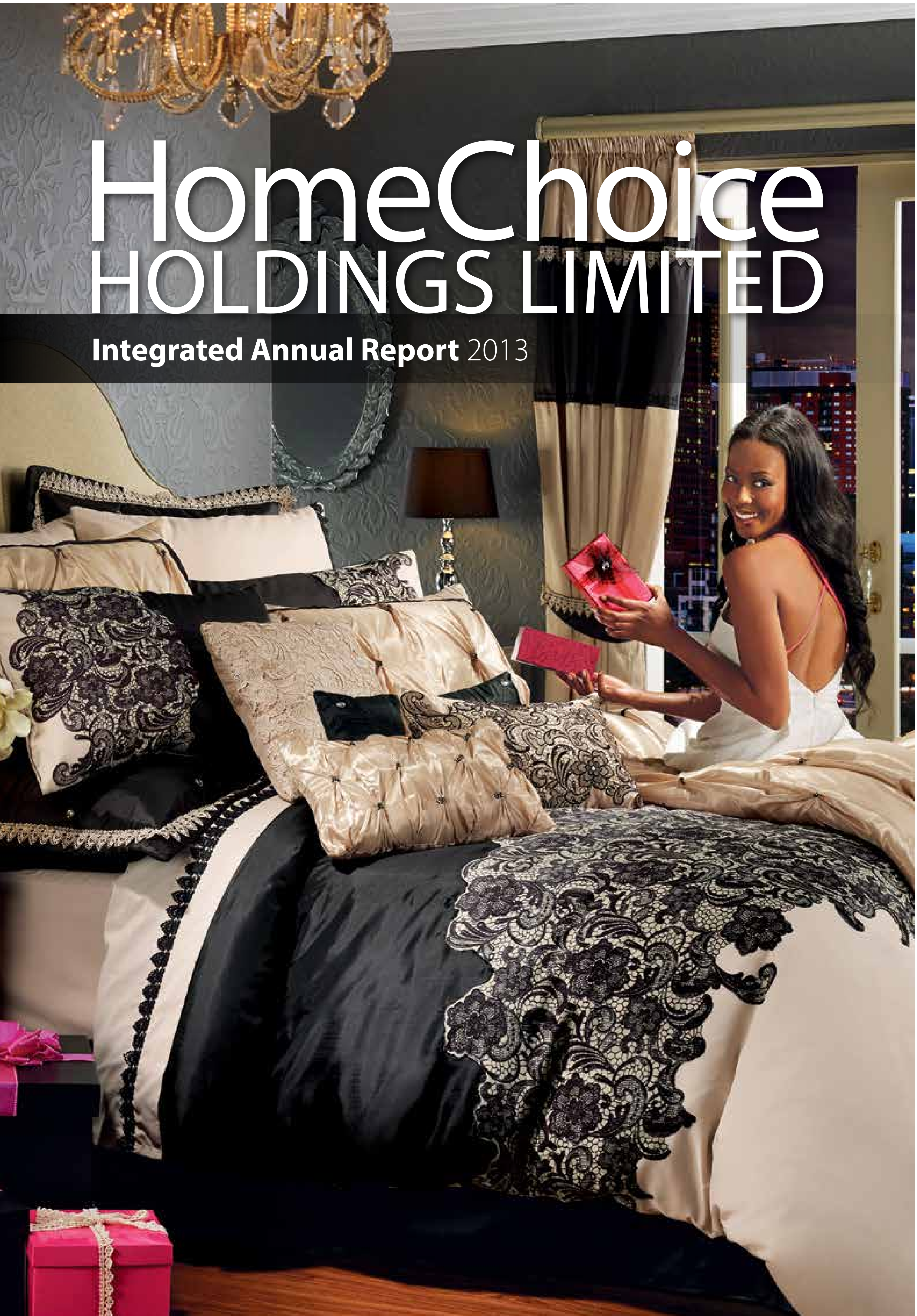
HomeChoice HOLDINGS LIMITED

Integrated Annual Report 2013



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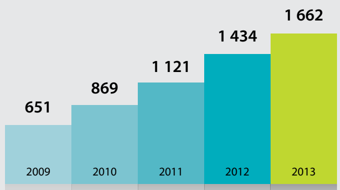
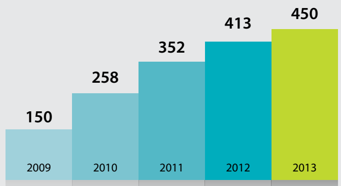
revenue
R'million



increased to R1,7 billion

+16%

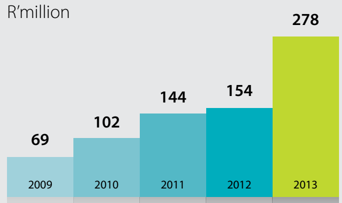
EBITDA
R'million



increased to R450 million

+9%

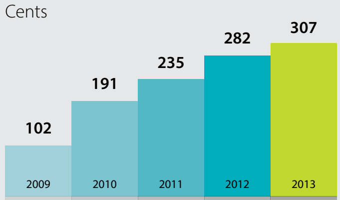
cash generated by operations
R'million



increased to R278 million

+81%

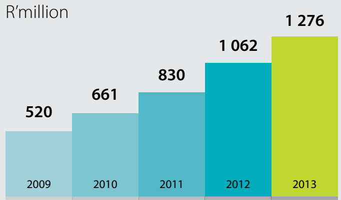
headline earnings per share
Cents



increased to 307 cents

+9%

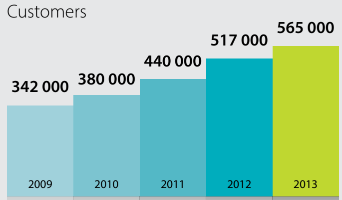
net asset value per share
R'million



increased to 1 276 cents

+20%

group customer base
Customers



increased to 565 000

+9%

#1 SA's home shopping retailer

2013 HIGHLIGHTS

COMMITMENT TO **INTEGRATED REPORTING**

HomeChoice Holdings has pleasure in presenting our integrated annual report to shareholders for the 2013 financial year. As we enter our third year of integrated reporting we remain committed to these reporting principles which aim to demonstrate a company's ability to create and sustain value in the short, medium and longer term.

While integrated reporting is only a requirement for listed companies in terms of the King Code of Governance in South Africa (King lll), the group believes that the greater level of disclosure required by integrated reporting will enable investors to evaluate our business against our listed peers.

We strive to provide shareholders with accurate, balanced and transparent reporting, and to continually enhance financial disclosure. Throughout the report we have attempted to show the link between our strategy, material issues and risks, financial and operational performance, and how these contribute to value creation.

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 boundary

The report covers the integrated sustainability performance and activities of HomeChoice Holdings Limited and its subsidiaries (the group) for the period 1 January 2013 to 31 December 2013. There have been no changes from last year in the scope and boundary of the report.

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.

Report content and disclosure

This report complies with International Financial Reporting Standards and the Companies Act, while management has also applied the recommendations of King lll and considered best reporting practices. Summarised financial statements have again been published in the integrated report and the complete annual financial statements are available on the website.

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

The principle of materiality has again been applied to the financial and non-financial content and disclosure in the report. This is aimed at ensuring that the report is both concise and relevant to our shareholders. Materiality has been defined as being those issues that could affect the group's ability to create value over time or issues that could impact on an investor's valuation of the business.

The International Integrated Reporting Council recently released its framework for integrated reporting globally. This framework introduces new concepts and guiding principles, including reporting in terms of the capitals on which a business depends for its success. These are financial, intellectual, human, manufactured, social and relationship, and natural capital. The group plans to integrate these principles into future financial reporting.

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, which has oversight responsibility for integrated reporting, confirms the report fairly represents the integrated performance of the group and recommended the report for approval by the board of directors. The board approved the 2013 integrated annual report for release to shareholders.

Rick Garratt
Chairman

Shirley Maltz
Group chief executive officer

GROUP **OVERVIEW**

INTRODUCING
HOMECHOICE HOLDINGS

HomeChoice Holdings is the largest home shopping retailer in southern Africa, selling homeware merchandise and financial services products to a customer base of over five hundred thousand people.

Established in Cape Town in 1985, the group has developed into an omni-channel home shopping retailer which offers products through mail order (catalogue), electronic channels (Internet and mobile phone) and telemarketing (call centres).

Credit is used to facilitate merchandise sales and is supported by industry-leading expertise in credit risk management. In the past year over 90% of retail sales were on credit.

In 2007 the group expanded into financial services with the launch of FinChoice to offer personal loans to HomeChoice retail customers of good credit standing.

Targeting customers in the urban middle-income mass market, the group has developed extensive knowledge and understanding of this market over the past three decades. This rapidly expanding market segment accounts for 73% of the country's economically active population, having grown from 52% only ten years ago.

