowest acquisition cost of new customers. However, the risk level in this channel has increased and credit policies have been implemented to contain the risk, resulting in lower acceptance rates.

The direct sales agent channel, which performed poorly in 2011, showed a vastly improved performance and increased sales by 83,0% following a restructuring of the business and extensive training of the commission-based agents. The efficiency of traditional media inserts continued to deteriorate and accounted for 11,4% of acquisitions compared to over 70% five years ago.

A new acquisition channel of purchased prospect lists was introduced which stimulated growth in new customers as these prospects are pre-selected according to response and risk. The credit risk team worked with an external credit bureau to refine the scorecards to improve the efficiency of this channel.

The acquisition cost per new customer name increased from R421 in 2011 to R591 in 2012 owing to the cost of purchasing external lists and the shift in acquisition channel mix. Media, although a declining proportion of customer acquisition, was also less efficient in 2012.

Sales per new customer increased 26,2% from R1 100 in 2011 to R1 388 in 2012.

Existing customer repurchases

Monthly promotions to existing customers encourage repurchase and are targeted based on customer's propensity to purchase and their ability to pay.

Fewer existing customers were eligible for marketing in 2012 due to the tightening of credit risk policy. Typically high risk customers are also high responding customers, and so the credit risk cutbacks resulted in an overall decrease in demand from existing customers. Repurchase rates from existing customers declined from 65,5% in 2011 to 64,3%.

Encouragingly, those customers who were marketed to and did respond, spent more money. The sales value per existing customer increased by 3,6% to R1 393. This was due to the extension of the merchandise ranges, the introduction of new product categories, upselling of products in higher priced tiers and cross-selling products that relate to a previous purchase.

Growth in electronic sales

HomeChoice is at the forefront of using electronic marketing channels such as the Internet and mobile phones to generate sales. The Internet is currently the fastest growing direct marketing sales channel in the country, with more than 8,5 million users in South Africa. Mobile phone penetration is at 83% of the adult population (AMPS 2012).

Online retail sales are expected to show strong growth locally in the next few years as has been experienced by retailers and direct marketers internationally. To capitalise

on the expected growth in online retailing the group has launched a strategy of "Our brand in her hand" which will leverage opportunities with the Internet and mobile phone.

Online retail sales accounted for 7,4% of HomeChoice retail sales in 2012 compared to 6,4% in 2011 while credit extended through electronic channels has increased from 6,7% in 2009 to 18,4% in 2012. In the past year HomeChoice had five million website visits and over one million mobi site visits.

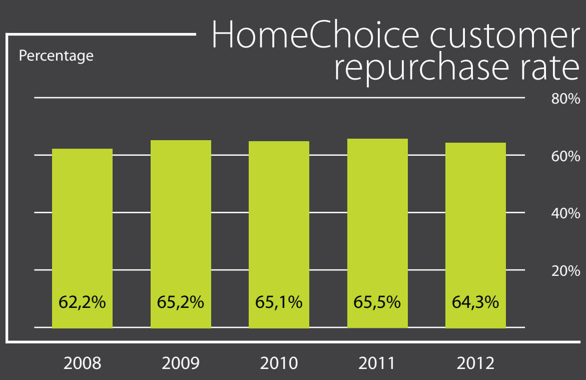
Social media assists HomeChoice in reducing the long distance relationship and building trust and confidence with customers. Through its 27 000 followers on Facebook and active engagement on Twitter, HomeChoice is able to increase the frequency of contact with customers, conduct informal research and provide another medium for customer feedback.

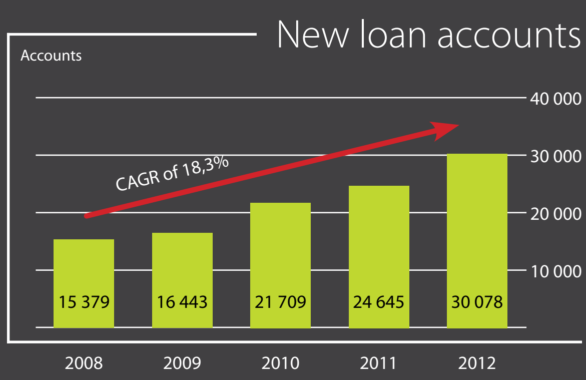
Plans for 2013

Looking ahead to 2013, management expects further tightening of credit risk policy for both new and existing customers, resulting in less efficient marketing efforts but carefully selected, profitable customers. There are plans to grow the customer database by 10% to 12% to support revenue targets.

The strategy of "Our brand in her hand" will be supported by the launch of the new website with considerably enhanced functionality early in 2013. Advances to the mobi site will enable customers to easily shop from our store and make secure payments on their mobile phones 24/7. The KwikServe self-service channel, which has been successful in FinChoice and generated promising response rates in testing, will be introduced for HomeChoice customers in 2013 for payments and account management.

The Protection of Personal Information Act (POPI) is expected to be promulgated during the first half of 2013. A project team has assessed the potential implications of the proposed legislation and management is confident that the Group will be compliant before the end of the 12-month transitional period allowed by the Act.





managing the **risk of credit**

Credit environment

Unsecured lending continued its rapid growth in the South African market during 2012, leading to widespread concerns over the formation of a potential credit bubble. In response to this, some major lenders have slowed their growth projections and their extension of credit to customers.

Most recent reports from the credit regulator and credit bureaux indicate that consumer credit health continues to be under pressure, with rising numbers of impaired accounts. The higher-than-inflation increases in administered prices have caused further strain in customer disposable incomes. The deteriorating credit health of consumers was confirmed by the TransUnion Consumer Credit Index which fell to 44,4 in the first quarter of 2013 from 49,4 in the last quarter of 2012.

These pressures have been seen in HomeChoice's risk levels, which have showed significant increases, and particularly affected the debtor costs in the second half of the year.

Credit performance in 2012

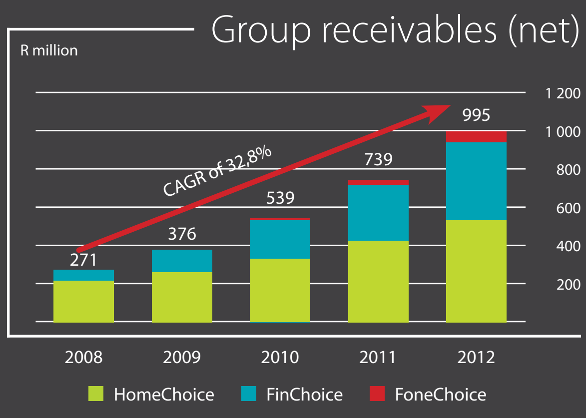
Group		**2012**	2011	2010
Gross trade receivables	(Rm)	**1 180,4**	866,7	637,1
Gross book growth	(%)	**36,2**	36,0	41,2
Debtor costs	(Rm)	**227,8**	148,1	109,7
Debtor cost as a % of revenue	(%)	**15,9**	13,2	12,6
Provision for impairment as a % of gross receivables	(%)	**15,7**	14,7	15,5

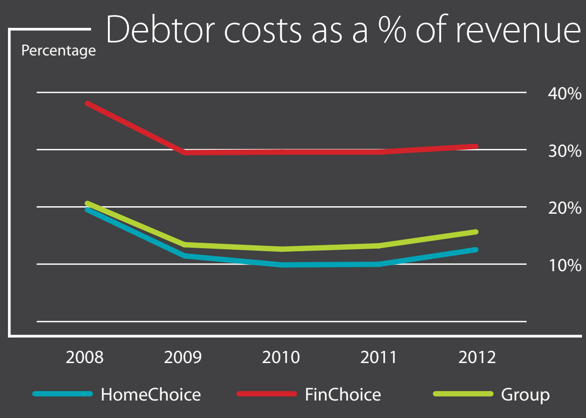
Group gross receivables increased by 36,2% to R1 180,4 million, due to growth in both retail sales and loan extension.

Debtor costs as a percentage of revenue have increased for the group to 15,9% (2011: 13,2%) due to:

- The deteriorating credit environment has impacted on both new and existing customer credit performance in HomeChoice, while the risk-filtering process has maintained consistent risk levels in FinChoice.
- A significant increase in new customer acquisition in HomeChoice, which incurs a higher-than-average bad debt charge than existing customer sales. This is a reflection of the group strategy to acquire new customers for the group within the HomeChoice retail business, in order to supply sufficient low-risk customers for the FinChoice loan business growth requirements.
- The increased contribution of FinChoice. FinChoice has a higher bad debt to revenue ratio than the retail business as retail sales are included in revenue, whereas in FinChoice the value of the loan is not included in revenue, and therefore not the denominator.
- The provision for impairment of receivables has increased to 15,7% of the gross book (2011: 14,7%) as the group continues to ensure that expected bad debt experience in the debtor books are fully provided for.

Average customer exposure to the group has increased by 16,2%, due to higher average purchase values in HomeChoice and the continuing penetration of FinChoice and FoneChoice into the existing customer base.





HomeChoice

HomeChoice		2012	2011	2010
Gross trade receivables	(Rm)	**648,5**	509,4	397,5
Gross book growth	(%)	**27,3**	28,2	25,5
Debtor costs	(Rm)	**139,4**	90,7	72,7
Debtor cost as a % of revenue	(%)	**12,6**	10,0	9,9
Provision for impairment as a % of gross receivables	(%)	**18,9**	17,4	18,1

Gross trade receivables grew by 27,3% to R648,5 million (2011: 509,4 million), which is higher than revenue growth. The faster growth of the debtors' book is a result of customers selecting longer terms as the average order value increased.

Debtor costs as a percentage of revenue increased to 12,6% due to higher bad debt write-offs and increased provisioning held for future bad debt write-offs, particularly in the second half of the year. This is largely due to the experience of worsening credit conditions affecting the customer base and the significantly increased sales to new customers.

These factors also resulted in non-performing loans increasing to 11,1% of the debtors' book (2011: 10,2%). The proportion of the customer base eligible to purchase on credit at the end of the financial year declined to 75,3% (2011: 77,8%).

The provision for doubtful debt was increased to 18,9% of the gross debtors' book (2011: 17,4%), reflecting the continued application of conservative provisioning policies. This provides adequately for expected future bad debt write-offs given the level of new customer balances in the debtors' book, and is expected to reduce in 2013 as the effects of credit tightening are apparent in the debtors' book. Provision is made for all accounts in calculating the doubtful debt allowance, although at different levels based on payment experience.

Consistent industry-standard write-off policies continued to be applied. While the prevalence of debt reviews in the market continues to increase, the proportion of outstanding balances subject to debt review remained low at 1,3% (2011: 1,1%).

New customers

New customers are acquired for the group in the HomeChoice retail business. The number of new customers that are targeted is set by our expectation of how many will remain low enough risk to become future customers of FinChoice and FoneChoice, as well as increasing the customer base for future HomeChoice sales. We accept that these customers will have a much higher level of bad debt risk than existing customers, but choose to invest in the development of the customer base.

Sales on credit to new customers increased by 74% in 2012, driven by a higher number of new customers, and a higher average sales value per customer. The higher number of new customers was in line with our growth expectations. The growth in value is driven by a higher proportion of new customers purchasing from our catalogue products, rather than traditional low-priced acquisition products. A significantly increased proportion of sales in the fourth quarter was from new customers and this negatively impacts our provision for future bad debt.

A new customer acquisition channel, namely purchased prospect lists, has been tested since late 2011. This channel has been one of the main drivers behind the 16,5% growth in the customer base. However, the risk experience from this channel was initially higher than anticipated. Revisions made to the new customer selection process, including the redevelopment of risk scorecards, have reduced risk to below the average new customer risk level, although the initial instalment sales from this channel did impact on the bad debt level for the year.

An instant credit-vetting process was implemented to enable new customers to obtain a credit decision and maximum exposure value while dealing with the sales agent on the telephone. This process has improved the acceptance rate of new customer orders as exposure limits are not exceeded at the point of ordering, as well as increasing the average order value for new customers.

New customer acceptance rates increased from 49,8% in 2011 to 54,8% in 2012, mainly due to the impact of the purchased list acquisition campaigns which has an above average acceptance rate due to the pre-scoring of prospects. Excluding this acquisition channel, acceptance rates for the retail business declined to 49,3% as the risk policy was tightened, partially off-set by higher acceptance rates due to the implementation of instant credit decision-making.

Acquisition from the internet sales channel has increased in line with expectations. This channel was targeted by fraud syndicates in our peak sales periods of November and early December. A portion of this fraud activity was identified in time, and significant bad debt write-offs are anticipated from the undetected portion. Substantial revisions to our fraud processes have already been implemented to limit fraud risk.

New customer scorecards and credit policies are regularly reviewed to ensure that the business responds rapidly to changes in risk levels. During 2012 this has led to a continued tightening of new customer credit policy. The effects of these changes are only seen in very early vintages, as overall new customer vintages deteriorated during the year.

Existing customers

A worsening credit environment was met by tightening of credit policies during 2012 and, although the positive effects of these policy changes are being seen in customer vintages, the bad debt impact of credit worsening has affected the bad debt write-off and provisioning. As HomeChoice remains cautious about the credit environment in 2013, further credit policy tightening has already occurred since the end of the year.

The proportion of credit sales on 16 and 24-month terms increased to 78,6% (2011: 73,1%), with a corresponding decrease in sales on six-month terms. This shift in credit terms was driven by customers buying higher-priced tiers and the expansion of the range of higher-priced merchandise.

Substantial testing of the demand and risk impacts of extending the maximum credit term to 24 months continued throughout 2012. While these tests showed improvements in customer demand, they also had higher bad debt levels, which have impacted on the bad debt write-off experience and provision level held on the book. The test population allowed HomeChoice to refine its risk criteria for the controlled extension of longer terms.

Provided that the risk is well managed, the extension of terms will have positive impacts on customer demand, the total profitability of each sale and increased customer retention. While the cash yield from the book decreases due to higher balances over a longer period, the total cash collected increases. The extensive testing during 2012 has provided the confidence for HomeChoice to formally extend terms in a controlled manner in 2013, with an appropriate risk-based customer selection.

Existing customer risk levels were impacted by both the deteriorating credit environment and the higher levels of risk resulting from the testing of longer-term instalment sales. Extensive analysis of the customers with worsened experience led to a targeted tightening of marketing selection and credit-granting policies during the year. Risk-based exclusions from our main marketing campaigns increased from 8% to 18% during 2012.

Early risk metrics for sales to existing customers demonstrate that the policy and selection policy tightening has improved the risk levels of existing customers in the second half of the year.

Contractual basis	2012 %	2011 %
HomeChoice		
Satisfactory paid	**69,7**	70,8
Current	**44,2**	43,3
Past due less than 30 days	**25,5**	27,5
Past due 31 – 60 days	**10,6**	11,2
Past due 61 – 90 days	**5,8**	5,7
Past due more than 91 days	**13,9**	12,3
	100,0	100,0

FinChoice

FinChoice		**2012**	2011	2010
Gross trade receivables	(Rm)	**464,4**	331,9	232,1
Gross book growth	(%)	**39,9**	43,0	75,2
Debtor costs	(Rm)	**77,8**	53,2	35,6
Debtor cost as a % of revenue	(%)	**30,5**	29,3	29,3
Provision for impairment as a % of gross receivables	(%)	**11,4**	10,6	10,9

The FinChoice gross debtors' book continued its strong growth trend, increasing by 39,9% to R464,4 million (2011: R331,9 million) due to the ongoing demand for loan products from the HomeChoice customer base.

Non-performing loans have increased slightly to 3,3% of the book (2011: 3,1%), and remains low due to the continued application of a strict write-off policy of four months' consecutive missed payment.

Debtor costs as a percentage of revenue increased to 30,5% (2011: 29,3%) due to a prudent increase in provisioning against the worsened credit environment.

Recency basis	2012 %	2011 %
Current	**88,9**	90,9
Not paid 1 – 30 days	**6,1**	4,8
Not paid 31 – 60 days	**2,2**	2,0
Not paid more than 61 days	**2,8**	2,3
	100,0	100,0

While bad debt write-offs increased in 2012, this was due to the strong growth in disbursements of previous years, which was adequately anticipated in the impairment provision. This is a natural consequence of book growth and the timing of bad debt write-offs.

The provision for doubtful debt has increased to 11,4% of gross receivables (2011: 10,6%). Although book metrics are stable, the worsened credit environment has increased our expectation of bad debt write-off in 2013. The provisioning approach has remained conservative, and provides fully for bad debt expectations.

Major changes were made to internal processes for debt review applications and management. The accounts of customers placed under debt review are written off and subsequent collections are treated as recoveries on the written off book. This is a conservative approach and accounted for 24,2% of bad debts written off in 2012. Debt review has escalated in its profile and activities, and the number of debt review applications received from good paying customers has increased in recent months. The reduction in available credit in the market will improve average customer credit health in the medium term, but in the short term will lead to higher bad debt or debt review applications.

New customers

Initial FinChoice loans are only granted to HomeChoice customers who have demonstrated good payment behaviour. This ensures that FinChoice offers are marketed to relatively low risk prospects. The selection criteria has enabled the business to select a profitable group of loan customers, with a stable and acceptable risk of bad debt.

Selection and acceptance policies on FinChoice's core products remained consistent with prior years. The FinChoice loan selection and approval policy is driven by the HomeChoice repeat business risk criteria. The tightening of these policies has had a stabilising effect on the FinChoice new loan population. The performance of new loan customers is continuously monitored. New customer early risk vintages for the fourth quarter showed a slight increase in risk, which has led to a tightening of the new customer credit policy.

Repeat loan customers

Customer demand for repeat loans continued to be strong, and accounted for 70,2% of loans disbursed (2011: 70,9%). These customers demonstrate good payment behaviour in both the HomeChoice and FinChoice credit books and continue to be the lowest risk customers. The vintages of repeat loan customers, after several years of decreasing risk at a diminishing rate, have now stabilised at most acceptable levels.

FinChoice vintages continued to show stable risk levels. The 24-month loan book has grown at a faster rate than the shorter-term books and accounted for 51,5% of total outstanding loans at year-end (2011: 50,3%), while the new 36-month term book grew to 4,1% of total outstanding loans. The offer of longer-term products is restricted to customers with lower than average risk levels. The relative growth of these term books is a natural result of their slower pay-down rate, as FinChoice maintains a strong focus on shorter-term loans. These books have a higher provision for future bad debts owing to their longer duration.

FoneChoice

Other retail – FoneChoice		2012	2011	2010
Gross trade receivables	(Rm)	**67,5**	25,4	7,6
Gross book growth	(%)	**165,7**	235,7	–
Debtor costs	(Rm)	**10,6**	4,2	1,4
Debtor cost as a % of revenue	(%)	**14,5**	14,0	13,7
Provision for impairment as a % of gross receivables	(%)	**15,0**	16,0	16,0

FoneChoice offers mobile phones and smartphones to good-paying HomeChoice customers on 24-month terms and higher value laptop computers over 36 months. The credit performance of FoneChoice was largely in line with that of FinChoice in 2012 as the credit processes and policies are similar to those applied to the FinChoice personal loans business.

The gross FoneChoice book (before provisioning) increased to R67,5 million (2011: R25,4 million) as the sales of FoneChoice products accelerated.

Provisioning is currently held at 15,0% of the book, while vintage performance has been in line with FinChoice new customer vintages. Higher provisions are held owing to the longer average term of the FoneChoice book and a conservative policy will be followed until sufficient data is accumulated to confidently reduce provisioning levels.

During the initial high growth phase of the FoneChoice book, it is anticipated that the bad debt charge, and in particular the provision for bad debt, will increase at a faster rate than revenue growth. This occurs in longer-term books such as FoneChoice which has the longest average term in the group and also because most sales are recent. Bad debt write-offs were R4,5 million during 2012, and is expected to increase as the book matures.

Credit risk management

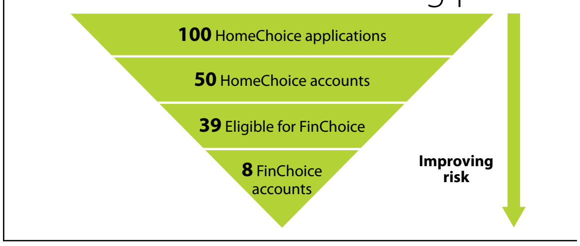
Credit is used as an enabler of merchandise sales which allows HomeChoice's predominantly female customer base to purchase goods on instalment credit.

In the growing direct marketing and online retail environment, credit is also a source of reassurance to customers as they have no financial commitments until they have received and inspected their purchase.

Credit risk is managed through a process of continued multiple-level risk filtering. New customers are acquired through HomeChoice and the group customer base therefore has a female bias of 83,6%. Females, particularly those buying homeware products, have proven better credit risk than their male counterparts.

Strict credit and affordability criteria, together with in-house developed scorecards based on credit bureau data, are applied. New customers are granted a low credit exposure relative to their affordability, giving the group an opportunity to observe payment behaviour without significant exposure risk. As a customer demonstrates good payment performance, and the behaviour scorecards identify her as a better risk, the purchase limit is raised closer to the maximum affordability level.

The risk filtering process



Behaviour scorecards provide a sound basis for extending further instalment credit to good-paying customers, to drive repurchase rates and repeat loans, and reduce average bad debt. These scorecards are regularly reviewed and upgraded to ensure the group's credit policy remains in line with an acceptable level of risk for repeat business.

Customers with acceptable risk levels are identified for marketing and promotional offers. The integration of the marketing, merchandise and credit processes ensures that the extensive customer database is mined to optimise profitability.

As a direct marketer the group has the ability to manage the risk of credit by limiting who it markets to. Both marketing response and the subsequent credit performance of customer acquisition sources are analysed to optimise the mix of acquisition activities.

All group data is taken into account when a customer is considered for credit extension. In this way a customer in arrears with any group product will not be granted further credit for FinChoice, HomeChoice or FoneChoice.

Credit is currently offered for HomeChoice purchases in South Africa, Botswana, Namibia, Lesotho and Swaziland, while FinChoice and FoneChoice restrict their credit offer to customers in South Africa.

Credit risk in 2013

Owing to concerns over the deteriorating credit environment, high levels of customer indebtedness and uncertainty around unsecured lending, the group will focus on shorter-term and lower-risk loans, and maintain a prudent margin buffer.

Management will continue to monitor group exposure and the indebtedness of customers, but recognise that further worsening in the credit environment is a risk to performance in 2013. Further credit policy tightening has already been implemented in 2013, reflecting this cautious outlook, and any loosening of these policies will only be considered when there is sufficient evidence of a significant improvement in the risk profile of customers. Credit and customer selection policies will continue to be adjusted to ensure risk levels remain stable.

HomeChoice expects bad debt write-offs to increase in 2013 due to the high volume of new customers acquired in the second half of 2012. While this has been taken into account in increasing the provision for doubtful debt for 2012, it will negatively impact debtor performance in the year ahead. Together with higher provisioning levels expected on longer terms, as well as the bad debt write-off expected from the 2012 new customer acquisition, this is expected to cause a deterioration in bad debt as a proportion of revenue in 2013.

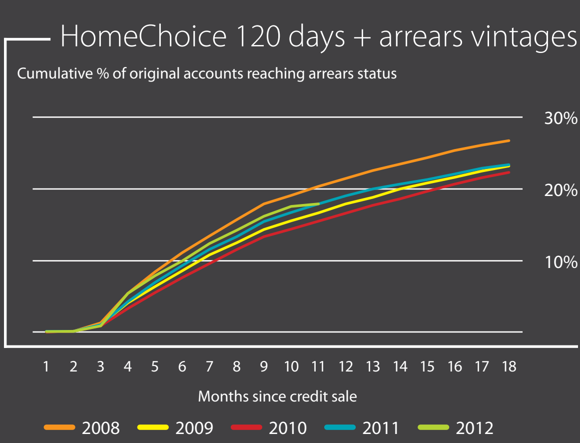
The lower proportion of new customer acquisition than 2012, the impact of enhanced risk policies and the extension of 24-month terms to lower-risk customers are all factors which are expected to impact positively on HomeChoice's credit performance at a vintage level. The group will continue to adjust credit policy appropriately in order to achieve this impact.

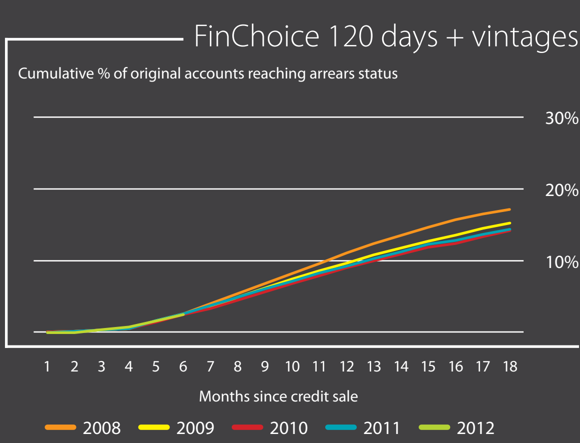
FinChoice will focus on the short-term KwikAdvance product which has a lower bad debt charge. The growing levels of debt review in the market is being carefully monitored, and could cause an increase in bad debt write-offs during the year. Credit policies and affordability thresholds will be tightened in relation to any evidence of additional customer credit stress.

The FoneChoice debtors' book should continue to show rapid growth as sales volumes increase strongly off a low base.

The credit offer will be enhanced to make it more attractive to the customer, including offering 24-month terms to selected HomeChoice customers across a wider product range. The credit application process will be made more efficient by reducing paperwork to lighten the customer burden, reduce delays in the credit process and improve the credit process resolution rate.

Credit legislation and guidance issued by the National Credit Regulator will continue to be monitored and adhered to.






LOCK

corporate GOVERNANCE

January 2013 Catalogue

corporate governance report

HomeChoice Holdings has implemented robust governance and risk management practices to enhance the creation of long-term shareholder value and to safeguard the interests of all other stakeholders.

Application of King III principles

The group endorses the King Code of Governance for South Africa 2009 (King III) which forms the foundation of the group's governance framework.

King III is not prescriptive and contains a series of recommendations which can be adopted on an "apply or explain" basis. The board committees are responsible for monitoring and evaluating conformity with the provisions of King III to ensure fairness, accountability, responsibility and transparency in all business activities. The group strives to maintain an appropriate balance between governance and delivering competitive financial returns to shareholders.

Non-application of King III principles

King III recommends that the chairman of the board should be an independent non-executive director. The position of chairman is held by an executive director, Rick Garratt. The board believes that this departure from King III is appropriate as Rick is the group's founder, has extensive experience and adds considerable value to the merchandise and marketing areas, in particular. The board has appointed an independent non-executive, John Bester, as lead independent director.

King III requires that the audit committee comprises only of independent non-executive directors. One of the members of the audit committee, Willem Jungschläger, is not classified as independent under the King Code by virtue of an indirect beneficial shareholding in the group that he considers material to his wealth. The board is, however, satisfied that this shareholding does not impact on the director's objectivity and ability to exercise independent judgment.

The directors confirm that the group has complied in all other material respects with King III and the governance requirements of the Companies Act.

Governance structures

The directors acknowledge that the board should provide effective leadership based on an ethical foundation and act as the focal point for and custodian of corporate governance.

Board of directors

The HomeChoice Holdings Limited board is ultimately accountable and responsible for the performance and affairs of the group. Its primary responsibility is setting the strategic direction of the group and monitoring investment decisions, considering significant financial matters and reviewing the performance of executive management.

Board structure

The board comprises three executive directors and four non-executive directors. The group maintains an appropriate ratio of executive to non-executive directors given the size, nature and risk of the business, with a majority of non-executive directors on the board.

Three of the non-executive directors are independent in terms of the King III definition and the guidelines outlined in the JSE Listings Requirements. As described above, one of the non-executive directors is not classified as independent under the King Code by virtue of his indirect beneficial shareholding in the group.

Board appointments and rotation

Director appointments are made by the board in a formal and transparent manner. One-third of the non-executive directors are required to retire by rotation at the annual general meeting of shareholders. Retiring directors may offer themselves for re-election. Directors appointed during the year are required to have their appointments ratified at the following annual general meeting.

Director induction and development

Newly appointed directors participate in an induction programme which includes introductions to key management and receive documentation such as the board charter, minutes and schedules from recent meetings and the group's annual reports. The board has regular interaction with executive management and board meetings include presentations by management on selected topics to enhance board members' understanding of the business and of the group. Non-executive directors have unrestricted access to all company information, records, documents and property and may meet separately with management. Directors may undertake external seminars or workshops, at company expense, should they consider it necessary.

Board charter

A documented, formal board charter outlines the composition, scope of authority and responsibilities of the board. The board is accountable and responsible for the following:

- retaining full and effective control over the company;
- providing strategic direction to the company;
- appointing the chief executive officer and ensuring effective succession planning;
- ensuring compliance with all relevant laws, regulations and codes of business practice;
- identifying key risk areas and key performance indicators of the business enterprise;
- ensuring the effectiveness of the company's internal systems of control;
- ensuring open and prompt communication with shareholders and relevant stakeholders;
- establishing a formal and transparent procedure for developing a policy on executive and director remuneration;
- reviewing the required mix of skills, experience and diversity in order to assess the effectiveness of the board; and
- ascertaining whether potential new directors are fit and proper and are not disqualified from being directors.

Board meetings

The board meets at least quarterly and all meetings are convened by formal notice. Decisions taken at board meetings are decided by a majority of votes, with all directors having one vote. Any specific issues that may arise between meetings are dealt with using electronic communication and decisions taken are recorded by way of written resolutions. The board and its committees are timeously supplied with comprehensive information to enable them to have meaningful debate and discharge their responsibilities.

Conflicts of interest

In addition to a formal annual disclosure process, all board members are required to make ongoing disclosures of their shareholdings in HomeChoice, other directorships and any potential conflicts of interest. Where a director has a conflict of interest, he or she is required to be recused from the meeting in which the matter is considered and may not vote. All transactions in which a director has a personal interest are disclosed in note 30 in the group annual financial statements.

Directors and employees are prohibited from dealing in the group's shares during two formal closed periods which commence immediately prior to the interim (June) and annual (December) reporting periods, ending after the publication of the respective results. Restrictions are also placed on share dealings at other times if directors and employees have access to price-sensitive information. All share dealings by directors and officers, as well as by employees with price-sensitive information, require prior written approval from the board.