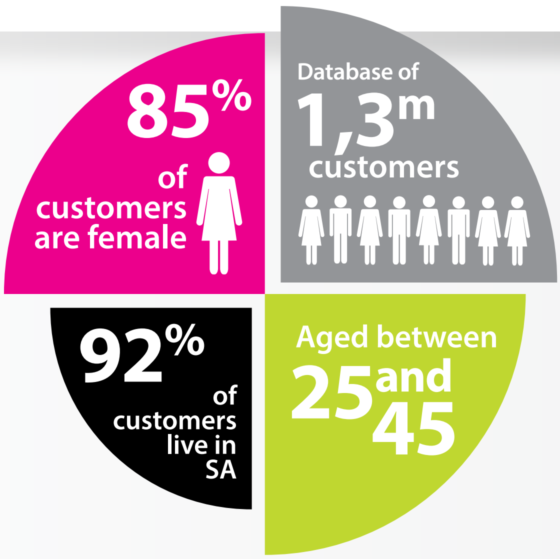
Expansion into the rest of Africa presents a sustainable growth opportunity for both HomeChoice and FinChoice in the medium term. Customers in the neighbouring countries of Botswana, Lesotho, Namibia and Swaziland already account for 9,5% of retail sales.

The group employs 1 031 people, with over 70% of these staff dedicated to the call centres at the head office in Cape Town. A new centralised warehouse and distribution facility was completed in Cape Town in December 2013. Built at a cost of R150 million, the distribution centre has more than doubled storage capacity and has enough space for future business growth.

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

Our group customer

- **Youthful** – aged between 25 and 45
- **Female** – 85% of customers are women
- **Middle market** – LSM groups 4 to 8; average monthly income of R7 500
- **Loyal** – over 80% of business is with existing credit customers



HOMECHOICE HOLDINGS LIMITED

RETAIL

HomeChoice

HomeChoice is an omni-channel home shopping retailer offering an extensive range of household textiles, homeware merchandise and personal technology through a convenient shopping experience, together with a home delivery service. Credit is available on terms of six, 16, 24 and 36 months.

fonechoice

FoneChoice is a direct marketing business retailing laptop computers, tablets and mobile smartphones on credit to HomeChoice customers on terms of 24 and 36 months.

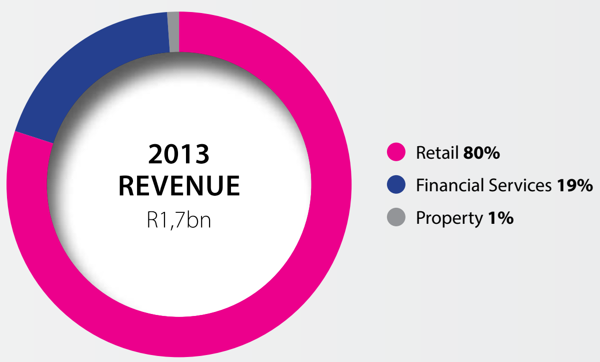
FINANCIAL SERVICES

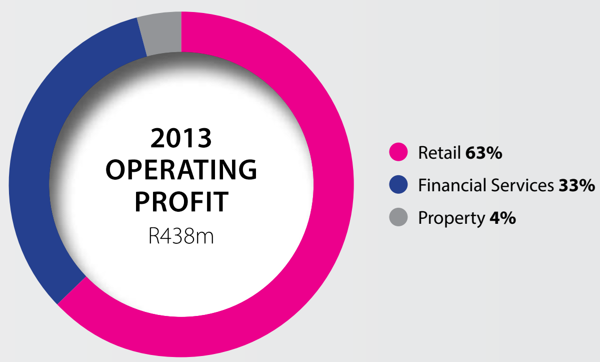
finchoice

FinChoice is a niche provider of unsecured personal loan products solely to HomeChoice customers with good credit records. Loan terms range from one to 36 months. Customers are able to transact on their loan accounts conveniently through their mobile phone 24 hours a day, accessing further credit over time as needed.

PROPERTY

The group owns the head office building and the newly completed distribution centre, as well as a property adjacent to the head office for future expansion.





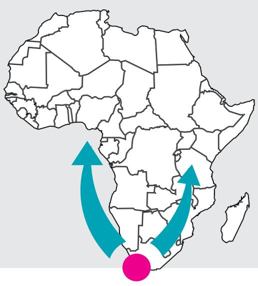
STRATEGY AND BUSINESS MODEL

GROUP STRATEGY

The group's strategy is to sell products and services to urban middle-income mass market female customers through multiple channels, thereby creating sustainable, long-term shareholder wealth.

GROUP STRATEGY

1. **Organic growth** through product innovation, range extension and omni-channel marketing
2. Expand the **group customer base** using the HomeChoice brand and retail margin
3. Apply **credit risk and customer analytics expertise** to maintain the quality of the debtors' books
4. Invest in e-commerce to **drive digital sales**
5. Further expansion into **new markets and Africa**

	RETAIL STRATEGY	FINANCIAL SERVICES STRATEGY
	• Offer innovative and exclusive own-brand merchandise • Optimise supply chain and distribution • Focus on improving customer service and experience • Expand the omni-channel offering to customers	• Drive loan product innovation • Expand insurance product offering • Leverage expansion of HomeChoice omni-channels
	• Drive acquisition activities to support efficient customer database expansion • Enhance customer retention and grow spend from existing customers	• Develop a group focus on customer acquisition • Deepen penetration of HomeChoice database
	• Apply credit expertise to drive credit and marketing strategy • Focus on cash optimisation and collections	• Deepen group focus on credit risk, debt review and recoveries • Optimise credit decisions for profit maximisation
	• Invest in and develop mobi and web platforms to grow online shopping	• Support the self-actualisation of customers through the convenience of self-service electronic channels • Enhance KwikServe platform • Develop mobi and web transactional platform and migrate customers
	• Expand presence into new markets • Grow customer base in Africa	• Leverage HomeChoice footprint and expand financial service offering into other markets

RETAIL **BUSINESS MODEL**

HOMECHOICE AND FONECHOICE

Home shopping omni-channel retail model	Multiple channels are used to attract customers, sell products and fulfil all customer service requirements. Today, channels include direct mail catalogues, Internet, mobile phone and telemarketing through inbound and outbound call centres. The primary "shop" is the catalogue and Internet site, allowing customers to shop at their convenience at any time. The home shopping business model is distinct from traditional bricks and mortar retailers with customer relationships conducted over a distance. Ordering, distribution and delivery processes are centralised to ensure consistency for customers.
Own-brand product and direct sourcing	Merchandise strategy is to offer a complete home décor solution through innovative, own-brand products which are suitable for home shopping. Own-brand strategy allows greater control over margins. Products are designed and developed in the HomeChoice trend studio and sourced directly from suppliers, mainly from Asia. Product ranges include fashion-oriented textiles and bedding (64% of sales), homewares, appliances, electronics and furniture.
Customer database analytics drives marketing	Marketing strategy is informed through using extensive data that the business has on customer purchasing and payment behaviour. 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 may be used to determine the response to the product, the pricing, the credit offer. Offers are tailored to select customer groups and the expected response behaviour is overlaid with payment behaviour to ensure an appropriate level of profitability for each campaign.
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 periods. 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. These credit metrics are used throughout the business to drive both the credit and marketing strategy.
Operational excellence	The omni-channel retail model is highly scalable and cost effective and enables brand consistency. Managing the complexity of the distance relationship requires efficient back-end processes to ensure a consistent customer experience across all platforms, with ongoing investment in people and systems. An efficient distribution network is an important driver of customer satisfaction. HomeChoice has its own distribution network to all major urban centres, supplemented with third-party couriers. Over 50% of merchandise in South Africa is delivered directly to customers' homes with the balance delivered through the South African Post Office.

FINANCIAL SERVICES
BUSINESS MODEL

FINCHOICE

Leveraging the HomeChoice customer base through analytics

FinChoice leverages the HomeChoice database, marketing platform and credit information to sell personal loans to selected customers of good standing.

These customers are responsive to credit offerings and have proven payment behaviour.

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

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 usually completed within 10 minutes due to the existing HomeChoice customer information. Loan repayments are collected directly from the customer's bank account.

Credit risk management

The repayment behaviour of repeat loan customers is superior to initial loan customers as behavioural credit models are strengthened by actual loan repayments, as well as current repayment behaviour in the HomeChoice group.

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.

Operational excellence

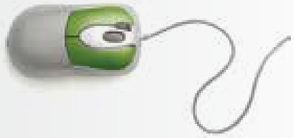
More than 75% of FinChoice customers take a repeat loan over time, with the KwikServe self-service innovation being a key driver of repeat loan requests from customers.