Board performance appraisal and independence assessment

An annual evaluation process is conducted to assess the contributions of individual directors and the effectiveness of the board and each sub-committee. This is undertaken by means of a questionnaire completed by all directors. An assessment of the independence of the non-executive directors is also conducted and the board is satisfied that the majority of non-executive directors are independent. During the course of the most recent board appraisal it was concluded that the board and sub-committees were performing well.

Company secretary

The primary role of the company secretary is to ensure that the group's memorandum of incorporation and legislative requirements governing the operation of the board are observed. The company secretary also provides guidance, when required, to the board on its governance compliance and fiduciary responsibilities. All directors have unrestricted access to the company secretary and company records and are entitled to independent professional advice, at company expense, should the circumstances warrant it. The board is satisfied that the company secretary, who is a chartered accountant, has the knowledge and expertise to fulfil the role of company secretary. The company secretary is not a director of the group or any of its subsidiaries.

Committees

The board of directors has delegated specific responsibilities to committees to assist the board in meeting its oversight responsibilities. The committees are governed by formal charters, meet independently and formally report back to the board.

Audit and risk committee

The committee, which is chaired by an independent non-executive director, comprises three non-executive directors. Meetings are also attended by invitees, including the executive chairman, chief financial officer, finance director, group company secretary, head of internal audit and external auditors. The head of internal audit and the external auditors have unlimited access to the chairman of the committee. The external auditors are invited to all meetings and at least annually meet with the committee without senior management being present. Committee members have unlimited access to all information, documents and explanations required in the discharge of their duties. The audit and risk committee report is presented on page 100.

Remuneration and nomination committee

The committee, which is chaired by an independent non-executive director, comprises two non-executive directors. Meetings are also attended by invitees, including the executive chairman, chief executive officer, chief financial officer and human resources director, who are recused when matters relating to their own remuneration are discussed. The key mandate of the committee is to ensure that the remuneration of executive directors and senior management is competitive and appropriate to the levels of responsibility carried, with particular attention to retention and performance. The committee also assists the board with the appointment of directors. The remuneration and nomination committee report is presented on page 102.

Social and ethics committee

The committee, which is chaired by a non-executive director, comprises two non-executive directors and the executive chairman. Meetings are also attended by invitees, including the chief executive officer and human resources director. The committee monitors the group's activities, having regard to any relevant legislation, other legal requirements and prevailing codes of best practice, in respect of social and economic development, good corporate citizenship (including the promotion of equality, prevention of unfair discrimination; the environment, health and public safety, including the impact of the company's activities and of its products or services), consumer relationships and labour and employment issues.

The committee also advises the board on issues that may have a significant impact on the long-term sustainability of the group and which influence the group's integrated sustainability reporting. The social and ethics committee report is presented on page 106.

Board and committee attendance

The attendance of the directors at board meetings and board committee meetings for the financial year were as follows:

		Board	Audit and risk committee	Remuneration and nomination committee	Social and ethics committee	Operations review meeting
Number of meetings	Status	4	4	4	3	3
Rick Garratt (Chairman)	Executive	4	3#	3	1#	2
Shirley Maltz	Executive	4		3#	1#	2
Annalize Kirsten	Executive	4	4#	4#		2
John Bester [1]	Non-executive	4	4	4	3	
Amanda Chorn	Non-executive	3				
Pierre Joubert	Non-executive	4	4			3
Willem Jungschläger [2]	Non-executive	4	4	4	3	3

[1] *Lead independent director and chairman of the audit and risk committee*
[2] *Chairman of the remuneration and nomination committee and the social and ethics committee*
By invitation

Operating board of directors

The operating board is responsible for management of all aspects of the operations of the trading companies within the group. The operating board reports regularly to the board and its members also present at board meetings throughout the year. The operating board usually meets weekly. Information on the composition of the operating board appears on page 47.

The operating board has established other sub-committees to assist in supporting its governance and risk obligations, including a risk sub-committee, project steering committee and change control committee.

Risk management

The group's risk management strategy aims to manage all categories of risks through a pro-active approach of identifying, assessing, mitigating, monitoring, evaluating and reporting on risks to minimise the group's risk exposure while ensuring sustainable business growth.

The board is accountable for the process of risk management, establishing appropriate risk and control policies and communicating these throughout the company. The board is also responsible for the identification of sustainability issues and regularly reviews and discusses risks that might impact the company's ability to achieve its sustainability objectives. Management is responsible for designing, implementing and monitoring the system and process of risk management and integrating it into the day-to-day activities of the group.

A system of internal controls has been implemented and is continually reviewed. The group also has a comprehensive reporting system, monitored and reviewed monthly by management and directors. The system facilitates budgetary control, provides reasonable assurance as to the accuracy of financial statements and safeguards the group's assets.

Significant risks are identified, evaluated and managed on an ongoing basis. Senior executives and management also undertake an enterprise-wide risk assessment process that ensures all material risks are identified, evaluated and mitigated wherever possible, and compliance with laws and regulations assessed. This process is undertaken within each division of the group's trading subsidiary companies and serves to instil risk awareness and accountability throughout the group, focusing on key risk areas such as marketing, merchandise, credit, logistics, operations, information technology, human resources and financial controls. Risks are documented in a risk register, with their mitigating controls, and are rated in terms of likelihood of occurrence and impact. The results are presented to the audit and risk committee.

Risk champions monitor operational processes and report any risk incidents as they occur on a continuous basis. The causes of risk incidents are analysed and both corrective and preventative measures are taken to manage the risks. Quarterly revision sessions are held where risk champions are required to review their progress on action plans stemming from the annual risk assessment process and revise the risk registers where deemed appropriate, taking any emerging risks into consideration.

The board believes that there is an adequate system of internal control in place to mitigate significant risks faced by the company to an acceptable level. This can only provide reasonable, but not absolute, assurance. The board is not aware of any material breakdown during the past year in the functioning of these controls.

The overall risk profile of the group has not changed materially in the period under review. The key risks and mitigation strategies that could impact on the group achieving its sustainability objectives for 2013 have been identified on pages 18 to 33.

Risk sub-committee

The operating board is responsible for implementing the risk management plan. To assist in this process, the operating board established a risk sub-committee whose mandate includes:

- overseeing the risk management process operationally;
- integrating risk management into the day-to-day activities of the group;
- prioritising and assessing key risks and mitigation strategies;
- reviewing the internal audit coverage and testing strategy;
- overseeing external reporting of risk;
- initiating and monitoring key projects to address risk inherent in the business; and
- reviewing compliance with laws and regulations.

The risk sub-committee presents a report of its activities at each meeting of the audit and risk committee.

Information technology governance

The group is data rich and reliant on information technology (IT). While IT risks and controls have always been considered as part of the group's enterprise-wide risk management processes, the board has established an IT governance charter and the IT director assumes the responsibilities of the chief information officer. The group has established a data security project team to review and enhance controls over the security and processing of data in the group, while any changes to the IT production environment are formally monitored by a change control committee.

Internal audit

The group has established an internal audit function, reporting to the chairman of the audit and risk committee, to provide assurance on the adequacy and effectiveness of internal control and risk management practices, and to assist management by making recommendations for improvement. The audit and risk committee also utilises the services of professional audit firms to assist in evaluating internal control and business risks as and when required.

Legislative compliance

The group maintains its focus on compliance with legislation that impacts on the group. Project teams are established to review new legislation and identify any compliance requirements. The group is not aware of any material instances of non-compliance with legislation during the period and no fines were incurred. The group did not receive any requests for information in terms of the Promotion of Access to Information Act during the period.

Code of ethics

The group's business philosophy is premised upon our vision and values. Arising from our commitment to these values, an employee code of ethics has been established based upon the following principles:

- employees must act honestly and fairly in all business transactions and dealings with others. Employees must take accountability for their actions and decisions, apply due skill, care and diligence in respect of our stakeholders and the integrity of the business;
- employees must treat other employees, contractors, customers, suppliers and all other persons with whom they deal at work with the utmost courtesy and respect and in a non-discriminatory manner;
- employees must comply with all laws and regulations and internal policies and procedures applicable to the business of the group. The company will not tolerate any form of unlawful or criminal conduct; and
- employees must act in a professional manner and always act within the best interests of the group. Employees have an obligation to avoid any conflict with the business interests of the group, to maintain confidentiality and protect all data and information that belongs to the group.

Anonymous tip-off facility

An anonymous tip-off facility is in place for the reporting of suspected fraudulent or unethical behaviour via an outsourced toll-free hotline. Reports are relayed to the human resources director, as well as to the chairman of the audit and risk committee. Staff awareness of this facility is promoted through posters and the induction programme undertaken by new staff.

Governance developments in 2012

Audit and risk committee: The members of the audit and risk committee were elected by shareholders for the first time at the annual general meeting (AGM) in May.

Remuneration policy: As recommended by King III, the group's remuneration policy was proposed to shareholders for a non-binding advisory vote at the AGM and approved by shareholders.

Integrated annual report: The first integrated annual report was published for the 2011 financial year, as required by King III.

Risk management: The risk management framework was reviewed and approved by the audit and risk committee. Quarterly departmental risk workshops were implemented which has enhanced follow-up processes on the implementation of improved controls. A new risk management software tool was implemented which enhances and consolidates the group's reporting of risk and the consideration of risk appetite and tolerance. A risk incident register has been formalised and integrated into the risk management software tool.

Information technology governance: A programme was initiated to monitor and ensure compliance with King III and adherence to the IT governance charter, with regular feedback to the audit and risk committee.

Social and ethics committee: The committee was established in compliance with the requirements of the Companies Act and met for the first time in 2012. The committee charter was approved by the board and the committee has gained meaningful momentum in addressing issues impacting on the sustainability of the group.

Memorandum of incorporation (MOI): The articles of association and memorandum of incorporation of HomeChoice Holdings and its subsidiaries were reviewed against the Companies Act and JSE Listings Requirements. A new MOI was proposed and adopted by shareholders.

Board and sub-committee charters: The board and sub-committee charters were reviewed during the year to ensure alignment with best practice, the Companies Act, King III and legislative requirements.

Company secretary: Bradley Bastard, a chartered accountant, was appointed group company secretary during the year. He is not a director of HomeChoice Holdings Limited or any of its subsidiaries.

Priorities for 2013

Governance practices will continue to be enhanced through the ongoing review of the group's governance and risk management structures, processes and policies. Focus areas for improvements in 2013 will include:

- enhancing the group's legislative compliance processes, and in particular reviewing the compliance requirements of the Protection of Personal Information Bill (POPI) which is expected to be enacted during 2013;
- strengthening the group's IT governance framework through enhanced processes and policies;
- extending the risk management software to all risk champions; and
- implementing additional operational board risk management workshops to enhance oversight and strategic input into the risk management processes.

audit and risk committee report

This report for the financial year ended 31 December 2012 is presented to the shareholders of HomeChoice Holdings Limited in compliance with the requirements of the Companies Act of South Africa, No 71 of 2008 (as amended) and the King Code of Governance for South Africa 2009 (King III).

Role of the committee

The audit and risk committee is a statutory committee appointed by shareholders and is accountable to shareholders and the board. If differences of opinion arise between the committee and the board where the committee's statutory functions are concerned, the committee's decision will prevail.

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

- reviewing accounting policies and assessing whether the annual financial statements reflect appropriate accounting principles;
- reviewing and assessing the fairness of all financial information issued to shareholders;
- overseeing integrated reporting, reviewing the disclosure of sustainability issues in the integrated report;
- reviewing and recommending the annual financial statements and integrated report for approval to the board;
- confirming the nomination and appointment of the external auditors each year, monitoring and reporting on their independence and approving the terms of engagement, scope of the audit and fees paid;
- overseeing the development, implementation and review of a risk management policy and plan for a system and process of risk management to recommend for approval to the board;
- identifying and reviewing the group's exposure to significant risks and its risk mitigation strategy;
- providing assurance on the adequacy and effectiveness of the group's systems of internal financial and operational control and compliance with laws and procedures;
- monitoring and supervising the effective functioning and performance of internal audit, ensuring that it operates independently of management and approving the annual audit plan;
- considering the appropriateness of the expertise and experience of the chief financial officer and finance function; and
- providing effective communication between directors, management and external auditors.

Committee composition and meetings

The committee is comprised of three non-executive directors, all of whom are suitably skilled with at least two having extensive financial experience. The chairman of the committee is the lead independent director. The members of the committee for the period under review were as follows:

- John Bester (chairman), BCom (Hons) CA(SA)
- Willem Jungschläger, BA (Hons) PhD
- Pierre Joubert, BCom CA(SA)

Biographical details of the committee members appear on page 44 of the integrated annual report.

Meetings are also attended by invitees, including the executive chairman, chief financial officer, company secretary, finance director, head of internal audit and external auditors.

The committee typically meets four times during the year and has established an annual meeting plan agenda. The chairman of the committee reports to the board after each committee meeting and also attends the annual general meeting of shareholders to answer any questions that may arise concerning the activities of the committee.

As part of the annual board evaluation, the performance of the committee and individual committee members was assessed and found to be working well.

Activities of the committee

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

Compliance with laws and regulations

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

Internal control and risk management

The committee has assisted the board in assessing the adequacy of the risk management process and has an oversight role regarding the management of risk. Having considered, analysed, reviewed and debated information provided by management and internal audit, the committee is satisfied that:

- the internal controls of the group have been effective in all material aspects throughout the year under review;
- these controls have ensured that the group's assets have been safeguarded;
- proper accounting records have been maintained; and
- resources have been utilised efficiently.

Internal audit

The internal audit function provides assurance to the board on the adequacy and effectiveness of the group's internal control and risk management processes. The committee has ensured that the internal audit department has functioned independently and has the authority to enable it to fulfill its duties. The chairman of the committee has met separately with the head of internal audit without management being present.

The committee has approved the internal audit plan and has reviewed the activities and findings of the internal audit function. The committee has reviewed reports on the controls regarding security, financial and accounting systems and reporting and satisfied itself that management maintains an effective control environment and identifies and manages critical risk areas. The committee was not made aware of any material breach of internal controls during the year.

External audit

The committee nominated for appointment the external auditor, reviewed the audit plan, the terms of engagement and the audit fee budget. The committee has appraised the independence, expertise and objectivity of PricewaterhouseCoopers as external auditor as well as approved the terms of engagement and the fees paid. The committee is satisfied that both the external auditor and the engagement partner are independent of the group and management and are able to express an independent opinion on the group's annual financial statements. Fees paid to the auditors are detailed in note 24 of the annual financial statements.

The committee determined the nature and extent of any non-audit services and pre-approved any proposed contract with the auditors for the provision of non-audit services. During the year, PricewaterhouseCoopers received fees of R205 000 for non-audit services amounting to 17,7% of the audit fees paid. In terms of the committee charter, non-audit services may not exceed 30% of the total external auditor's remuneration.

The committee reviewed the external auditor's opinion on the financial statements and considered any reports on risk exposure and weaknesses in internal controls. The committee also met with the external auditors separately without management being present.

The committee concludes that the skills, independence, audit plan, reporting and overall performance of the external auditors are acceptable and hereby recommends the re-appointment of PricewaterhouseCoopers as external auditor and Thinus Hamman as the engagement partner for 2013.

Going concern

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

Annual financial statements

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

Expertise of the chief financial officer and finance function

The committee has considered the appropriateness of the expertise and experience of the chief financial officer. The committee believes that Annalize Kirsten, the chief financial officer, possesses the appropriate expertise and experience to meet her responsibilities. The committee has also considered the collective expertise, resources and experience of the finance function and concluded that they are appropriate.

Integrated annual report

The committee has a responsibility to oversee integrated reporting having regard to all factors and risks that may impact on the integrity of the integrated annual report. The committee has reviewed the disclosure of sustainability issues in the integrated annual report and is satisfied that it is reliable and does not conflict with the annual financial statements. The committee believes that engaging with an external assurance provider on material sustainability issues would not be beneficial to shareholders at this time. The committee recommended the approval of the integrated annual report to the board.

Re-election of committee members

The following members have made themselves available for re-election to the committee and are hereby proposed to shareholders for consideration and approval at the annual general meeting in May 2013:

- John Bester
- Willem Jungschläger
- Pierre Joubert

John Bester
Chairman of the audit and risk committee

15 March 2013
Cape Town

remuneration and nomination committee **report**

Role of the committee

The board delegates responsibility for the oversight of the group's remuneration policies and practices to the remuneration and nomination committee. The committee is governed by a documented board-approved charter. The primary responsibilities of the committee include:

- assisting the board in setting and administering effective remuneration policies that are in the group's long-term interests;
- ensuring the directors and executive managers are fairly rewarded based on both their individual and team contributions to overall performance, including determining the remuneration of executive directors and proposing fees for non-executive directors to shareholders;
- considering and recommending remuneration policies for all employee levels in the company; and
- ensuring the disclosure of remuneration is accurate, complete and transparent.

Committee composition and meetings

The remuneration committee consists of two non-executive directors and one executive director:

- Willem Jungschläger (chairman)
- John Bester
- Rick Garratt

Biographical details of the committee members appear on page 44. The chairman of the board, the chief executive officer, the chief financial officer and the human resources director attend meetings by invitation but are recused when matters concerning their remuneration are considered.

The committee meets at least four times during the year and has established an annual meeting plan agenda. The chairman of the committee reports to the board after each committee meeting. As part of the annual board evaluation, the performance of the committee and individual committee members was assessed and found to be working well.

Activities of the committee

During the past year the committee performed the following activities:

- reviewed and updated the committee charter;
- reviewed executive directors' remuneration based on market benchmarks;
- reviewed terms of executive directors' service agreements;
- approved the 2012 bonus scheme targets;
- reviewed annual adjustments to director, management and employee remuneration;
- proposed employee share option allocations and their vesting conditions;
- reviewed group performance against the bonus scheme rules and targets and introduced measures for non-financial targets; and
- approved the payment of bonuses for 2011 and assessed achievements against targets.

Remuneration policy and philosophy

The group recognises that employees are critical in meeting business objectives and contributing to the sustainability of the business. The 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 and their performance;
- external consistency through participation in industry remuneration surveys to ensure that employees are remunerated fairly in relation to the market; and
- aligns employee interests with the board and shareholders through short and long-term incentives, and to focus energy on attaining short-term goals which are not at the expense of long-term objectives and sustainability.

The group's remuneration policy was proposed to shareholders for a non-binding advisory vote at the annual general meeting in May 2012 for the first time and was approved by shareholders. This policy will now be proposed to shareholders annually.

Guaranteed remuneration	Variable performance related remuneration	
Basic salary A fixed guaranteed salary given on a total cost-to-company basis and includes a defined contribution provident fund with flexibility to elect pension options.	**Short-term performance** Sales and collection agents are incentivised monthly against set targets. All other employees are eligible for annual bonuses subject to personal and company performance.	**Long-term performance and retention** • Share incentive scheme • Share option incentive scheme • All employees were offered share options
Salary is based on market value and adjusted in accordance with performance and contribution to HomeChoice.	Incentives based on individual performance subject to HomeChoice achieving financial targets.	Share-based incentives are aimed at retention and to encourage sustainable growth in HomeChoice.

Components of remuneration

Remuneration comprises the following components:

Guaranteed remuneration

The basic remuneration comprises fixed guaranteed salaries for all permanent employees on a total cost-to-company basis. Basic remuneration is reviewed annually, benchmarked against the market and assessed against prevailing economic metrics. Annual increases were made on 1 March 2012 and the average employee increase was between 6% and 7%.

Membership of the group's defined contribution provident fund is compulsory for all employees, and employees have the flexibility to elect 12%, 13,5% or 18% of pensionable salary. Besides retirement benefits the fund also provides:

- a death benefit of four times annual salary (plus approximate taxable portion) as well as the member's fund credit;
- an insured disability benefit equating to 75% of pensionable salary; and
- collateral surety on a housing loan.

Membership of a medical scheme is encouraged but is not compulsory.

Employees also receive discounts on the purchase of the group's merchandise.

Variable performance-related remuneration

Short-term cash incentive schemes

Sales and collections employees are incentivised through monthly cash incentive schemes based on performance against individual targets.

All other employees are eligible for an annual bonus linked to their personal performance and the group achieving its financial targets. These targets are defined at the start of each financial year and approved by the remuneration committee and board. The annual bonus is calculated on each employee's base pay and their performance against key performance metrics.

Discretionary cash awards are made monthly by the chief executive officer to recognise employees for outstanding achievements in areas such as customer service, innovation and teamwork.

Long-term share incentive schemes

- A share purchase incentive scheme was introduced in 2008 in terms of which senior employees received loans from the HomeChoice Share Trust to acquire shares in the group at market value. These loans are interest-free for a period of five years after which time they bear interest at the prime lending rate. Should scheme participants resign within four years of the acquisition date, the loans become immediately payable and subject to an interest penalty. No loan advances have been made since 2010. Refer to note 6 of the annual financial statements on our website for further details.
- A share option incentive scheme was launched in 2010 in terms of which employees received options to acquire shares in the group. The options vest after four years for senior employees, while the options for all other employees will vest immediately on the group's listing on the JSE. Refer to note 15 of the annual financial statements on our website for further details.

Directors' remuneration

Non-executive directors receive fees in recognition of their services and expertise. Non-executive directors do not receive any remuneration linked to organisational performance and do not participate in incentive schemes. Fees are recommended to the board by the remuneration committee and proposed to shareholders for approval at the annual general meeting. Non-executive director performance is evaluated through an annual peer review process.

Executive directors are employed on the same terms and conditions as all group employees and receive salaries, benefits and performance bonuses. Performance bonuses are primarily based on the achievement of targets based on revenue, operating profit and cash flow, as well as non-financial targets including customer service, internal process, learning and innovation, and people management. Remuneration is reviewed annually by the remuneration committee and is proposed to the board for approval. The executive directors invited to remuneration committee meetings recuse themselves from all discussions relating to their own remuneration.

The average notice period of executive directors and operational directors is three months and 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.

The remuneration paid to directors was as follows:

	Short-term benefits				
R'000	Months paid	Director fees	Salary	Other benefits	Performance bonus
2012					
Executive directors					
Richard Garratt	**12**	**–**	**3 357**	**2 568**	**2 000**
Shirley Maltz	**12**	**–**	**1 753**	**5**	**1 985**
Annalize Kirsten	**12**	**–**	**1 551**	**3**	**1 594**
		–	**6 661**	**2 576**	**5 579**
Non-executive directors					
John Bester	**12**	**250**	**–**	**–**	**–**
Pierre Joubert **	**12**	**–**	**–**	**–**	**–**
Willem Jungschläger	**12**	**500**	**–**	**–**	**–**
Amanda Chorn	**12**	**173**	**–**	**–**	**–**
		923	**–**	**–**	**–**
Total remuneration		**923**	**6 661**	**2 576**	**5 579**
2011					
Executive directors					
Richard Garratt ***	12	–	3 028	900	2 000
Shirley Maltz	12	–	1 647	30	1 991
Annalize Kirsten	12	–	1 413	17	1 717
		–	6 088	947	5 708
Non-executive directors					
John Bester	12	250	–	–	–
Pierre Joubert **	12	–	–	–	–
Willem Jungschläger	12	500	–	–	–
Amanda Chorn	12	141	–	–	–
		891	–	–	–
Total remuneration		891	6 088	947	5 708

* *The value of equity-settled share options granted is the annual expense determined in accordance with IFRS 2 Share-based Payment, and is presented for information purposes only as it is not regarded as constituting remuneration, given that the value was neither received nor accrued to the directors during the year. Gains made on the exercise of such share options are disclosed in the year when vesting occurs.*

** *Pierre Joubert waived his fees as a director in respect of the periods under review.*

*** *Other benefits have been restated for 2011.*

Share options outstanding held by directors at the end of the year have the following vesting date and exercise price:

Director	Vesting date	Number of share options '000	Exercise price per share R
Shirley Maltz	20 May 2015	25	7,47
	31 March 2016	25	10,64
	29 June 2016	450	10,64
		500	
Annalize Kirsten	20 May 2015	25	7,47
	31 March 2016	25	10,64
	29 June 2016	50	10,64
		100	
		600	

Willem Jungschläger
Chairman of the remuneration and nomination committee

15 March 2013
Cape Town

Post- retirement benefits	Long-term benefits			
Provident fund contributions	**Interest benefit on financial assistance**	**Total remuneration**	**Value of equity-settled share options granted ***	**Financial assistance granted pursuant to share scheme**
31	**–**	**7 956**	**–**	**–**
211	**–**	**3 954**	**53**	**–**
186	**182**	**3 516**	**15**	**2 652**
428	**182**	**15 426**	**68**	**2 652**
–	**34**	**284**	**–**	**–**
–	**–**	**–**	**–**	**–**
–	**62**	**562**	**–**	**933**
–	**–**	**173**	**–**	**–**
–	**96**	**1 019**	**–**	**933**
428	**278**	**16 445**	**68**	**3 585**
185	–	6 113	–	–
201	–	3 869	4	–
228	246	3 621	4	3 217
614	246	13 603	8	3 217
–	77	327	–	1 058
–	–	–	–	–
–	77	577	–	1 058
–	–	141	–	–
–	154	1 045	–	2 116
614	400	14 648	8	5 333

social and ethics committee **report**

The board established a social and ethics committee during the 2012 financial year in compliance with the requirements of the Companies Act.

Role of the committee

The role of the committee is to assist the board in monitoring the group's activities in terms of legislation, regulation and best practice relating to:

- social and economic development;
- empowerment and transformation;
- good corporate citizenship;
- environmental impact;
- health and public safety;
- consumer relationships; and
- labour and employment.

Committee composition and meetings

The committee comprises two independent non-executive directors, namely Willem Jungschläger (chairman) and John Bester, and the executive chairman, Rick Garratt. Meetings are also attended by invitees, including the chief executive officer and human resources director. The committee meets on a quarterly basis. Biographical details of the committee members appear on page 44.

Activities of the committee

While the committee was only formally constituted during the year, the members believe that most of the issues required to be monitored by the committee in terms of the Companies Act are already being addressed.

Several of these issues are covered in the Stakeholder Engagement Report (page 40), the Managing Talent and Driving Transformation section within the Chairman's Report (page 52) and the Corporate Governance Report (page 94). The group's activities and progress in relation to transformation and the environmental impact, two of the other key areas of responsibility of the committee, are covered in the following pages.

Empowerment and transformation

The group is committed to driving transformation across the business and maintained its level 6 BBBEE rating in 2012. The overall score on the dti scorecard increased to 53,95 despite the more challenging targets for employment equity and preferential procurement. The social and ethics committee has set a target for the group to achieve a level 5 rating in the medium-term.

Ownership

- Shareholding structure unchanged during the year
- Black ownership likely to increase should the group list on the JSE

Management and control

- Improved black representation at top management level from 8% to 14%
- Black representation at senior and top management 17%

Employment equity

- Total black staff representation improved from 82% to 85%
- Females comprise 66% (2011: 68%) of total staff
- Black female representation at 90% (2011: 90%)
- Employees with disabilities account for 1% of staff complement

Skills development

- Invested 1% of payroll in skills development
- 48 000 hours training (2011: 29 000), with 94% black participation
- 18 bursaries awarded, with the major focus on developing black talent

Preferential procurement

- Procurement maintained on qualifying small enterprises and exempt micro enterprises
- Procurement from black-owned suppliers and black women-owned suppliers declined marginally

Enterprise development

- Independent owner-drivers contracted for home delivery network
- 51% of parcels delivered in South Africa through this network
- 656 hours of training provided to owner-drivers

Socio-economic development

- Donated R3 million to HomeChoice Development Trust (HDT) in 2012
- R11 million donated to HDT to date
- Focus now on supporting early childhood development in disadvantaged communities
- 30 educare projects supported in 2012
- 1 300 children and teachers supported by the HDT
- Bursaries worth R295 000 awarded to staff and customers

Employment equity statistics

	Female					Male					
Occupational levels	A	C	I	W	**Total**	A	C	I	W	**Total**	**Grand total**
Top management	1	1		5	**7**				7	**7**	**14**
Senior management		3	1	11	**15**		2		17	**19**	**34**
Middle management		13		26	**39**	1	14	2	34	**51**	**90**
Junior management	7	54	3	17	**81**	12	36	2	10	**60**	**141**
Semi-skilled	219	226	4	3	**452**	58	93	1	6	**158**	**610**
Unskilled	2	2			**4**	2	3			**5**	**9**
Grand total	**229**	**299**	**8**	**62**	**598**	**73**	**148**	**5**	**74**	**300**	**898**

Environmental impact

	2012	2011	2010
Consumption			
Water (litres)	**7 423 801**	6 281 969	5 358 558
Recycling (tonnes)	**486 758**	447 708	252 616
Electricity (kilowatt hours)	**3 059 771**	3 147 763	2 997 693
Average number of employees	**866**	704	555
Consumption per employee			
Water (litres)	**8 573**	8 923	9 655
Recycling (kilograms)	**562**	636	455
Electricity (kilowatt hours)	**3 533**	4 471	5 401