#1 SA's home shopping retailer

FACEBOOK FOLLOWERS 100 000

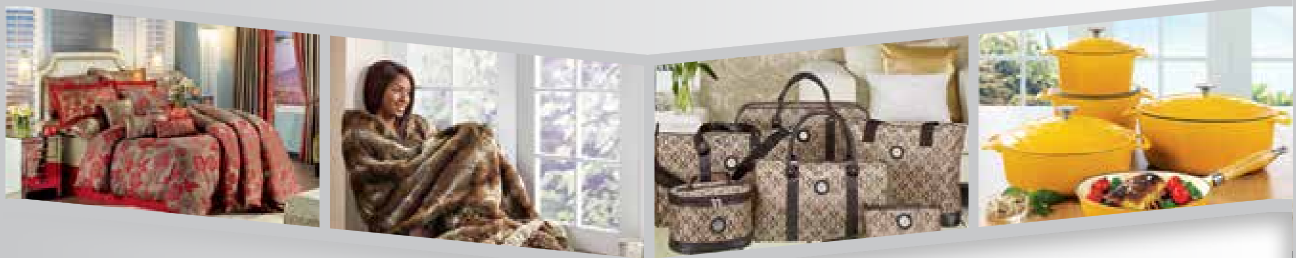
CATALOGUES DISTRIBUTED
7 433 175

WEBSITE VISITORS
5 615 090



CALLS WITH CUSTOMERS
13 749 023

MOBI VISITORS
1 403 556



ORDERS PROCESSED
862 245

PARCELS DESPATCHED
730 828

INTERESTING INSIGHTS ABOUT OUR **CUSTOMER ENGAGEMENT** IN 2013

ENGAGING FOR **SOCIAL UPLIFTMENT**

At HomeChoice we understand that our social investment contributes to the sustainability of our business and broader society. We are committed to community upliftment and have invested over R14 million in education and women empowerment projects through the HomeChoice Development Trust (HDT).

Early childhood development

The HDT facilitates the upgrading of infrastructure and equipment, teacher training and nutritional support of unregistered educare centres. The HDT aims to promote the sustainability of these community-based centres and facilitate their registration with the Department of Social Development to be able to access government grants.

The support from the HDT is founded on the philosophy that quality early childhood development programmes are a powerful means of overcoming the effects of poverty. The benefits of intervention at a young age mean that children perform better at formal school and are more likely to be employed, while they are less likely to need remedial education, get involved in crime and drugs or fall pregnant while at school.

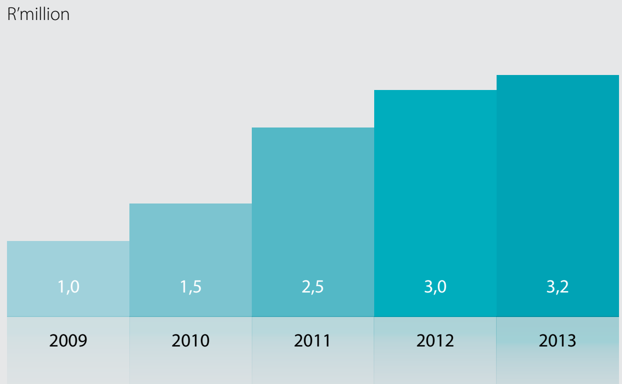
Staff involvement in CSI

HomeChoice staff participates in the Community Chest "Give As You Earn" programme which encourages staff to make a monthly donation which is then matched by the company. Staff, family and friends also support the annual Blisters for Bread walk in Cape Town to raise funds for the Peninsula School Feeding Association.

Enterprise development

HomeChoice has established a development programme supporting 43 independent drivers and enabling them to grow their businesses through the door-to-door delivery of merchandise to customers. These entrepreneurs receive training and support to grow and manage their businesses.

5 725 individuals from local communities have been recruited and trained as direct sales agents. These agents are supported in establishing their own network of clients to whom they can sell products.



R14 million donations to the HomeChoice Development Trust

Since 2011

- Supported **90 educare centres**
- Trained **270 teachers**
- Supported over **5 000 children**

In 2013

- Funded the **R1,3 million upgrade of the Noel Stanton Educare Centre** in Delft in the Western Cape
- **507 staff** participated in community events
- **R234 000 in bursaries** granted to staff and customers

Zulpha Gester has packed 1,3 million parcels in 12 years with a value of R1,3 billion

OUR NEW **DISTRIBUTION CENTRE**







Distance travelled per day by feet and equipment
1 578 km

Storage capacity
16 rugby fields

9 857 metres of strapping used per day

Travelled **1,5m** kilometres per year in deliveries

The new distribution centre opened on time and on budget in January 2014 at a total investment cost of R150 million. At 200 000 m^3, the centre has enough space for future business growth.

A COMPELLING **COMPETITIVE ADVANTAGE**

Home shopping model	Home shopping offers customers a convenient experience that suits their lifestyle and time constraints. The omni-channel contact points, including call centres, Internet and mobile phone, allow customers to shop at any time of day or night. The home shopping model enables the group to serve a geographically dispersed customer base without the limitations of a physical store presence, as well as predict purchasing behaviour, response rates and profitability of marketing campaigns.
Brand loyalty in growing market	HomeChoice has created strong brand loyalty with its predominantly female customer base in the urban middle-income mass market. In the past year over 80% of group's business was generated from existing customers. The rapidly growing LSM 4 to 8 target market accounts for 73% of the country's population, having grown from 52% only ten years ago. Customers are expected to continue to migrate up the LSM spectrum as they benefit from rising living standards and higher income.
Growing **online sales**	Greater access to the Internet and mobile smartphones is expected to boost online retail sales in South Africa in the next few years. HomeChoice is at the forefront of this trend with growing volumes of customers using electronic sales channels. In 2013, 8% of HomeChoice sales were made through the Internet and 79% of FinChoice customers are registered on the KwikServe mobile channel, well ahead of the estimated 1% of online retail sales in South Africa.
Expertise in managing the risk of credit	Credit is an enabler of sales to the mass market female customer base. The group has extensive experience in mass market credit management and the credit records of over 1,3 million customers inform credit decision-making processes. Strict and consistent credit and affordability criteria, together with internally developed scorecards, are applied to all new credit applications. New customers are granted low credit exposure, allowing the group to observe payment behaviour without significant exposure risk.
Leveraging the **customer base**	HomeChoice filters new customers for the group. FinChoice leverages the HomeChoice database by selling personal loans to selected credit-proven customers. This ensures that FinChoice loans are marketed to relatively low-risk prospects and the business therefore has a stable loan book with an acceptable risk of bad debt.
Proven organic **growth strategy**	Organic growth is the group's preferred strategy to expand the business and gain market share. Growth has been driven through product innovation, merchandise range extension and the launch of FinChoice. Revenue has grown at a compound annual growth rate (CAGR) of 24% over the past five years from 2008, with operating profit showing a CAGR of 47%. FinChoice now accounts for 33% of the group's operating profit, only seven years after being launched.
Expanding presence in **Africa**	While Africa presents an attractive medium- to long-term growth opportunity, customers in Botswana, Lesotho, Namibia and Swaziland already account for 9,5% of retail sales. As a home shopping retailer, the group does not face many of the challenges, risks and costs encountered by traditional retailers expanding into Africa. Increasing Internet penetration and broader bandwidth, together with the rapid growth in mobile phone ownership, will support growth of online retailing on the rest of the continent.

MEDIUM-TERM TARGETS

Stakeholder	Performance indicator		Medium-term target	2013	2012	2011	2010	2009
Shareholders	Retail gross profit margin	(%)	48 – 52	**49,1**	51,1	53,4	57,1	53,0
	Operating profit margin	(%)	25 – 30	**26,4**	28,1	30,5	28,7	21,7
	Return on equity	(%)	27 – 32	**26,3**	29,8	31,9	28,9	20,8
	Distribution cover	(times)	2,2 – 2,8	**2,8**	5,6	2,8	3,5	3,3
Customers	Growth in the group customer base	(%)	10 – 12	**9,3**	17,5	15,8	11,1	6,9
Employees	Employee attrition	(%)	20	**22**	22	18	not reported	
	Skills development expenditure to salary	(%)	1,5	**1,5**	1,0	1,5	1,2	1,4
	Black employees	(%)	80	**86**	85	82	84	84
	Female employees	(%)	67	**68**	66	68	74	73
	BBBEE rating		5	**5**	6	6	8	n/a
Community	Donations to the HomeChoice Development Trust (% of profits)		1,0	**1,0**	1,0	1,0	0,9	1,0

MATERIAL ISSUES AND RISKS

Management has identified material issues and risks which could impact on the delivery of the group's strategy and on the longer-term sustainability of the business.

These material issues provide the platform for the development of the annual key focus areas for each operating business. Management defines the material issues for each business and performance indicators are identified for each topic.

As part of the annual strategic planning process these material issues are reviewed. There have been no changes from last year as management believes these remain the issues which could impact on the group's ability to create value in the short, medium and long term.

The following pages outline the material issues for the year ahead, including a report-back on the group's performance against the strategic objectives for 2013, highlighting challenges encountered during the year, detailing the 2014 strategic objectives and plans to mitigate the key risks facing the business.