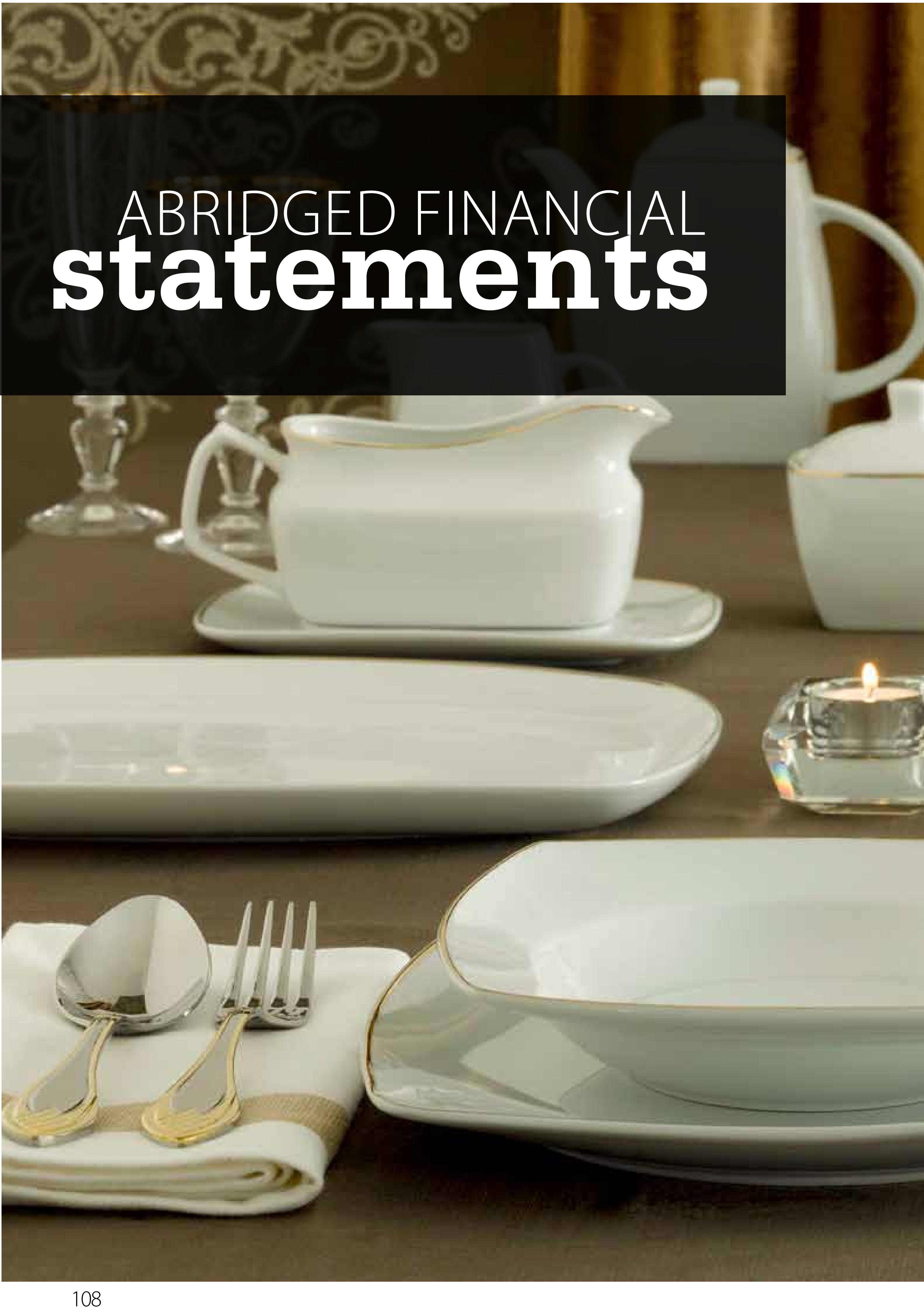
Conclusion

The group is committed to enhancing social and ethics reporting incrementally in future years. This report of the committee will be presented to shareholders at the annual general meeting in May 2013. The chairman of the committee will be present at the meeting to respond to questions from shareholders.

Willem Jungschläger
Chairman of the social and ethics committee

15 March 2013
Cape Town

ABRIDGED FINANCIAL statements




April 2012 Catalogue

REPORT OF THE INDEPENDENT AUDITOR ON THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

TO THE SHAREHOLDERS OF HOMECHOICE HOLDINGS LIMITED

The summary consolidated financial statements, which comprise the summary consolidated statement of financial position as at 31 December 2012, and the summary consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and related notes, as set out on pages 112 to 123, are derived from the audited consolidated financial statements of HomeChoice Holdings Limited for the year ended 31 December 2012. We expressed an unmodified audit opinion on those consolidated financial statements in our report dated 15 March 2013. Our Auditor's Report on the audited consolidated financial statements contained an Other Matter paragraph (refer below).

The summary consolidated financial statements do not contain all the disclosures required by International Financial Reporting Standards and the requirements of the Companies Act of South Africa as applicable to annual financial statements. Reading the summary consolidated financial statements, therefore, is not a substitute for reading the audited consolidated financial statements of HomeChoice Holdings Limited.

DIRECTORS' RESPONSIBILITY FOR THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

The company's directors are responsible for the preparation of a summary of the audited consolidated financial statements in accordance with the basis described in Note 1 to the abridged consolidated financial statements and the requirements of the Companies Act of South Africa as applicable to summary financial statements.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on the summary consolidated financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810, "Engagements to Report on Summary Financial Statements".

OPINION

In our opinion, the summary consolidated financial statements derived from the audited consolidated financial statements of HomeChoice Holdings Limited for the year ended 31 December 2012 are consistent, in all material respects, with those consolidated financial statements, in accordance with the basis described in Note 1 to the abridged consolidated financial statements and the requirements of the Companies Act of South Africa as applicable to summary financial statements.

The Other Matter paragraph in our audit report dated 15 March 2013 states that as part of our audit of the consolidated financial statements for the year ended 31 December 2012, we have read the Directors' Report, the Audit Committee's Report and the Company Secretary's Certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited consolidated financial statements. These reports are the responsibility of the respective preparers. The Other Matter paragraph states that, based on reading these reports, we have not identified material inconsistencies between these reports and the audited consolidated financial statements. The paragraph furthermore states that we have not audited these reports and accordingly do not express an opinion on these reports. The Other Matter paragraph does not have an effect on the summary consolidated financial statements or our opinion thereon.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: MC Hamman
Registered Auditor

Cape Town
15 March 2013

ABRIDGED GROUP STATEMENT OF FINANCIAL POSITION

at 31 December 2012

	Notes	2012 R'000	% change	2011 R'000
ASSETS				
Non-current assets				
Property, plant and equipment		**165 438**	20,8	136 961
Intangible assets		**40 678**	94,5	20 913
Loans to employees		**9 580**		11 664
Investment in associates		**3 951**		1 677
Deferred taxation		**13 206**		12 878
		232 853	26,5	184 093
Current assets				
Inventories	2	**110 241**	19,6	92 149
Taxation receivable		**11**		1 175
Trade and other receivables	3	**1 020 777**	36,2	749 713
Trade receivables – HomeChoice		**526 142**	25,0	420 933
Trade receivables – Other retail		**57 386**	168,9	21 344
Loans receivable – FinChoice		**411 646**	38,8	296 580
Other receivables		**25 603**	135,8	10 856
Cash and cash equivalents		**10 192**		46 069
		1 141 221	28,4	889 106
Total assets		**1 374 074**	28,0	1 073 199
EQUITY AND LIABILITIES				
Equity attributable to equity holders of the parent				
Stated and share capital		**30 980**		1 039
Share premium		**–**		29 941
Treasury shares		**(11 331)**		(9 732)
Other reserves		**1 084**		545
Retained earnings		**1 049 589**		815 542
Total equity		**1 070 322**	27,8	837 335
Non-current liabilities				
Interest-bearing liabilities		**90 977**	21,5	74 895
Deferred taxation		**60 097**		45 159
Other payables		**3 480**		3 450
		154 554	25,1	123 504
Current liabilities				
Interest-bearing liabilities		**9 178**	23,5	7 433
Taxation payable		**5 850**		2 409
Trade and other payables		**112 718**	31,9	85 454
Provisions		**18 934**		17 064
Bank overdraft		**2 518**		–
		149 198	32,8	112 360
Total liabilities		**303 752**	28,8	235 864
Total equity and liabilities		**1 374 074**	28,0	1 073 199

ABRIDGED GROUP STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2012

	Notes	2012 R'000	% change	2011 R'000
Revenue	6	**1 434 359**	27,9	1 121 060
Retail sales		**841 480**	25,5	670 466
Cost of retail sales		**(411 403)**	31,6	(312 548)
Gross profit		**430 077**	20,2	357 918
Finance charges earned		**363 474**	30,5	278 454
Fees from ancillary services		**229 405**	33,6	171 746
Other net gains and losses		**759**		2 028
Other income		**5 036**		2 095
Debtor costs	7	**(227 769)**	53,8	(148 087)
Other trading expenses	7	**(398 120)**	23,3	(322 957)
Dividends received		**–**		394
Operating profit		**402 862**	17,9	341 591
Interest received		**2 624**	(11,8)	2 975
Interest paid		**(6 236)**	1,3	(6 156)
Share of loss of associates		**(2 097)**		(366)
Profit before taxation		**397 153**	17,5	338 044
Taxation		**(112 656)**	14,9	(98 048)
Profit for the year		**284 497**	18,5	239 996
Other comprehensive loss				
Losses arising on available-for-sale financial assets		**–**		(1 634)
Realised gains on disposal of available-for-sale financial assets		**–**		(2 184)
Other comprehensive loss for the year, net of taxation		**–**		(3 818)
Total comprehensive income		**284 497**	20,5	236 178
Earnings per share (cents)				
Basic	8	**282,1**	18,8	237,4
Diluted		**280,1**	18,0	237,4

ABRIDGED GROUP STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2012

	Stated and share capital R'000	Share premium R'000	Treasury shares R'000	Other reserves R'000	Retained earnings R'000	Equity attributable to owners of the parent R'000
Balance at 1 January 2011	1 039	97 456	(8 938)	4 113	575 546	669 216
Changes in equity						
Total comprehensive income for the year	–	–	–	(3 818)	239 996	236 178
Purchases of treasury shares by share trust	–	–	(2 635)	–	–	(2 635)
Reduction in share premium	–	(67 515)	1 841	–	–	(65 674)
Share option scheme	–	–	–	250	–	250
Total changes	–	(67 515)	(794)	(3 568)	239 996	168 119
Balance at 1 January 2012	1 039	29 941	(9 732)	545	815 542	837 335
Changes in equity						
Conversion to no par value shares	**29 941**	**(29 941)**	**–**	**–**	**–**	**–**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**284 497**	**284 497**
Purchases of treasury shares by share trust	**–**	**–**	**(1 599)**	**–**	**–**	**(1 599)**
Dividends paid	**–**	**–**	**–**	**–**	**(50 450)**	**(50 450)**
Share option scheme	**–**	**–**	**–**	**539**	**–**	**539**
Total changes	**29 941**	**(29 941)**	**(1 599)**	**539**	**234 047**	**232 987**
Balance at 31 December 2012	**30 980**	**–**	**(11 331)**	**1 084**	**1 049 589**	**1 070 322**

ABRIDGED GROUP STATEMENT OF CASH FLOWS

for the year ended 31 December 2012

	Notes	2012 R'000	% change	2011 R'000
Cash flows from operating activities				
Operating cash flows before working capital changes		**413 710**	19,3	346 761
Movements in working capital		**(259 992)**	27,9	(203 253)
Cash generated from operations	9	**153 718**	7,1	143 508
Interest received		**2 624**		2 975
Interest paid		**(6 236)**		(6 156)
Dividends received		**–**		394
Dividends paid		**(50 450)**		–
Taxation paid		**(93 441)**		(91 647)
Net cash inflow from operating activities		**6 215**	(87,3)	49 074
Cash flows from investing activities				
Purchase of property, plant and equipment		**(35 464)**		(24 403)
Proceeds on disposal of property, plant and equipment		**–**		300
Purchase of intangible assets		**(24 612)**		(16 466)
Proceeds from sale of available-for-sale financial assets		**–**		39 811
Loans repaid by employees		**3 609**		3 712
Investment in associates		**(4 371)**		(1 383)
Net cash (outflow)/inflow from investing activities		**(60 838)**	(3 972,6)	1 571
Cash flows from financing activities				
Reduction in share premium		**–**		(65 674)
Purchase of treasury shares		**(1 599)**		(2 635)
Proceeds from interest-bearing liabilities		**31 585**		74 685
Repayments of interest-bearing liabilities		**(13 758)**		(49 976)
Net cash inflow/(outflow) from financing activities		**16 228**	(137,2)	(43 600)
Net (decrease)/increase in cash and cash equivalents and bank overdrafts		**(38 395)**		7 045
Cash, cash equivalents and bank overdrafts at the beginning of the year		**46 069**		39 024
Cash, cash equivalents and bank overdrafts at the end of the year		**7 674**	(83,3)	46 069

GROUP OVERVIEW | BOARD AND LEADERSHIP | REPORTS TO SHAREHOLDERS | OPERATIONAL REVIEW | CORPORATE GOVERNANCE | **ABRIDGED FINANCIAL STATEMENTS**

ABRIDGED GROUP SEGMENTAL ANALYSIS

for the year ended 31 December 2012

	Retail			Financial services		
	2012 R'000	% change	2011 R'000	**2012 R'000**	% change	2011 R'000
Segmental revenue	**1 178 017**		939 002	**255 153**		181 503
Retail sales	**841 480**	25,5	670 466	**–**		–
Finance charges earned	**206 744**	28,6	160 785	**156 730**	33,2	117 669
Fees from ancillary services	**129 793**	20,5	107 751	**98 423**	54,2	63 834
Dividends received	**–**		–	**–**		–
Intersegment revenue	**–**		–	**–**		–
Revenue from external customers	**1 178 017**	25,5	939 002	**255 153**	40,6	181 503
Segmental operating profit	**262 960**	14,4	229 888	**129 465**	39,4	92 855
Interest received	**2 162**		1 399	**120**		173
Interest paid	**(975)**		(1 535)	**(30 149)**		(23 995)
Share of loss of associates	**–**		–	**–**		–
Profit before taxation	**264 147**	15,0	229 752	**99 436**	44,0	69 033
Taxation	**(73 413)**		(68 127)	**(27 842)**		(19 329)
Profit for the year	**190 734**	18,0	161 625	**71 594**	44,0	49 704
Segmental assets *	**782 937**		597 814	**444 326**		340 697
Segmental liabilities *	**188 172**		133 876	**16 896**		26 785
Group loans receivable/(payable)	**42 212**		133 177	**(270 335)**		(228 484)
Segmental equity	**636 977**		597 115	**157 095**		85 428
Operating cash flows before working capital changes	**272 960**	14,4	238 502	**130 766**	39,0	94 104
Movements in working capital	**(143 211)**		(117 955)	**(117 125)**		(86 423)
Cash generated from operations	**129 749**	7,6	120 547	**13 641**	77,6	7 681
Gross profit margin (%)	**51,1**		53,4			
Operating profit margin (%)	**22,3**		24,5	**50,7**		51,2
Capital expenditure						
Property, plant and equipment	**4 759**		5 268	**620**		719
Intangible assets	**24 587**		16 424	**25**		42
Depreciation and amortisation	**9 739**		8 774	**896**		1 341
Marketing costs	**111 613**	19,3	93 587	**8 176**	67,9	4 870
Staff costs	**141 371**	24,1	113 925	**22 972**	35,8	16 911
Other costs	**105 628**	10,5	95 613	**16 788**	22,4	13 721
Other trading expenses	**358 612**	18,3	303 125	**47 936**	35,0	35 502
Debtor costs	**149 997**	58,0	94 936	**77 772**	46,3	53 151
Total trading expenses	**508 609**	27,8	398 061	**125 708**	41,8	88 653