Material issue **1**

MANAGING THE **RISK OF BUYING**

Objectives in 2013	Performance in 2013
Organic growth through extension of existing ranges, test and introduce new ranges	• Retail sales up 10,5% to R929,7 million (2012: R841,5 million) • Continued demand for core bedding range and strong growth in newer textiles and furniture ranges • Strong demand from extension of textile offering (ornate fabrications, embellished sheeting) • Growth from development of newer product ranges, particularly furniture and electronics
Optimise product margins by effectively controlling inbound margins and clearance rates	• Gross profit margin impacted by Rand weakness but remained within target at 49,1% (2012: 51,1%) • Inventory turn of 3,7 times impacted by higher stock levels due to planned investment in bedding and an increase ahead of move to new distribution centre (2012: 4,1 times)
Enhance creative and sourcing skills of buyers	• Attended international trade fairs and continued to invest in in-house innovation studio
Improve supplier governance, compliance and quality standards	• Reviewed supplier scorecards and upgraded supplier take-on processes
Improve product packaging and presentation	• Critical review of product packaging resulted in optimisation of process and improved quality of packaging materials
Maintain customer demand through product innovation	• High levels of newness (20% growth in new product categories) and product innovation introduced, maintaining customer demand and growing retail sales

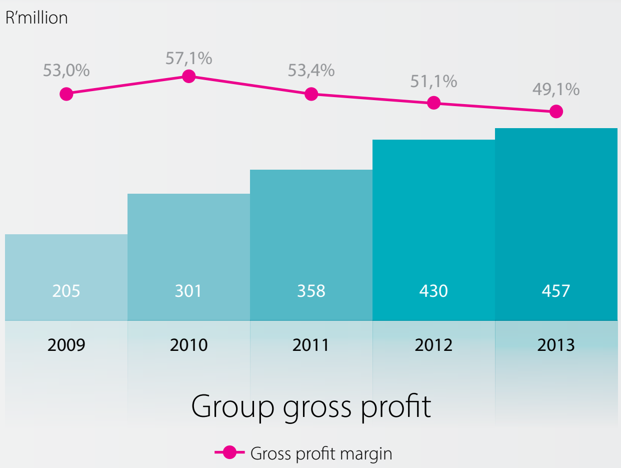
Challenges encountered in 2013
• Depreciation of the Rand against the US Dollar during the year impacting on margins as most of the group's products are imported • Managing stock levels with the strategic cutback in revenue through tightened credit risk policy • Increased stock clearance activities in advance of the move to the new distribution centre in December

MATERIAL ISSUE 1

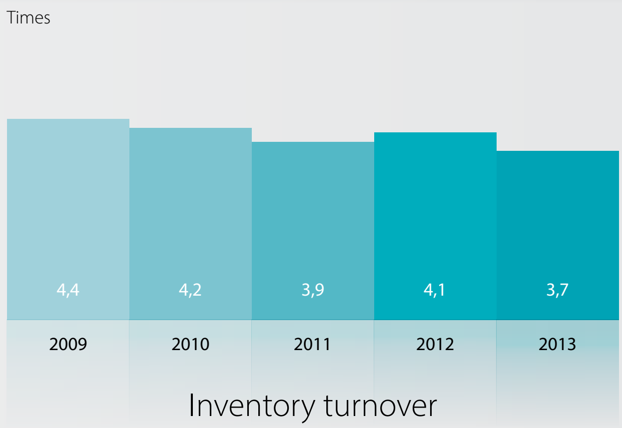
"Customers are offered a compelling range of innovative, quality merchandise which provides a complete home décor solution."

Objectives for 2014	Action plans and targets
Grow retail sales through range extensions and product innovation within existing categories	• Gross profit margin target of 48% to 52% • Inventory turn of 4 to 4,5 times • Implement new range assortment planning process
Drive revenue growth in electronic channels by extending the merchandise range marketed through these channels	
Maintain targeted product margins by effectively controlling inbound margins, improving sell-through rates and controlling clearance	
Drive efficiencies in buying processes to deliver time and cost savings	

Key risks	Risk mitigation
Ability to source desirable merchandise at targeted gross profit margins given the current volatility of the Rand	• Own-brand strategy and ability to re-engineer product offer to maintain margins • Deliver balanced range across various price tiers • Experienced merchandise team which keeps abreast of global trends • In-house innovation studio
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
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
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



Group gross profit



Inventory turnover

Material issue **2**

GROWING OUR **CUSTOMER BASE**

Objectives in 2013	Performance in 2013
Expand customer database to support revenue growth targets	• Attracted 154 000 new customers to the group in 2013 (2012: 156 000) • Growth in Retail customer database of 8,5% to 538 000 (2012: 496 000) • Granted 29 000 new FinChoice loans (2012: 30 000) • Growth in FinChoice customer database of 16,9% to 104 000 (2012: 89 000) • Expanded retail reach with successful test of pop-up shop strategy in shopping malls
Retain customers and grow spend	• Retail sales per new customer up 10,0% to R1 527 • Retail sales per existing customer up 2,9% to R1 434 • Despite credit tightening and increase in customer exclusions, the deep focus on existing customers maintained repurchase rate at 64%
Reduce cost of acquiring new customers	• Cost per new customer has increased from R591 to R822 due to credit risk tightening and shift in channel mix
Enhance customer analytics and better understand shopping habits of customers	• Developed new RFM-based customer segmentation model which will be tested in 2014
Increase usage of electronic channels	• Growth in proportion of retail sales from electronic channels increased from 7,4% to 8,1% • Increase repeat loan disbursements via FinChoice KwikServe mobile channel from 41,9% to 54,5% • 56% of FinChoice customers receive e-statements • 100 000 Facebook followers
Ensure compliance when the Protection of Personal Information (POPI) Bill is enacted	• POPI Act was enacted in 2013 and deadline for compliance anticipated to be in 2015 • Project team was appointed to review requirements and ensure compliance

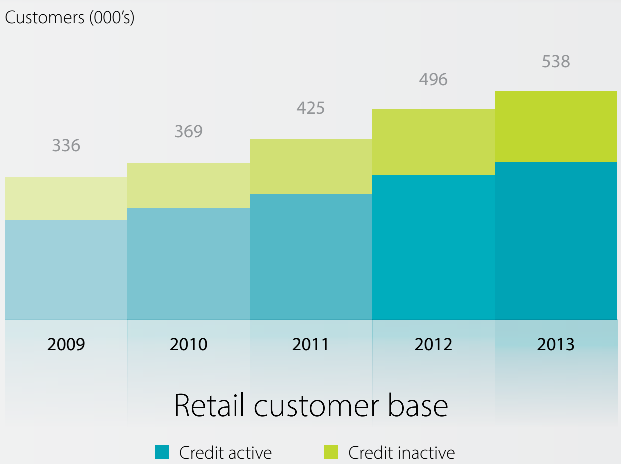
Challenges encountered in 2013
• Credit risk cutbacks implemented during the year impacting on the group's ability to grow the customer database at targeted levels • Tightening of credit risk policies and resulting shift in channel mix increased the cost of acquiring new customers • Revamped website launched in Q2 took time to stabilise, negatively impacting the pace of growth through electronic channels • Missed opportunity to continue acquiring customers on media channel

MATERIAL ISSUE 2

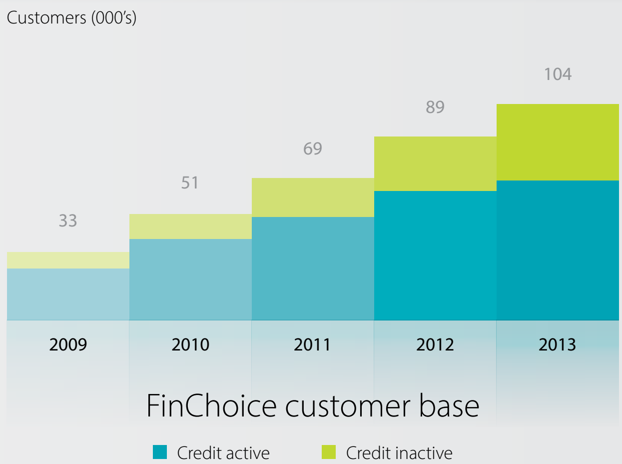
"Our strategy is to develop an omni-channel proposition for customers through investment in electronic channels and developing a retail presence."

Objectives for 2014	Action plans and targets
• Drive retention of existing customers through product innovation and improved understanding of customers' shopping behaviour • Expand customer database to support revenue growth • Acquire customers that meet our profitability objectives • Continued increase of electronic channels across group • Expand further into Africa • Enhanced collaboration across the group to drive customer acquisition planning	• Growth in customer database of 10% to 12% • Increase usage of electronic channels for customer acquisition • Implement RFM strategies to increase customer lifetime value • Increase product range offered through electronic channels • Expand pop-up shop footprint • Test acquisition of FinChoice customers from outside of the HomeChoice list

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, omni-channel campaigns, including electronic channels, targeted at attracting creditworthy customers • Ability to test campaigns prior to being rolled out to the customer base • Focus on driving growth outside South Africa
Uncertainty around the National Credit Regulator's proposed affordability guidelines may negatively impact demand	• Engagement with regulators to ensure a better understanding of home shopping retail • Increased advertising spend at reduced efficiencies to secure list growth for sustainable business growth • Refer to Managing the Risk of Credit Report
Further tightening of risk policy may increase cost per new customer acquired	• Continued development of scorecards to drive marketing efficiency • Improve marketing offers to customers
Increased competition for loan customers	• Delivering high customer service levels and compelling products



Retail customer base



FinChoice customer base

Material issue **3**

MANAGING THE **RISK OF CREDIT**

Objectives in 2013	Performance in 2013
Monitor and contain group credit exposure	• Group exposure is tracked monthly and reviewed by the executive team • Average group balance increased by 5,1% to R3 984 (2012: R3 792)
Maintain a stable level of credit performance and quality of the books through strong vetting and back-end processes	• Risk tightening initiated during the year to limit the impact of the worsening credit environment on the group's credit performance – HomeChoice's new customer acceptance rates reduced from 54,8% to 49,5% – Reduced FinChoice term and average loan size • Retail debtor costs as a % of revenue increased from 12,7% to 15,8% • FinChoice debtor costs as a % of revenue increased from 30,5% to 33,1% • Provisions raised to cater for the expected increase in bad debts – Retail increased from 18,5% to 18,8% of gross book – FinChoice increased from 11,4% to 12,0% of gross book • Increased focus on collections strategy which resulted in substantial cash generation – Increase size and collections capacity of call centre – Increased focus on pre-delinquency credit strategy – Increased debit order/Naedo adoption across the group • Loan restructuring product developed for distressed HomeChoice customers to make repayments more affordable
Make credit offer more attractive to customers and to support "Our brand in her hand" strategy	• Instant credit vetting decisions decreased from 70,6% to 68,2% (targeted 70%) • Launched 24-month terms in the retail business • Enhanced KwikServe functionality
Continue to review and enhance scorecards and vetting processes	• Enhanced use of bureau data in both retail and financial services • Redevelopment of new and behavioural scorecards in parts of the retail business • Development of new loan-specific scorecards in FinChoice, as well as enhanced behavioural scorecards for repeat loan customers • Increased focus and new models in combatting fraud

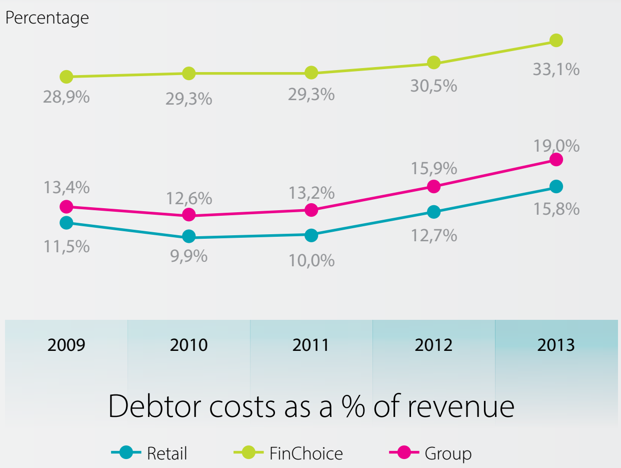
Challenges encountered in 2013
• Further deterioration in the consumer credit environment • Increase in level of debt review applications across the market • Increasing challenge with late stage collections and legal recovery collections across the group and market deteriorated in the last quarter • Engagement with regulators on proposed legislative changes to affordability guidelines

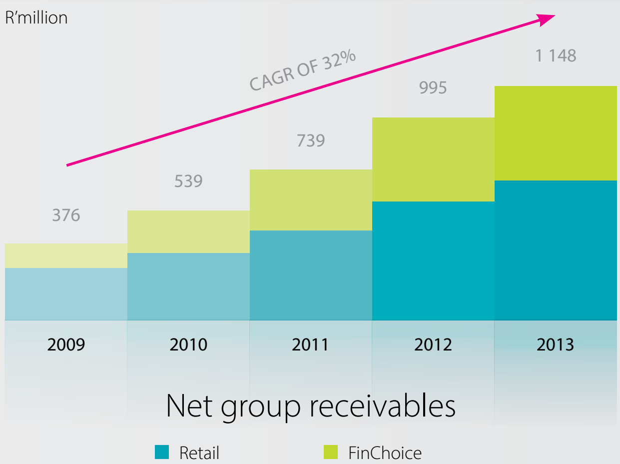
MATERIAL
ISSUE 3

"Extensive credit risk and customer analytics expertise is applied to maintain the quality of the debtor books."

Objectives for 2014	Action plans and targets
• Maintain stable levels of credit risk and performance through strong vetting processes and scorecard development • Continue to monitor group credit exposure • Focus on distressed debt optimisation and rehabilitation products and enhance legal and debt review recovery processes • Monitor and adopt legislative developments	• Further enhance collections processes and efficiency • Increase proportion of customers paying by debit order • Improve fraud detection tools, particularly for e-commerce • Review affordability processes in light of anticipated regulatory changes • Review maximum exposure rules to balance credit risk and marketing opportunities

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
Changes to the credit legislative environment	• Responding to draft legislative proposals through membership of the Large Non-Bank Lender Association • Monitoring of proposed amendments • Engagement with industry regulators
Risk of increasing incidence of debt review applications leading to higher bad debt	• Debt review customers monitored and internal review processes have been implemented





Material issue **4**

ENHANCING THE **CUSTOMER EXPERIENCE**

Objectives in 2013	Performance in 2013
Ensure a high-quality service across all channels and enhance customer feedback mechanisms	• HomeChoice achieved a 92% customer experience index (2012: 87%) • HomeChoice continued obtaining direct customer feedback through post call surveys and its mystery shopper programme • HomeChoice first call resolution of 88% • FinChoice introduced post call surveys after each inbound call • HomeChoice customer service call centres open six days a week (FinChoice seven days) • Electronic channels available 24/7
Improve stock availability when orders are received	• Stock available at point of order improved by 7% due to better inventory planning processes
Improve packaging and presentation to the customer	• Upgraded packaging across product range
Strategic focus on "Our brand in her hand" by investing in the Internet and mobi platform	• Revamped retail website launched in Q2; decision taken to delay retail mobi site until 2014 • HomeChoice focused on e-mail address capture to enable electronic statements roll-out in 2014 • 79% of active FinChoice customers have registered for KwikServe self-service channel • Additional features to KwikServe platform to allow customers to review mini-statements, update their financial details and purchase airtime • Launched e-mail statements to FinChoice customers

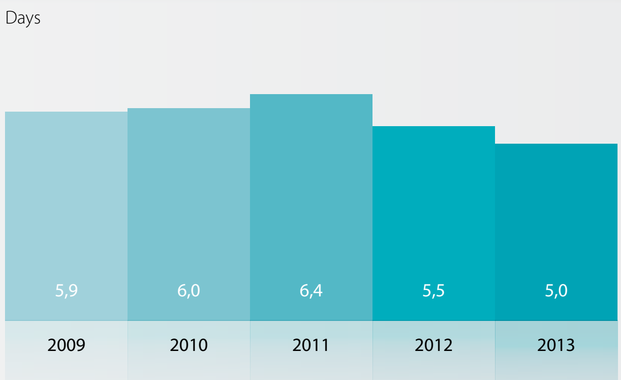
Challenges encountered in 2013
• Labour unrest at SAPO during the first half of the year impacted on delivery of marketing material, statements and parcels to customers • High level of call centre agent recruitment throughout the year resulted in high demands on training resource • Unexpectedly high inbound call volumes in Q4 resulted in increased abandon rates in the FinChoice call centre • Tougher credit conditions resulted in key resource focus on credit and collections innovation, with result that some intended functionality for new www.finchoice.mobi site was deferred to 2014

MATERIAL ISSUE 4

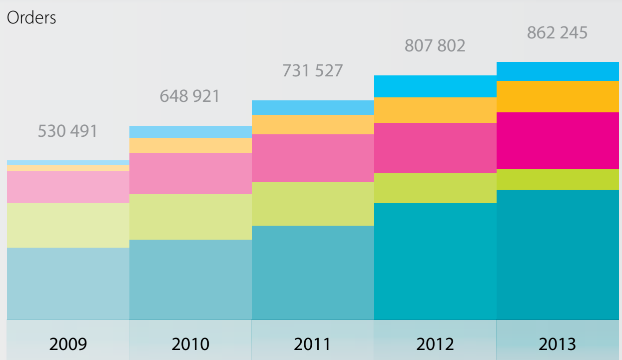
"Our relationship with our customer is conducted over a distance – we therefore constantly strive to improve her experience through investment in our people, processes and systems."

Objectives for 2014	Action plans and targets
• Ensure a high-quality service across all channels and maintain customer feedback mechanisms • Improve availability of stock at time of order and reduce delivery times to customers • Continue to enhance KwikServe self-service features to empower customers from their mobile device • Ensure that company strategy of growing electronic channels is embraced in the call centres • Add functionality to www.finchoice.mobi site and promote customer usage	• Over 90% HomeChoice customer experience index score • Launch initiative for management team to solicit direct customer feedback • Increased training in call centres to ensure appropriate services levels • Roll out e-statements to HomeChoice customers • Replicate FinChoice KwikServe functionality onto mobi site.