** Excluding group loans, including loans to share trust*

Property			Other			Eliminations			Total		
2012 R'000	% change	2011 R'000	2012 R'000	% change	2011 R'000	2012 R'000	% change	2011 R'000	2012 R'000	% change	2011 R'000
18 462		17 435	**153 266**		8 746	**–**		–	**1 604 898**		1 146 686
–		–	**–**		–	**–**		–	**841 480**	25,5	670 466
–		–	**–**		–	**–**		–	**363 474**	30,5	278 454
18 462	5,9	17 435	**–**		284	**–**		–	**246 678**	30,3	189 304
–		–	**153 266**		8 462	**–**		–	**153 266**		8 462
(17 273)		(17 273)	**(153 266)**		(8 353)	**–**		–	**(170 539)**		(25 626)
1 189	634,0	162	**–**	(100,0)	393	**–**		–	**1 434 359**	27,9	1 121 060
15 782	4,5	15 107	**146 313**	1 040,0	12 834	**(151 658)**	(1 567,9)	(9 093)	**402 862**	17,9	341 591
35		18	**30 455**		25 380	**(30 148)**		(23 995)	**2 624**	(11,8)	2 975
(5 260)		(4 621)	**–**		–	**30 148**		23 995	**(6 236)**	(1,3)	(6 156)
–		–	**(2 097)**		(366)	**–**		–	**(2 097)**	(473,0)	(366)
10 557	0,5	10 504	**174 671**	361,5	37 848	**(151 658)**	(1 567,9)	(9 093)	**397 153**	17,5	338 044
(2 956)		(2 941)	**(8 445)**		(7 651)	**–**		–	**(112 656)**		(98 048)
7 601	0,5	7 563	**166 226**	450,5	30 197	**(151 658)**	(1 567,9)	(9 093)	**284 497**	18,5	239 996
154 257		124 856	**9 772**		27 946	**(17 218)**		(18 114)	**1 374 074**		1 073 199
98 597		77 281	**17 305**		16 036	**(17 218)**		(18 114)	**303 752**		235 864
(34 165)		(33 681)	**262 288**		128 988	**–**		–	**–**		–
21 495		13 894	**254 755**		140 898	**–**		–	**1 070 322**		837 335
16 774	3,2	16 253	**(6 790)**		32	**–**		(2 130)	**413 710**	19,3	346 761
(97)		59	**441**		114	**–**		952	**(259 992)**		(203 253)
16 677	2,2	16 312	**(6 349)**		146	**–**	(100,0)	(1 178)	**153 718**	7,1	143 508
									51,1		53,4
85,5		86,6	**95,5**		146,7	**–**		–	**28,1**		30,5
30 085		18 416	**–**		–	**–**		–	**35 464**		24 403
–		–	**–**		–	**–**		–	**24 612**		16 466
1 165		1 145	**–**		–	**–**		–	**11 800**		11 260
–		–	**–**		–	**–**		–	**119 789**	21,7	98 457
–		–	**147**	115,6	(940)	**–**		–	**164 490**	26,6	129 896
2 702	13,9	2 372	**5 996**	3 406,4	171	**(17 273)**		(17 273)	**113 841**	20,3	94 604
2 702	13,9	2 372	**6 143**	898,8	(769)	**(17 273)**		(17 273)	**398 120**	23,3	322 957
–		–	**–**		–	**–**		–	**227 769**	53,8	148 087
2 702	13,9	2 372	**6 143**	898,8	(769)	**(17 273)**		(17 273)	**625 889**	32,9	471 044

NOTES TO THE ABRIDGED GROUP ANNUAL FINANCIAL STATEMENTS for the year ended 31 December 2012

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

The group annual financial statements for the year ended 31 December 2012 and these abridged financial statements have been prepared by the group's finance department, acting under the supervision of A Kirsten, CA (SA) and Chief Financial Officer of the group, and have been audited by the company's auditor, PricewaterhouseCoopers Inc. Their unqualified audit opinions on both such financial statements are available at the company's registered office for inspection.

These abridged group financial statements have been prepared in accordance with *IAS 34 Interim Financial Reporting* and should be read in conjunction with the group annual financial statements for the year ended 31 December 2012, which have been prepared in accordance with International Financial Reporting Standards (IFRS), interpretations issued by the International Financial Reporting Interpretation Committee (IFRIC) and the requirements of the Companies Act of 2008, as amended.

No new standards, amendments or interpretations to existing standards, relevant to the group's operations, became effective for the year ended 31 December 2012.

	2012 R'000	2011 R'000
2. INVENTORIES		
Merchandise for resale	**75 670**	74 247
Provision for inventory obsolescence	**(9 942)**	(12 708)
Goods in transit	**44 513**	30 610
	110 241	92 149

	2012 R'000	% change	2011 R'000
3. TRADE AND OTHER RECEIVABLES			
Trade receivables – HomeChoice	**648 493**	27,3	509 353
Provision for impairment	**(122 351)**	38,4	(88 420)
	526 142	25,0	420 933
Trade receivables – Other retail	**67 513**	165,7	25 410
Provision for impairment	**(10 127)**	149,1	(4 066)
	57 386	168,9	21 344
Loans receivable – FinChoice	**464 438**	39,9	331 914
Provision for impairment	**(52 792)**	49,4	(35 334)
	411 646	38,8	296 580
Other receivables	**25 603**	135,8	10 856
Total trade and other receivables	**1 020 777**	36,2	749 713
Trade and loan receivables	**1 180 444**	36,2	866 677
Provision for impairment	**(185 270)**	44,9	(127 820)
Other receivables	**25 603**	135,8	10 856

	2012 R'000	% change	2011 R'000
3. TRADE AND OTHER RECEIVABLES (continued)			
Movements in the provision for impairment were as follows:			
HomeChoice			
Opening balance	**(88 420)**	22,7	(72 063)
Movement in provision	**(33 931)**	107,4	(16 357)
Debtor costs charged to profit and loss	**(139 444)**	53,7	(90 730)
Debts written off during the year, net of recoveries	**105 513**	41,9	74 373
Closing balance	**(122 351)**	38,4	(88 420)
Other retail			
Opening balance	**(4 066)**	236,0	(1 210)
Movement in provision	**(6 061)**	112,2	(2 856)
Debtor costs charged to profit and loss	**(10 553)**	150,9	(4 206)
Debts written off during the year, net of recoveries	**4 492**	232,7	1 350
Closing balance	**(10 127)**	149,1	(4 066)
FinChoice			
Opening balance	**(35 334)**	40,3	(25 181)
Movement in provision	**(17 458)**	72,0	(10 153)
Debtor costs charged to profit and loss	**(77 772)**	46,3	(53 151)
Debts written off during the year, net of recoveries	**60 314**	40,3	42 998
Closing balance	**(52 792)**	49,4	(35 334)
HomeChoice			
Debtor costs as a % of revenue	**12,6**		10,0
Provision for impairment as a % of gross receivables	**18,9**		17,4
Other retail			
Debtor costs as a % of revenue	**14,5**		14,0
Provision for impairment as a % of gross receivables	**15,0**		16,0
FinChoice			
Debtor costs as a % of revenue	**30,5**		29,3
Provision for impairment as a % of gross receivables	**11,4**		10,6
Group			
Debtor costs as a % of revenue	**15,9**		13,2
Provision for impairment as a % of gross receivables	**15,7**		14,7

4. CONTINGENT LIABILITIES

The group had no contingent liabilities at the current or prior reporting dates.

5. EVENTS AFTER THE REPORTING DATE

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

NOTES TO THE ABRIDGED GROUP ANNUAL FINANCIAL STATEMENTS for the year ended 31 December 2012

	2012 R'000	% change	2011 R'000
6. REVENUE			
Retail sales	**841 480**	25,5	670 466
Finance charges earned	**363 474**	30,5	278 454
Fees from ancillary services	**229 405**	33,6	171 746
Initiation fees	**134 647**	20,6	111 680
Admin fees	**76 298**	27,4	59 903
Other fees	**18 460**	11 225,2	163
Dividends received	**–**	(100,0)	394
	1 434 359	27,9	1 121 060
7. TOTAL TRADING EXPENSES			
Expenses by nature			
Debtor costs			
Trade receivables – HomeChoice	**139 444**	53,7	90 730
Trade receivables – Other retail	**10 553**	150,9	4 206
Loans receivable – FinChoice	**77 772**	46,3	53 151
Total debtor costs	**227 769**	53,8	148 087
Auditor's remuneration	**2 027**	41,9	1 428
Current year	**1 156**	–	1 156
Audit related services	**666**	1 133,3	54
Other services	**205**	(6,0)	218
Consultation fees	**3 029**	88,5	1 607
Amortisation of intangible assets	**4 847**	11,1	4 362
Depreciation of property, plant and equipment	**6 953**	0,8	6 898
Operating lease charges for immovable property	**1 878**	(4,7)	1 971
Marketing costs	**119 789**	21,7	98 457
Staff costs	**164 490**	26,6	129 896
Total staff costs	**180 003**	26,6	142 213
Less: disclosed under cost of retail sales	**(15 513)**	26,0	(12 317)
Other costs	**95 107**	21,4	78 338
Total other trading expenses	**398 120**	23,3	322 957
	625 889	32,9	471 044

8. BASIC AND HEADLINE EARNINGS PER SHARE

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

	2012		2011	
	Gross R'000	**Net R'000**	Gross R'000	Net R'000
Profit for the year		**284 497**		239 996
Adjusted for the after-tax effect of:				
Losses on disposal of property, plant and equipment and intangible assets	**34**	**24**	201	145
Gain on disposal of associate	**–**	**–**	(660)	(660)
Gain on disposal of available-for-sale financial assets	**–**	**–**	(2 184)	(2 184)
Headline earnings		**284 521**		237 297
Weighted average number of ordinary shares in issue ('000)		**100 860**		101 083
Earnings per share (cents)				
Basic		**282,1**		237,4
Headline		**282,1**		234,8

NOTES TO THE ABRIDGED GROUP ANNUAL FINANCIAL STATEMENTS for the year ended 31 December 2012

	2012 R'000	% change	2011 R'000
9. RECONCILIATION OF CASH GENERATED FROM OPERATIONS			
Profit before taxation	**397 153**	17,5	338 044
Share of loss of associates	**2 097**	473,0	366
Losses on disposal of property, plant and equipment and intangible assets	**34**	(83,1)	201
Profit on sale of available-for-sale investments	**–**	(100,0)	(2 184)
Loans to employees – amortised cost adjustment	**(538)**	(48,6)	(1 046)
Notional interest on loans to employees	**(987)**	(14,4)	(1 153)
Depreciation and amortisation	**11 800**	4,8	11 260
Gain on disposal of associate	**–**	(100,0)	(660)
Share-based employee service expense	**539**	115,6	250
Foreign exchange contracts	**–**	(100,0)	(1 104)
Interest paid	**6 236**	1,3	6 156
Interest received	**(2 624)**	(11,8)	(2 975)
Dividends received	**–**	(100,0)	(394)
Operating cash flows before working capital changes	**413 710**	19,3	346 761
Movements in working capital	**(259 992)**	27,9	(203 253)
Increase in inventories	**(18 092)**	(18,9)	(22 302)
Increase in trade receivables – HomeChoice	**(105 209)**	10,1	(95 543)
Increase in trade receivables – Other retail	**(36 042)**	140,5	(14 984)
Increase in loans receivable – FinChoice	**(115 066)**	28,3	(89 707)
Increase in other receivables	**(14 747)**	156,9	(5 741)
Increase in trade and other payables	**27 294**	7,6	25 360
Increase/(decrease) in provisions	**1 870**	(656,5)	(336)
	153 718	7,1	143 508

10. GROUP SEGMENTAL ANALYSIS

The group's operating segments are identified as being Retail, Financial services, Property and Other. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decisionmaker, being HomeChoice Holdings' executive directors. The group's reportable segments are unchanged from the previous reporting date.

Retail consists mainly of the group's HomeChoice operations, whereas Financial services represents the group's FinChoice operations. The group's property companies, which own commercial properties utilised mainly within the group, are included in the Property segment. The Other segment relates mainly to the holding company's standalone results, as well as those of its associates.

11. RECLASSIFICATIONS AND RESTATEMENTS

To enhance disclosure, certain reclassifications and restatements have been made. These changes have no impact on overall equity, assets, liabilities or profitability.

Revenue

Delivery fee income was previously included under "Fees from ancillary services". The revenue recognition accounting policy has been reviewed and amended to rather include delivery fee income in "Retail sales". This is considered to reflect the nature of the group's retail operations more accurately, being that of a direct marketing retailer. Furthermore, "Fees from ancillary services" have been disaggregated, with initiation fees, admin fees and other fees being now disclosed separately in note 6. These reclassifications had no impact on total revenue.

	Now disclosed R'000	Previously disclosed R'000	Difference R'000
Retail sales	670 466	626 028	44 438
Fees from ancillary services	171 746	216 184	(44 438)

Other income

In the prior year's annual financial statements, "Other income" was aggregated with "Other net gains and losses", whereas these have now been disclosed separately in the statement of comprehensive income.

	Now disclosed R'000	Previously disclosed R'000	Difference R'000
Expenses by nature			
Certain expenses disclosed by nature have been reclassified. The impact of the restatement is as follows:			
Marketing costs	98 457	99 977	(1 520)
Staff costs	129 896	146 661	(16 765)
Other costs	78 338	60 053	18 285
Group segmental analysis			
Loans made by subsidiaries to the share trust, being a fellow subsidiary, were previously excluded from segmental assets, but have now been included. Reclassifications were also made between segments to ensure consistent allocation of segmental assets and liabilities.			
Segment assets – Retail	597 814	602 946	(5 132)
Segment liabilities – Retail	133 876	152 480	(18 604)
Segment assets – Financial services	340 697	319 928	20 769
Segment liabilities – Financial services	26 785	8 181	18 604
Segment liabilities – Other	16 036	399	15 637
Segment assets – Eliminations	(18 114)	(2 477)	(15 637)
Segment liabilities – Eliminations	(18 114)	(2 477)	(15 637)

Other reclassifications and restatements

Other reclassifications and restatements, not affecting disclosure in the abridged group financial statements, have been more fully set out in note 35 of the group annual financial statements.

DEFINITIONS

Adspend efficiency	Marketing material and telemarketing costs as a percentage of net sales value.
Adspend cost per new customer	The advertising spend (material, telemarketing, creative, mailing costs) incurred in attracting new customers over the period, divided by the number of new customers in the period.
Average retail sales per existing customer	Sum of the sales value (inclusive of tax, delivery and initiation fee) of all the goods despatched to existing customers over the period less goods returned, divided by the average number of existing customers over the period.
Cash flow per share	Cash inflow from operations for the period divided by the weighted average number of shares.
Credit active customers	All customers with a balance outstanding of > R0 that have not been transferred to legal.
Credit inactive customer	All customers who were previously active but have paid up their accounts, i.e. currently have a balance outstanding of < = 0, and have made a payment in the last 24 months.
Current ratio	Current assets divided by current liabilities.
Current stock ratio	Stock that is planned for marketing activity in the next 12-month period (and not considered obsolete or discontinued) as a percentage of all stock on hand.
Debt-equity ratio	Net borrowings expressed as a percentage of total equity.
Debtor costs	Bad debts written off, net of recoveries, plus the movement in provision for impairment.
Distribution cover	Basic earnings per share divided by share premium reduction and dividend declared per share.
Earnings per share	Profit for the period attributable to owners of the parent divided by the weighted average number of shares in issue for the year.
Existing customer base	Currently active customers plus recently inactive customers.
Finance charge cover	Operating profit before finance charges divided by interest paid.
Gross margin	Gross profit divided by retail sales.
Intake	Gross sales value for orders captured.
Inventory turnover	Cost of sales for the period divided by the average inventories on hand at the end of the current and prior reporting period.
LSM	Refers to the SAARF Universal Living Standards Measure. This is a means of segmenting the South African market into LSM groups, from 1 (lowest) to 10 (highest).
Name-gathering campaign	An acquisition campaign targeting customers whose contact information we have but who have not had an order completed before. Largest contributors are catalogue requests, names gathered by sales agents and customers whose previous orders have failed, been cancelled or returned.
New customers	Customers who had their first-item-ever despatch in the period.
Net asset value per share	Net assets divided by the total number of shares in issue, net of treasury shares
Notional interest	Interest recognised on a time apportionment basis using the effective interest rate implicit in the underlying transaction.
Operating margin	Operating profit divided by revenue.
Provision for impairment of receivables	Provision held against accounts and loans receivable for expected future losses, net of expected recoveries, discounted at the interest rate implicit in the underlying transaction.
Retail sales	Sale of merchandise and associated delivery fees from direct marketing and the head office clearance store.
Return on equity	Profit for the period divided by the average of the current and prior period's total equity.
Return on assets	Profit before interest and tax divided by the average total assets at the end of the current and prior reporting period.
Roll rate	The proportion of people whose arrears status increases each cycle.
Weighted average number of shares in issue	The number of shares in issue at the beginning of the period, increased by shares issued during the period, and decreased by share repurchases, weighted on a time basis for the period during which they were in issue, excluding treasury shares.

NOTICE TO SHAREHOLDERS

NOTICE IS HEREBY GIVEN that the annual general meeting of shareholders (the "Shareholders") of the Company will be held at HomeChoice, 78 Main Road, Wynberg, on Thursday, 2 May 2013, at 13:00 to deal with such business as may lawfully be dealt with at the meeting and to consider and, if deemed fit, pass, with or without modification, the ordinary and special resolutions set out hereunder in accordance with the Companies Act, 71 of 2008 (as amended) (the "Companies Act"), which meeting is to be participated in by Shareholders recorded in the Company's securities register as at the record date.

The record date for this notice of the Shareholders' meeting was Friday, 22 March 2013. In terms of section 59 of the Companies Act, the record date on which Shareholders must be recorded in the securities register for purposes of being entitled to attend and vote at this meeting is Monday, 29 April 2013.

The integrated annual report sent with this notice is incorporated by reference, in so far as the information contained therein relates to the proposed resolutions. The annual financial statements are available on our website at www.homechoiceholdings.co.za

The quorum requirement for the ordinary and special resolutions set out below is sufficient persons being present to exercise, in aggregate, at least 25% of all voting rights that are entitled to be exercised on the resolutions, provided that at least three Shareholders of the Company are present at the annual general meeting. The percentage of voting rights required to pass the ordinary resolutions is more than 50% of the voting rights exercised, and the percentage of voting rights required to pass the special resolutions is at least 75% of the voting rights exercised thereon.

AGENDA

1. To receive (and adopt) the integrated annual report and annual financial statements of the Company and its subsidiaries (the "group"), which includes the report of the directors and the report of the audit and risk committee, for the year ended 31 December 2012.
2. To confirm the declaration of a final dividend of 50c (fifty cents) per ordinary share.
3. To elect two directors in the place of A Chorn and P Joubert, who retire in terms of the Company's memorandum of incorporation. A Chorn and P Joubert, being eligible, offer themselves for re-election.
4. To elect the members of the audit and risk committee. J Bester, W Jungschläger and P Joubert offer themselves for re-election.
5. To consider the reappointment of PricewaterhouseCoopers Inc. as the external auditors.
6. To authorise the payment of future remuneration of directors for their services as directors.
7. To consider and endorse, by way of an advisory non-binding vote, the Group's remuneration policy as set out on pages 102 to 104 in the Group's integrated annual report for the period ended 31 December 2012.
8. To authorise the provision of financial assistance by the Company to a related or inter-related (as such terms are defined in the Companies Act) company or corporation, and to directors and prescribed officers of the Company, and persons related or inter-related to them.
9. To place the authorised unissued shares in the Company under the control of the board of directors (the "Board").
10. To approve certain amendments to the HomeChoice 2010 Employee Share Option Scheme.
11. To consider any other matters raised by Shareholders which are appropriate to be raised and discussed at an annual general meeting.

RESOLUTIONS AND ADVISORY VOTES

The Shareholders will be requested to consider and, if deemed fit, to pass, with or without modification, the following resolutions:

PRESENTATION OF ANNUAL FINANCIAL STATEMENTS AND ADOPTION OF INTEGRATED ANNUAL REPORT

Ordinary resolution number 1

"It is hereby resolved that the integrated annual report and annual financial statements of the Company and its subsidiaries, which includes the report of the directors and the report of the audit and risk committee for the year ended 31 December 2012, are hereby adopted and approved."

Explanatory information in respect of ordinary resolution number 1

The integrated annual report and the annual financial statements of the Group for the year ended 31 December 2012, which incorporates the reports of the directors, the auditors and the audit and risk committee, have been distributed as required and will be presented to the Shareholders.

APPROVAL OF DISTRIBUTION

Ordinary resolution number 2

"It is hereby resolved that the payment of a final dividend of 50 (fifty cents) per ordinary share declared by the Board is confirmed."

Explanatory information in respect of ordinary resolution number 2

The Board has declared a final dividend of 50c (fifty cents) per ordinary share to be paid by the end of May 2013 in compliance with section 46 of the Companies Act, and in this regard, it has applied the solvency and liquidity test (as defined in the Companies Act) and determined that it reasonably appears that the Company will satisfy the solvency and liquidity test immediately after completing the proposed distribution. The record date for the receipt of the aforementioned dividend is 2 May 2013.

ELECTION OF DIRECTORS

Ordinary resolution number 3.1

"It is hereby resolved that A Chorn is elected as a director of the Company."

Ordinary resolution number 3.2

"It is hereby resolved that P Joubert is elected as a director of the Company."

Explanatory information in respect of ordinary resolution numbers 3.1 and 3.2

It is noted that brief curricula vitae of the nominees for re-election are set out on page 44 in the integrated annual report. The nomination committee regards it in the best interests of the Company to nominate the retiring directors for re-election and is of the view that they remain suitable candidates for directorship.

ELECTION OF AUDIT COMMITTEE MEMBERS

Ordinary resolution number 4.1

"It is hereby resolved that J Bester is elected as a member of the audit and risk committee."

Ordinary resolution number 4.2

"It is hereby resolved that W Jungschläger is elected as a member of the audit and risk committee."

Ordinary resolution number 4.3

"It is hereby resolved that P Joubert is elected as a member of the audit and risk committee."

Explanatory information in respect of ordinary resolution numbers 4.1 to 4.3

Brief curricula vitae of the nominees for re-election are set out on page 44 in the integrated annual report. The nomination committee of the Board is satisfied that the nominees are suitable and satisfy the requirements of the Companies Act.

APPOINTMENT OF AUDITORS

Ordinary resolution number 5

"It is hereby resolved that PricewaterhouseCoopers Inc. is reappointed as external auditors, to hold office from the conclusion of the annual general meeting until the conclusion of the next annual general meeting."

Explanatory information in respect of ordinary resolution number 5

The audit and risk committee has nominated the continuation of PricewaterhouseCoopers Inc. as the external auditors, and is of the opinion that they are independent from the Company, and acceptable as contemplated in section 90(2) of the Companies Act. The effect of this resolution will be to authorise the reappointment of PricewaterhouseCoopers as the auditors of the Company.

DIRECTORS' REMUNERATION

Special resolution number 1

"It is hereby resolved that payment of the following remuneration to each non-executive director for his/her services as director is hereby authorised:

1. up to a maximum amount of R600 000,00 (six hundred thousand rand) per annum for the year ending 31 December 2013 to each non-executive director; and
2. unless and until a further resolution is adopted in respect of such fees, an amount to be determined by the Board for the year commencing on 1 January 2014, up to an amount not exceeding R600 000,00 (six hundred thousand rand) per annum, increased by the percentage increase in the prevailing Consumer Price Index for all areas as determined or published by Statistics South Africa (or its successor body) (as same may be amended or replaced) plus 2% (two percent), to each non-executive director."

Explanatory information in respect of special resolution number 1

The resolution obtains the advance approval of the Shareholders for the remuneration of the non-executive directors for their services as directors of the Company as required by the Companies Act. The remuneration approved by this resolution replaces the remuneration for the financial year ending 31 December 2013 approved at the last annual general meeting of the Company.

REMUNERATION POLICY

Advisory remuneration policy endorsement

"The Group's remuneration policy, as set out on pages 102 to 104 in the Group's integrated annual report (excluding the remuneration of the non-executive directors for their services as directors and members of the Board committees), is hereby endorsed by way of a non-binding advisory vote."

Explanatory information re advisory vote

In accordance with the principles of King III, an advisory vote is being put to Shareholders for the approval of the Group's remuneration policy. As the votes on this endorsement are non-binding, the results will not be binding on the Board. However, the Board will take cognisance of the outcome of the vote when considering its remuneration policy in future.

FINANCIAL ASSISTANCE

Special resolution number 2

"It is hereby resolved by way of a special resolution in terms of sections 44 and 45 of the Companies Act that, subject to the conditions below, the shareholders hereby approve, as a general approval, the Company providing direct or indirect financial assistance ("Financial Assistance") by way of loans, loan facilities, advances for expenses, assisting with administration of transactions, making payments, extending credit, discharging debts, performing obligations, contractual undertakings, sureties or guarantees, providing related security (including, without limitation, by way of mortgages or pledges of property, cessions of rights, bonds, charges or otherwise) or any other manner of providing financial assistance, on such terms as may be authorised by the board of directors in accordance with the following:

1. Financial Assistance can, without limitation, be provided for the purpose of, or in connection with, the subscription of any option, or any securities, issued or to be issued by the Company or a related or inter-related company (as defined in the Companies Act) or for the purchase of any securities of the Company or a related or inter-related company as contemplated in section 44 of the Companies Act (collectively referred to as an "acquisition of securities or related securities") and for any purpose whatsoever in regard to financial assistance regulated by section 45 of the Companies Act.
2. Financial Assistance in relation to the acquisition of securities or related securities contemplated in section 44(2) of the Companies Act can be provided to the following categories of potential recipients:
   - i any present or future company or corporation related or inter-related to the Company or to a person related to such company or corporation;
   - ii any present or future member of a corporation related or inter-related to the Company or to a person related to such member;
   - iii any present or future director or prescribed officer of the Company or of a related or inter-related person, or a person related to such present or future directors or prescribed officer; and
   - iv any other person.
3. The Financial Assistance regulated by section 45(3) of the Companies Act other than for purposes of assisting in the acquisition of securities regulated by section 44(3) of the Companies Act can be provided to the following categories of potential recipients:
   - i any present or future company or corporation related or inter-related to the Company or to a person related to such company or corporation;
   - ii any present or future member of a corporation related or inter-related to the Company or to a person related to such member;
   - iii any present or future director or prescribed officer of the Company or of a related or inter-related company, or a person related to any of such directors or prescribed officers; or
   - iv any other person.
4. The aggregate fair value (as determined by the Board in the same manner as required in applying the solvency and liquidity test in section 4 of the Companies Act) of the Financial Assistance provided pursuant to this general approval shall not in aggregate exceed an amount of R500 million (five hundred million Rand) (in this regard any financial assistance that may be separately approved by the shareholders by way of a specific approval shall not be included in the aggregate Financial Assistance calculation, or taken into account, for the purpose of this maximum). In this regard, it is noted, without limitation, that this limit shall not prevent the Company from assuming contingent liabilities or providing unlimited suretyships, guarantees, indemnities or warranties, all that is required is that the Board determine and apply the fair value of the related liability.
5. Such Financial Assistance may only be provided for a period of two years following the date of the adoption of this special resolution.
6. Nothing in these terms and conditions shall limit the provision by the Company of financial assistance that does not require approval by way of a special resolution of the shareholders in terms of sections 44 and 45 of the Companies Act.
7. This approval is subject to the Board complying with sections 44 and 45 of the Companies Act."

Explanatory information in respect of special resolution number 2

Section 44 of the Companies Act essentially requires, subject to limited exceptions, approval by way of special resolution for the provision of financial assistance for the purposes of, or in connection with, the subscription of any option, or any securities, issued or to be issued by the Company, or a related or inter-related company, or for the purchase of any securities of the Company, or a related or inter-related company.

Section 45 of the Companies Act essentially requires, subject to limited exceptions, approval by way of special resolution for the provision of financial assistance, amongst others, to companies and corporations related or inter-related to the Company and any director or prescribed officer, or a person related or inter-related to such persons.

Both sections 44 and 45 provide, inter alia, that the financial assistance may only be provided pursuant to a special resolution passed by Shareholders within the previous two years.

The Board would like the authority to be able to provide financial assistance to the categories of persons specified in the resolution, where they regard it as desirable. For example, to provide loans and guarantees for loans and other financial assistance to companies in the Group, as and when required.

This special resolution, if adopted, will have the effect of authorising the Company to provide the described financial assistance, including to, amongst others, the directors, prescribed officers, employee share scheme beneficiaries, and related and inter-related companies and corporations, if the Board decides it is desirable to do so (subject to the conditions set out in the resolution). This approval is subject to the Board complying with sections 44 and 45 of the Companies Act, which currently provide, inter alia, that the Board must:

- be satisfied that, immediately after providing the financial assistance, the Company would satisfy the solvency and liquidity test in section 4 of the Companies Act;
- be satisfied that the terms under which the financial assistance is proposed to be given are fair and reasonable to be Company; and
- ensure that any conditions or restrictions in respect of the granting of financial assistance set out in the Company's memorandum of incorporation have been satisfied.

It is disclosed that three of the directors of the Company are also directors of subsidiaries of the Company and if any Financial Assistance is provided to any subsidiary, the recipient subsidiary is likely to have a financial interest in the contemplated financial assistance. Further, it is disclosed that if any financial assistance is provided to any directors or prescribed officers of the Company, or any person related to them, then it is likely that the related director or prescribed officer will have a financial interest in the contemplated financial assistance. Any conflicts of interests that may arise shall be managed in accordance with the requirements of the Companies Act.

ISSUE OF SHARES

Special resolution number 3

"It is hereby resolved that, all the unissued authorised shares in the Company are placed under the control of the Board, and the Board is authorised, as they in their discretion think fit, to allot, issue and grant options or any other rights exercisable for, authorised but unissued shares in the Company from time to time (including, without limitation, in terms of any transaction falling within subsection 41(1) of the Companies Act) on such terms as may be determined by the Board in its discretion, for such monetary or other consideration (whether payable in cash or otherwise) and to such person or persons as they in their discretion deem fit, including, without limitation, to:

a a director, future director, prescribed officer, or future prescribed officer of the Company, or to a person related or inter-related to such directors and prescribed officers;

b to persons related or inter-related to the Company; and

c a nominee of a person contemplated in paragraph (a) or (b)."