Key risks	Risk mitigation
Failure to meet our customers' service expectations	• Key performance actions aligned to ensure high levels of customer service • Constant monitoring of calls, service levels and query resolution targets • Post call customer survey tracked and corrective measures taken to improve service • Appropriate induction and refresher training in call centres
Impact of high levels of staff attrition on meeting customer service targets	• Training and retraining of staff and regular performance reviews to ensure improved customer service • Quality assurance processes throughout the customer cycle
Industrial action at SAPO negatively impacting on the group's ability to service customers	• HomeChoice developed contingency plans to optimise delivery of her catalogue, statements and parcels



Days to deliver order



Number of orders processed

Material issue **5**

OPTIMISING OUR **SUPPLY CHAIN EFFICIENCY**

Objectives in 2013	Performance in 2013
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 and handling returns	• Implemented a new scanning solution at the distribution centre • Delivery days improved to 5,0 days from 5,5 days by enhancing distribution network and improving address capture
Expand the home delivery network	• Increased delivery hubs from 11 to 13 • Extended the coverage of the home delivery network in South Africa from 51% to 55%
Increase distribution centre capacity and enhance operational and system processes	• Completed the new distribution centre and introduced new processes to optimise operations

Challenges encountered in 2013
• Shifts in demand at the end of 2012 resulting in stock shortages and delivery delays to customers in Q1 2013 which increased cancellations and customer returns • Ongoing labour disruptions within SAPO in the first half of the year impacting on delivery performance • Capacity constraints at the existing warehouse and planning and executing move to the new warehouse while continuing to dispatch out of the old warehouse

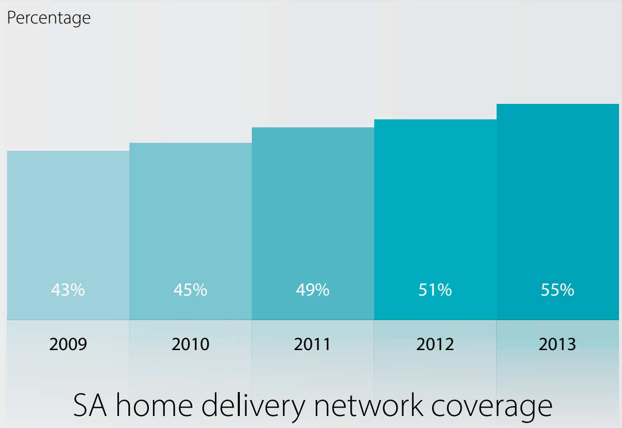
MATERIAL ISSUE 5

"We strive 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."

Objectives for 2014	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 and handling returns	• 55% of orders delivered within seven days • Extend home delivery network coverage • Revise returns, spares and stock liquidation policies • Enhance supplier to warehouse processes • Implement a Warehouse Management System • Initiate a new vendor scorecard
• Enhance operational and system processes at the new distribution centre	
• Implement a cost reduction focus throughout the supply chain and focus on reducing lead times	
• Expansion of the furniture delivery network	
• Improve supplier governance and compliance	
• Maintain quality standards and enhance quality assurance processes	

Key risks	Risk mitigation
Strong growth in distribution and warehouse capacity requirements	• New distribution centre developed with capacity for future growth
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 • Developing relationships with specialised courier networks in established metropolitan areas

Number of parcels distributed



SA home delivery network coverage

Material issue **6**

IMPLEMENTING **LEADING INFORMATION SYSTEMS**

Objectives in 2013	Performance in 2013
Complete the ERP design and build phase to enable implementation in 2014	• On time implementation of the finance and procurement modules (phase 1) of the new ERP system
Enhance e-commerce with deployment of new web and mobi sites	• Revamped www.homechoice.co.za website launched and stabilised • Retail mobi site redevelopment delayed to 2014 • Launched www.finchoice.mobi site with functionality to pre-qualify new customer acquisition
Integrate enhancements to the credit offer within the debtors system	• Project to simplify the customer account structure on track for implementation in March 2014
Implement and optimise IT infrastructure and processes at the new warehouse	• All infrastructure and processes completed in time • Successfully migrated operations to new distribution centre
Enhance dashboard reporting of key business metrics	• Data warehouse capability extensively enhanced

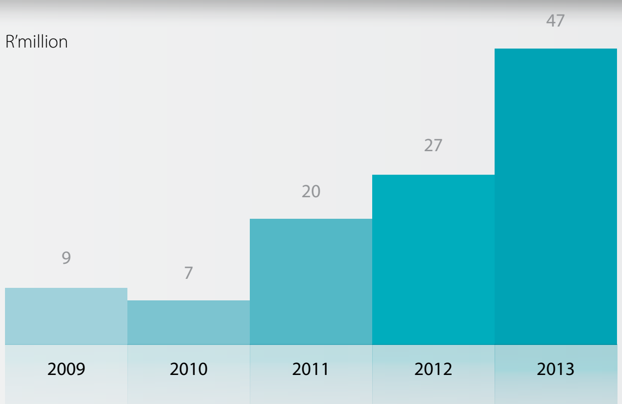
Challenges encountered in 2013
• Significant challenges experienced with the HomeChoice legacy telephony infrastructure • Attracting skilled IT and e-commerce specialists remains a challenge in South Africa • Complexity in implementing the new e-commerce platform affected sales

MATERIAL ISSUE 6

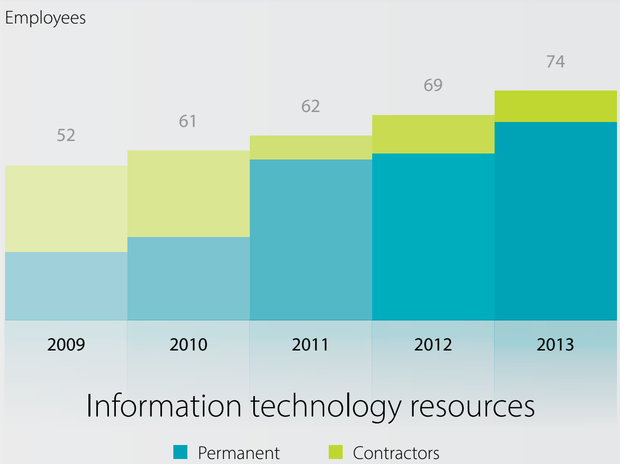
"An integrated IT platform is critical for our home shopping business and we continually invest in systems and technology to support our growth."

Objectives for 2014	Action plans and targets
• Continue implementation of integrated ERP system • Further investment in e-commerce platforms • Ensure appropriate data delivery to enable self-service analytics • Implementation of an effective DR solution for business using capacity at the new distribution centre	• Capital expenditure of R44 million committed for 2014 • Complete phase 2 of the ERP for going live in 2015 and commence phase 3 • Enhance current HomeChoice website and develop and deploy new mobi site • Build full mobi and web transactional functionality for FinChoice • Enhance business data delivery with dashboard executive reporting, data mining and analysis capability

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 and knowledge and contingency development in legacy systems until migration completed • Change Approval Board executes 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



Group capital expenditure on information technology



Information technology resources

Material issue **7**

MANAGING TALENT AND DRIVING TRANSFORMATION

Objectives in 2013	Performance in 2013

Review and promote the employer value proposition to new and existing staff	• Talent management framework was reviewed and enhanced to focus on the organisational structure
	• Implemented a human resources information system
	• Implemented Direct Hire recruitment software
	• Reduced staff attrition
	  – Call centre staff 26% (2012: 29%)
	  – Specialist staff 14% (2012: 17%)

Address scarcity of skills through training, development and career path planning	• Invested 1,54% of payroll on skills development (targeted 1,5%) • Introduced learning pathways within selected specialist areas to support defined career pathways • Established a new training function for the distribution centre • Established a dedicated FinChoice training function and developed bespoke training solutions • Reviewed specialist orientation programme
Continued focus on driving transformation and improve diversity in the business	• Improved the group's BBBEE score from level 6 to level 5 • Black representation increased from 85% to 86% • Black representation at senior management level increased from 18% to 24%, however the group currently has no black representation at top management level • Female representation increased from 66% to 68% • 1% of workforce has a disability (2012: 1%)

Challenges encountered in 2013
• The competitive labour environment and scarcity of skills remains a challenge to securing and retaining specialist skilled talent • Attrition levels in the call centres have improved from 2012 but remain high • Amendments to labour legislation necessitating revised service level agreements with labour contractors

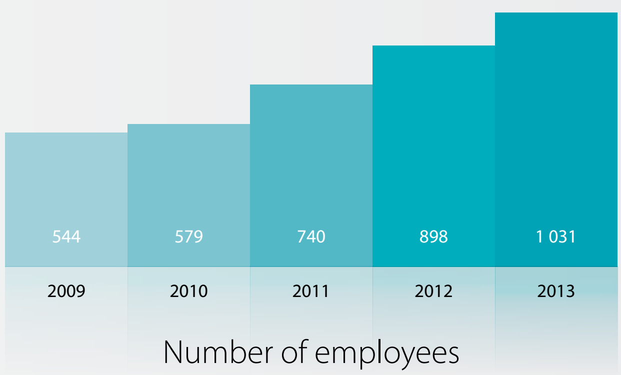
MATERIAL ISSUE 7

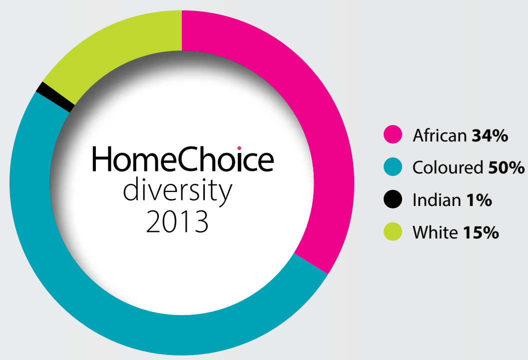
"We strive to be recognised as a good employer and believe that transformation is critical to our sustainability and success."