Explanatory information in respect of special resolution number 3

Such authority shall endure until the forthcoming annual general meeting of the Company (at which time this authority shall lapse, unless it is renewed at the aforementioned annual general meeting), provided that it shall not extend beyond 15 months from the date of this meeting. The resolution authorises the Board to issue, or grant rights exercisable for, the unissued authorised shares of the Company. Any issue would be subject to the other requirements of the Companies Act. This resolution is proposed as a special resolution because there is no threshold on the authorisation, and the contemplated authorisation to allot, issue and grant options or any other rights exercisable for authorised but unissued shares in the Company to the persons specified in paragraphs (a) to (c) that generally requires authorisation by way of a special resolution in terms of subsection 41(1) of the Companies Act.

CHANGE TO EMPLOYEE SHARE OPTION SCHEME

Special resolution number 4

"It is hereby resolved that the HomeChoice 2010 Employee Share Option Scheme ("Option Scheme") be hereby amended by replacement of clauses 8.1.1 and 8.1.2 of the current Option Scheme with the following new clauses:

8.1.1 all Participants under the Scheme is to exceed 10 000 000 Shares; or

8.1.2 any one Participant in terms of the Scheme is to exceed 1 000 000 Shares."

A copy of the option scheme rules is available on request from the company secretary at bbastard@homechoice.co.za or on (021) 680 8046.

Explanatory information in respect of special resolution number 4

The resolution authorises an amendment to the Option Scheme to increase the maximum number of share options that may be acquired by all "Participants" (as that term is defined in the Option Scheme) in aggregate from 5 000 000 (five million) to 10 000 000 (ten million), and any one "Participant" from 500 000 (five hundred thousand) to 1 000 000 (one million).

Dividend payable to shareholders

Subject to the provisions regulating exchange control in South Africa, as briefly discussed below, it is anticipated that payments in respect of the dividend will be made to Shareholders by the end of May 2013 after deduction of the applicable withholding tax governed by section 64G of the Income Tax Act, (No 58 of 1952). Unless otherwise agreed to by the Company, payment shall be effected by way of cheque sent by ordinary post, at the risk of the Shareholder, to the address of the relevant Shareholder as set forth in the securities register of the Company. Payment by cheque as aforesaid shall be a complete discharge by the Company of its payment obligations in terms of the distribution.

If several persons are entered in the securities register as joint holders, then payment to any one of them under the distribution shall be an effective and complete discharge by the Company of the amount so paid, notwithstanding any notice (express or otherwise) which the Company may have of the right, title, interest or claim of any other person to the shares in question.

Exchange control regulations and rulings

The following guideline is a summary of South African Exchange Control Regulations issued in terms of the Currency and Exchange Act, 1933 ("Regulations") and the rulings issued to Authorised Dealers by the South African Reserve Bank ("Rulings"). It is not a comprehensive statement and Shareholders who have any doubt as to the action they must take should consult with their professional adviser. Brokers are required to comply with the Regulations and Rulings as set out herein.

On or prior to 2 May 2013, each Shareholder who is an emigrant from, or non-resident of, the "common monetary area" shall provide to the company secretary, in writing, the full details of its/her/his Authorised Dealer, including the name, address and account number of its/her/his Authorised Dealer. Should such detail not be provided, monies owing will be held in trust by the Company and no interest will accrue in respect thereof.

1. *Emigrants from the common monetary area*
   Payments arising as a result of the distribution to Shareholders are not freely transferable from South Africa and must be dealt with in terms of the Regulations and Rulings of South Africa. Cheques issued as a result of the distribution will be forwarded, at the risk of the Shareholder, to the Shareholder's Authorised Dealer in foreign exchange in South Africa controlling the emigrant's blocked assets. You are advised to take instructions from your Authorised Dealer in relation to your blocked assets and the procedures attaching to any potential repatriation thereof from South Africa.
2. *All other non-residents of the common monetary area*
   Distributions to a Shareholder who is a non-resident of the common monetary area, who has never resided in the common monetary area and whose registered address is outside the common monetary area will be dealt with as follows:

   Subject to:

   - the relevant share certificates carrying a non-resident endorsement and the amount of share capital and share premium having been recorded as such by the relevant Authorised Dealer which received the funds at the time that the shares were endorsed "non-resident"; and
   - the Company's bank being presented with the resolution authorising the distribution,

   a banker's draft for the amount due in the currency nominated by the Shareholder (at a rate of exchange ruling at close of business on 2 May 2013 or as soon as possible after the date that this special resolution is passed) will be purchased on behalf of such Shareholder and on the instruction and at the expense of such Shareholder.

General

Shareholders are informed that:

- a Shareholder entitled to attend and vote at the general meeting is entitled to appoint a proxy (or more than one proxy) to attend, participate in and speak and vote at the general meeting in the place of the Shareholder, and Shareholders are referred to the form of proxy on page 131;
- a proxy need not also be a Shareholder of the Company;
- the proxy may delegate the authority granted to him/her as proxy, subject to any restriction in the form of proxy itself;
- a Securities holder entitled to vote may appoint more than 1 (one) proxy to exercise Voting Rights attached to different Securities held by that Securities holder entitled to vote in respect of any Shareholders' Meeting and may appoint more than 1 (one) proxy to exercise Voting Rights attached to different Securities held by the Securities Holder which entitle him/her/it to vote;
- Shareholders who wish to appoint proxies are required to complete and return the form of proxy to reach the registered office of the Company at least 24 hours before the appointed time of the meeting, but at least before the proxy exercises any right of the appointing Shareholder at the general meeting; and
- in terms of section 63(1) of the Companies Act, any person attending or participating in a meeting of shareholders must present reasonably satisfactory identification, and the person presiding at the meeting

must be reasonably satisfied that the right of any person to participate in and vote (whether as shareholder or as proxy for a shareholder) has been reasonably verified. Forms of identification include valid identity documents, driver's licences and passports.

Electronic participation:

- Shareholders are advised that they, or their proxies, will be able to participate in the meeting by way of electronic communication. A limited number of telecommunication lines will be made available for this purpose;
- Shareholders who wish to participate by way of electronic communication must register such request in writing with the company secretary by no later than 15:00 on Monday, 29 April 2013 and provide their email and cell phone contact details;
- each participant will be contacted between 09:00 and 11:00 on the day of the meeting via email and/or SMS and will be provided with a code and the relevant telephone number to allow them to dial into the general meeting; and
- the cost of the Shareholder's phone call will be for his/her own expense. By registering the abovementioned request, the Shareholder acknowledges that the telecommunication lines are provided by a third party and indemnifies and holds the Company harmless against any loss, injury, damage, penalty or claim arising in any way from the use or possession of the telecommunication lines whether or not the problem is caused by any act or omission on the part of the Shareholder, the Company, the third party service provider, or anyone else.

Summary of rights in terms of section 58 of the Companies Act:

- a shareholder of a company may, at any time and in accordance with the provisions of section 58 of the Companies Act, appoint any individual (including an individual who is not a Shareholder) as a proxy to participate in, and speak and vote at, a shareholders' meeting on behalf of such shareholder;
- a proxy may delegate her or his authority to act on behalf of a shareholder to another person, subject to any restriction set out in the instrument appointing such proxy;
- irrespective of the form of instrument used to appoint a proxy, the appointment of a proxy is suspended at any time and to the extent that the relevant shareholder chooses to act directly and in person in the exercise of any of such shareholder's rights as a shareholder;
- any appointment by a shareholder of a proxy is revocable, unless the form of instrument used to appoint such proxy states otherwise;
- if an appointment of a proxy is revocable, a shareholder may revoke the proxy appointment by (i) cancelling it in writing, or making a later inconsistent appointment of a proxy and (ii) delivering a copy of the revocation instrument to the proxy and to the relevant company;
- a proxy appointed by a shareholder is entitled to exercise, or abstain from exercising, any voting right of such shareholder without direction, except to the extent that the relevant company's memorandum of incorporation, or the instrument appointing the proxy, provides otherwise; and
- if the instrument appointing a proxy or proxies has been delivered by a shareholder to a company, then, for so long as that appointment remains in effect, any notice that is required in terms of the Companies Act or such company's Memorandum of Incorporation to be delivered to a shareholder must be delivered by such company to:
  - the relevant shareholder; or
  - the proxy or proxies, if the relevant shareholder has: (i) directed such company to do so, in writing and (ii) paid any reasonable fee charged by such company for doing so.

By order of the Board

B Bastard
Company secretary

15 March 2013
Cape Town

HomeChoice
HOLDINGS LIMITED

FORM OF PROXY

HOMECHOICE HOLDINGS LIMITED
(Registration number 1991/005430/06)
(the "Company")

For completion by shareholders unable to attend the annual general meeting of the Company to be held on Thursday, 2 May 2013, at 13:00, at HomeChoice, 78 Main Road, Wynberg (the "AGM").

I/We (full names) ____

of (address) ____

being a shareholder of the Company and entitled to ______________________________ votes (one per share)

hereby appoint ______________________ or failing him/her ______________________

or failing him/her the chairman of the meeting, as my/our proxy to attend, speak, and, on a poll, vote for me/us and on my/our behalf at the AGM, and at any adjournment thereof, and to vote or abstain from voting as follows on the resolutions to be proposed at the AGM, with or without modification, as follows*:

	Insert "X" in the appropriate box or number of votes		
	For	Against	Abstain
Ordinary resolution number 1: To adopt and approve the integrated annual report and annual financial statements			
Ordinary resolution number 2: To confirm the final dividend of 50c (fifty cents) per ordinary share			
Ordinary resolution number 3.1: To elect A Chorn as a director of the Company			
Ordinary resolution number 3.2: To elect P Joubert as a director of the Company			
Ordinary resolution number 4.1: To elect J Bester as a member of the audit and risk committee			
Ordinary resolution number 4.2: To elect W Jungschläger as a member of the audit and risk committee			
Ordinary resolution number 4.3: To elect P Joubert as a member of the audit and risk committee			
Ordinary resolution number 5: To reappoint PricewaterhouseCoopers Inc. as external auditors			
Special resolution number 1: To authorise the directors' remuneration			
Advisory remuneration policy endorsement			
Special resolution number 2: To authorise the provision of financial assistance by the Company			
Special resolution number 3: To place the unissued shares under the control of the directors			
Special resolution 4: To approve amendments to the HomeChoice 2010 Employee Share Option Scheme			

If any modified resolutions are proposed before the meeting the proxy shall vote:	Insert "X" in the appropriate box
As indicated above:	
In the proxy's discretion:	

* *The Notes to the Form of Proxy overleaf form part of this proxy form and Shareholders are advised to read them. Please see the notice of annual general meeting for the full proposed resolution. If you return this form duly signed without specifying a proxy you will be deemed to appoint the chairman of the general meeting as your proxy.*

Signed this ______________________ day of ______________________ 2013.

Signature ______________________ assisted by ______________________(where applicable)

NOTES TO THE FORM OF PROXY

1. A shareholder entitled to attend and vote at the abovementioned meeting is entitled to appoint a proxy or two alternative proxies of the shareholder's choice (who need not be a shareholder of the company) to attend, speak and vote thereat in his/her/its stead, by inserting his/her/their name/s in the space/s provided, with or without deleting "the chairman of the meeting" but the shareholder must initial any such deletion. The person whose name stands first on this form of proxy and who is present at the meeting will be entitled to act as proxy to the exclusion of those whose names follow.
2. This proxy form and power of attorney (if any) under which it is signed must be addressed to the company secretary and reach the registered office of the company, at 78 Main Road, Wynberg 7800 (Private Bag X150, Claremont 7735), not less than twenty-four hours before the appointed time of the meeting.
3. A shareholder's instructions to the proxy regarding voting should be indicated by the insertion of the relevant number of votes exercisable by the shareholder in the appropriate box provided. Failure to comply with this will be deemed to authorise the proxy to vote or to abstain from voting at the meeting as he/she deems fit in respect of all the shareholder's votes.
4. A shareholder is entitled to one vote on a show of hands and, on a poll, one vote in respect of each share held.
5. A vote given in terms of an instrument of proxy shall be valid in relation to the meeting notwithstanding the death, insanity or other legal disability of the person granting it, or the revocation of the proxy, or the transfer of the shares in respect of which the proxy is given, unless a notice of any of the aforementioned matters shall have been received by the company at its registered office or by the chairperson of the meeting at the venue of the meeting before commencement of the meeting.
6. The chairperson of the meeting may reject or accept any form of proxy which is completed and/or received other than in compliance with these notes.
7. The completion and lodging of this form of proxy will not preclude the relevant shareholder from attending the meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof, should such shareholder wish to do so.
8. Documentary evidence establishing the authority of a person signing the form of proxy in a representative capacity must be attached to this form of proxy, unless previously recorded with the company or unless the chairperson of the meeting waives this requirement.
9. Where this form of proxy is signed under power of attorney, such power of attorney must accompany this form of proxy, unless it has been registered by the company or waived by the chairman of the general meeting.
10. A minor or any other person under legal incapacity must be assisted by his/her parent or guardian, as applicable, unless the relevant documents establishing his/her capacity are produced or have been registered by the company.
11. Where there are joint holders of shares:
    - 11.1 all joint holders must sign the form of proxy; and
    - 11.2 the vote(s) of the senior shareholders (for that purpose seniority will be determined by the order in which the names of shareholders appear in the company's securities register) who tenders a vote (whether in person or by proxy) will be accepted to the exclusion of the vote(s) of the other joint shareholder(s).
12. Any proxy appointed pursuant to this form of proxy may not delegate his/her authority to act on behalf of the relevant shareholder.
13. In terms of section 58 of the Companies Act, unless revoked, an appointment of a proxy pursuant to this form of proxy remains valid only until the end of the general meeting or any adjournment of the general meeting.
14. This form of proxy shall be valid at any resumption of an adjourned meeting to which it relates, although this form of proxy shall not be used at the resumption of an adjourned meeting if it could not have been used at the meeting from which it was adjourned for any reason other than it was not lodged timeously for the meeting from which the adjournment took place. This form of proxy shall, in addition to the authority conferred by the Companies Act, 2008 except in so far as it provides otherwise, be deemed to confer the power generally to act at the meeting in question, subject to any specific direction contained in this form of proxy as to the manner of voting.
15. Any alteration or correction made to this form of proxy, other than the deletion of alternatives, must be initialled by the signatory(ies).

ADMINISTRATION

Company registration number
1991/005430/06

Company secretary
Bradley Bastard

Registered office
78 Main Road
Wynberg 7800

Private Bag X150
Claremont
7735

Attorneys
Edward Nathan Sonnenbergs Inc.
Edward Nathan Sonnenbergs House
1 North Wharf Square
Loop Street
Foreshore
Cape Town 8001

Auditors
PricewaterhouseCoopers Inc.
No. 1 Waterhouse Place
Century City 7441
PO Box 2799
Cape Town 8000

Commercial bank
FirstRand Bank Limited
3rd Floor, Great Westerford
Main Road, Rondebosch 7700

Country of incorporation
South Africa

SHAREHOLDERS' DIARY

Financial year end	31 December 2013
Annual general meeting	2 May 2013
Distributions to shareholders	May and November

Reports and profit statements:

Publication of annual report	Approximately 28 March 2013
Interim report	Approximately 23 August 2013

HomeChoice
HOLDINGS LIMITED