Objectives for 2014	Action plans and targets
• Source top specialist talent and increase retention across the business • Refine training infrastructure and continued focus on developing existing talent • Optimise HR software investment • Continued focus on driving transformation and diversity in the business	• Apply targeted recruitment and selection strategies • Revise retention strategies • Develop a senior manager training programme • Increase the number of training interventions per employee and bespoke training solutions • Review training infrastructure to ensure adequate training knowledge and skills set are available to support training objectives • Automate selected HR processes and improve HR reporting

Key risks	Risk mitigation
Competitive labour environment impacting on the ability to attract, retain and develop staff with the necessary direct marketing, retail and financial services skills	• Targeted retention strategy formalised with a focus on leadership development in the call centres, recruitment processes and coaching interventions • Defined career paths for critical roles with supporting development plans • Combined guaranteed and performance-related remuneration structure with market benchmarking to ensure competitiveness • Succession management plans implemented where possible for key employees • Defined recruitment strategies to target scarce skills • Increased development opportunities for specialist talent • Adoption of best practice HR policies and procedures
The legacy of underinvestment in skills development in South Africa impacting upon the group's transformation objectives	• Commitment to the principles of employment equity • Significant investment in training across the business • Specific CSI and Trust initiatives – refer to the Social and Ethics Committee Report on page 82

Employees





Material issue **8**

DRIVING CONSISTENT **FINANCIAL PERFORMANCE**

Objectives in 2013	Performance in 2013
Deliver competitive returns to shareholders through efficient management of revenue growth and capital	• Revenue increased 15,9% to R1,7 billion (2012: R1,4 billion) • Gross profit margin of 49,1% (2012: 51,1%) • Operating profit margin of 26,4% (2012: 28,1%) • Focus on cash generation resulted in cash conversion increasing from 37,3% to 61,8% • Substantial capital investment of R162 million • Return on equity of 26,3% (2012: 29,8%) • Dividend cover of 2,8 times • Successfully established a R500 million domestic medium-term note programme on the JSE and issued bonds of R100 million during the year
Drive efficiencies through an increased focus on cost management and reduce expenses as a % of revenue	• Group trading expenses as a % of revenue reduced to 26,2% from 27,8%

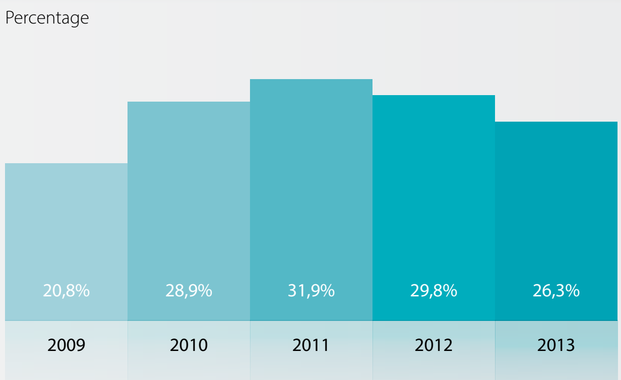
Challenges encountered in 2013
• Stricter credit-granting criteria negatively impacted revenue growth • Gross profit margin was impacted by a weaker Rand and stock clearance as a result of moving into the new distribution centre • Worsened consumer credit environment resulted in increased debtor costs and negatively impacted operating profit margins • Capacity of the finance team impacted by focus on phase 1 ERP implementation

MATERIAL ISSUE 8

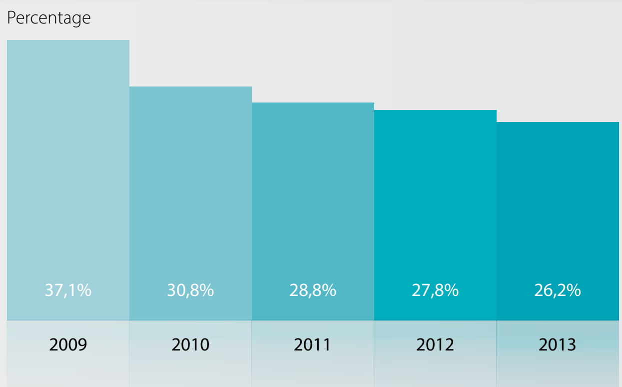
"The group's strategy is aimed at ensuring continued competitive advantage in the retail and financial services markets."

Objectives for 2014	Action plans and targets
• Efficient management of the group's capital to maximise and deliver competitive returns to shareholders • Drive efficiencies through focus on cash conversion, working capital management and ROI maximisation • Ensure sustainable cash generation to fund future growth and dividends to shareholders	• Gross profit margin of 48% to 52% • Operating profit margin of 25% to 30% • Return on equity of 27% to 32% • Dividend cover of 2,8 times • Improved payment terms with suppliers

Key risks	Risk mitigation
Inability to deliver consistent financial performance due to macroeconomic factors • Political, economic and general business conditions in southern Africa could impact consumer confidence and spending, particularly on discretionary products • Extended Rand weakness and volatility against the US Dollar could impact gross profit margins • As the credit environment stabilises, there remains a risk of increased debtor costs	• Revenue growth driven through targeted direct marketing model, supported by investment in customer acquisition • Continued strategic focus on maintaining an employed female customer base • Employee performance and incentives aligned with achieving financial targets • Proactively manage product mix and componentry to limit impact of exchange rate movements • Continued focus on cost control • Strategic investment in capital expenditure to deliver operational efficiencies and improved customer service • Careful monitoring of credit performance and tightening of policy where necessary
Inability to fund revenue growth	• Strong balance sheet with low gearing supports option of supplementing internally generated cash with debt finance



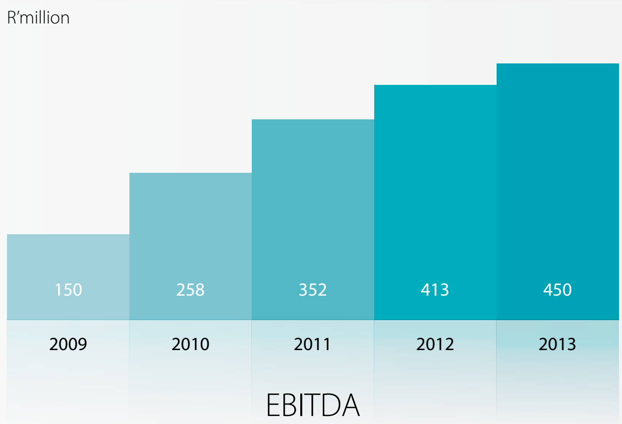
Group return on equity



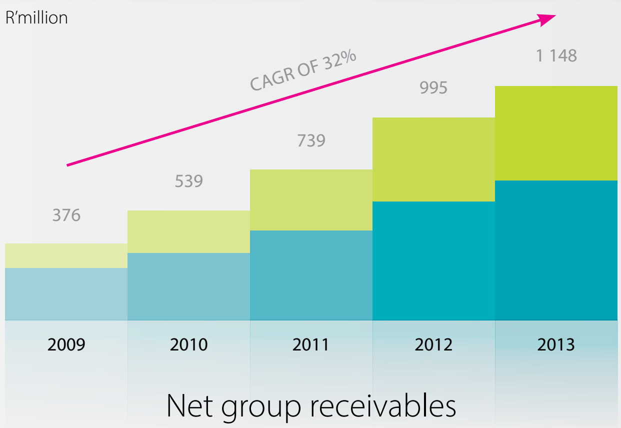
Group trading expenses as a % of revenue

FIVE-YEAR REVIEW

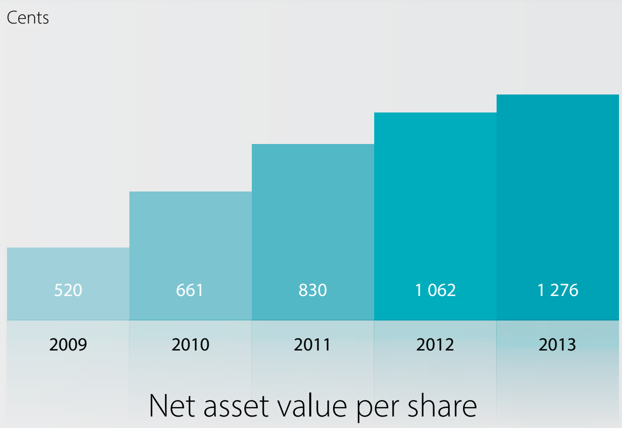
		2013 R'000	2012 R'000	2011 R'000	2010 R'000	2009 R'000
COMPREHENSIVE INCOME						
Revenue		**1 661 952**	1 434 359	1 121 060	869 442	651 152
Retail sales		**929 730**	841 480	670 466	527 454	387 335
Finance charges and initiation fees earned		**619 848**	498 121	390 431	295 047	225 388
Fees from ancillary services		**112 374**	94 758	59 769	43 881	33 745
Dividends received		**–**	–	394	3 060	4 684
Cost of retail sales		**(472 771)**	(411 403)	(312 548)	(226 080)	(182 089)
Other operating costs		**(751 202)**	(625 889)	(471 044)	(377 386)	(328 631)
Debtor costs		**(316 463)**	(227 769)	(148 087)	(109 681)	(87 237)
Other trading expenses		**(434 739)**	(398 120)	(322 957)	(267 705)	(241 394)
Other net gains and losses		**(2 319)**	759	2 028	(19 330)	(1 011)
Other income		**2 661**	5 036	2 095	3 049	2 076
Operating profit		**438 321**	402 862	341 591	249 695	141 497
Interest received		**2 070**	2 624	2 975	3 530	4 484
Interest paid		**(7 554)**	(6 236)	(6 156)	(6 865)	(9 031)
Share of loss of associates		**(1 818)**	(2 097)	(366)	(1 449)	(523)
Profit before taxation		**431 019**	397 153	338 044	244 911	136 427
Taxation		**(121 696)**	(112 656)	(98 048)	(72 577)	(36 513)
Profit for the year		**309 323**	284 497	239 996	172 334	99 914
PERFORMANCE						
Growth in revenue	(%)	**15,9**	27,9	28,9	33,5	16,9
Retail gross profit margin	(%)	**49,1**	51,1	53,4	57,1	53,0
Operating profit margin	(%)	**26,4**	28,1	30,5	28,7	21,7
EBITDA	(R'000)	**450 174**	412 565	352 485	257 705	150 121
Growth in EBITDA	(%)	**9,1**	17,0	36,8	71,7	133,1
EBITDA margin	(%)	**26,4**	28,1	30,5	28,7	21,7
Basic earnings per share	(cents)	**306,9**	282,1	237,4	176,2	101,9
Headline earnings per share	(cents)	**306,9**	282,1	234,8	191,0	102,1



	2013 R'000	2012 R'000	2011 R'000	2010 R'000	2009 R'000
FINANCIAL POSITION					
Non-current assets					
Property, plant and equipment	**292 785**	165 438	136 961	119 865	168 710
Intangible assets	**61 237**	40 678	20 913	8 901	7 152
Other non-current assets	**31 031**	26 737	26 219	22 125	13 811
	385 053	232 853	184 093	150 891	189 673
Current assets					
Trade and other receivables	**1 169 921**	1 020 777	749 713	543 739	380 051
Trade receivables – Retail	**686 375**	583 528	442 277	331 750	256 819
Loans receivable – Financial Services	**462 080**	411 646	296 580	206 873	119 563
Other receivables	**21 466**	25 603	10 856	5 116	3 669
Inventories	**144 964**	110 241	92 149	69 846	37 786
Cash and cash equivalents and available-for-sale investments	**67 981**	10 192	46 069	87 075	101 083
Other current assets	**77**	11	1 175	1 075	1 878
Total assets	**1 767 996**	1 374 074	1 073 199	852 626	710 471
Total equity	**1 285 724**	1 070 322	837 335	669 216	522 527
Non-current liabilities					
Interest-bearing liabilities	**188 208**	90 977	74 895	51 340	85 293
Other non-current liabilities	**71 525**	63 577	48 609	38 621	28 474
	259 733	154 554	123 504	89 961	113 767
Current liabilities					
Interest-bearing liabilities	**21 148**	9 178	7 433	6 279	7 458
Bank overdraft	**48 886**	2 518	–	6 606	–
Other non-current liabilities	**152 505**	137 502	104 927	80 564	66 719
	222 539	149 198	112 360	93 449	74 177
Total equity and liabilities	**1 767 996**	1 374 074	1 073 199	852 626	710 471
PERFORMANCE					
Growth in trade receivables – Retail (%)	**17,6**	31,9	33,3	29,2	20,3
Growth in loans receivable – Financial Services (%)	**12,3**	38,8	43,4	73,0	107,1
Inventory turn (times)	**3,7**	4,1	3,9	4,2	4,4
Return on equity (%)	**26,3**	29,8	31,9	28,9	20,8
Debt:equity ratio (:1)	**0,2**	0,1	0,1	0,1	0,2
Net asset value (cents per share)	**1 275,8**	1 062,0	829,9	661,3	520,0
Growth in net asset value (%)	**20,1**	28,0	25,5	27,2	18,5

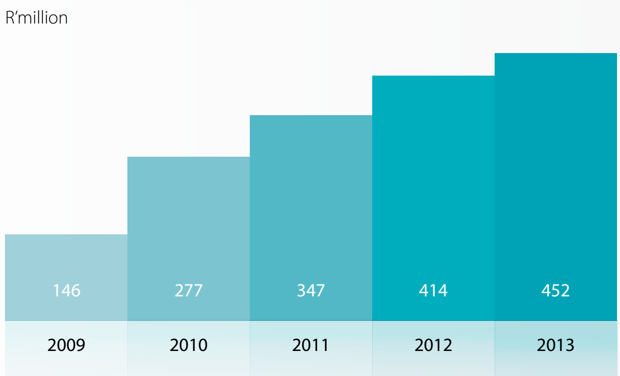


Net group receivables

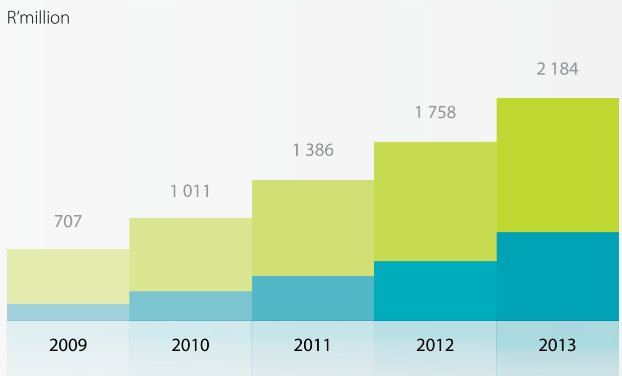


Net asset value per share

		2013 R'000	2012 R'000	2011 R'000	2010 R'000	2009 R'000
CASH FLOWS						
Operating cash flows before working capital changes		**451 910**	413 710	346 761	277 349	145 882
Movements in working capital		**(173 900)**	(259 992)	(203 253)	(175 421)	(76 549)
Cash generated by operations		**278 010**	153 718	143 508	101 928	69 333
Cash flows from other operating activities		**(214 206)**	(147 503)	(94 434)	(65 772)	(44 892)
Net cash inflow from operating activities		**63 804**	6 215	49 074	36 156	24 441
Purchase of property, plant and equipment		**(134 700)**	(35 464)	(24 403)	(5 642)	(12 531)
Purchase of intangible assets		**(26 883)**	(24 612)	(16 466)	(3 920)	(5 988)
Cash flows from other investing activities		**(279)**	(762)	42 440	4 447	1 001
Net cash (outflow)/inflow from investing activities		**(161 862)**	(60 838)	1 571	(5 115)	(17 518)
Net cash inflow/(outflow) from financing activities		**109 479**	16 228	(43 600)	(47 908)	55 343
Net increase/(decrease) in cash, cash equivalents and bank overdrafts		**11 421**	(38 395)	7 045	(16 867)	62 266
PERFORMANCE						
Growth in cash generated by operations	(%)	**80,9**	7,1	40,8	47,0	110,4
Cash conversion	(%)	**61,8**	37,3	40,7	39,6	46,2
DISTRIBUTIONS TO SHAREHOLDERS						
Total distributions	(cents per share)	**110**	50	85	50	31
Interim		**44**	–	35	20	11
Final		**66**	50	50	30	20
Total distributions	(cents per share)	**110**	50	85	50	31
Dividend		**110**	50	50	–	14
Reduction in share premium		**–**	–	35	50	17
SHAREHOLDING						
Number of shares in issue	('000)	**103 869**	103 869	103 869	103 869	103 869
Weighted shares in issue, net of treasury	('000)	**100 779**	100 860	101 083	100 896	100 556



Group cash generated before working capital changes



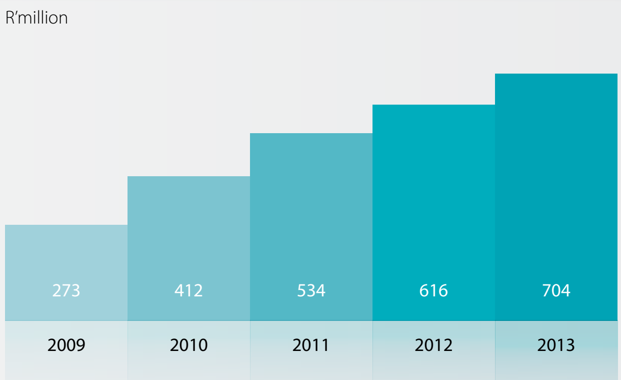
Cash collected from customers

Naedo and debit orders

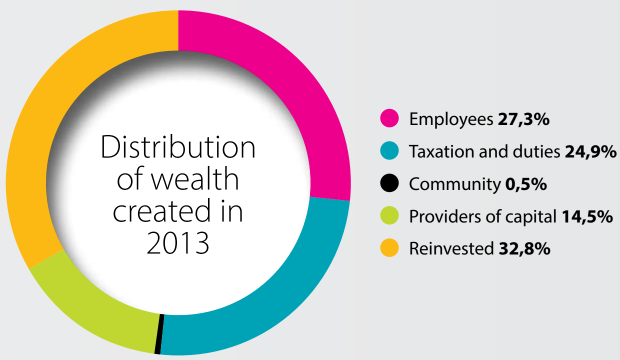
WEALTH CREATION

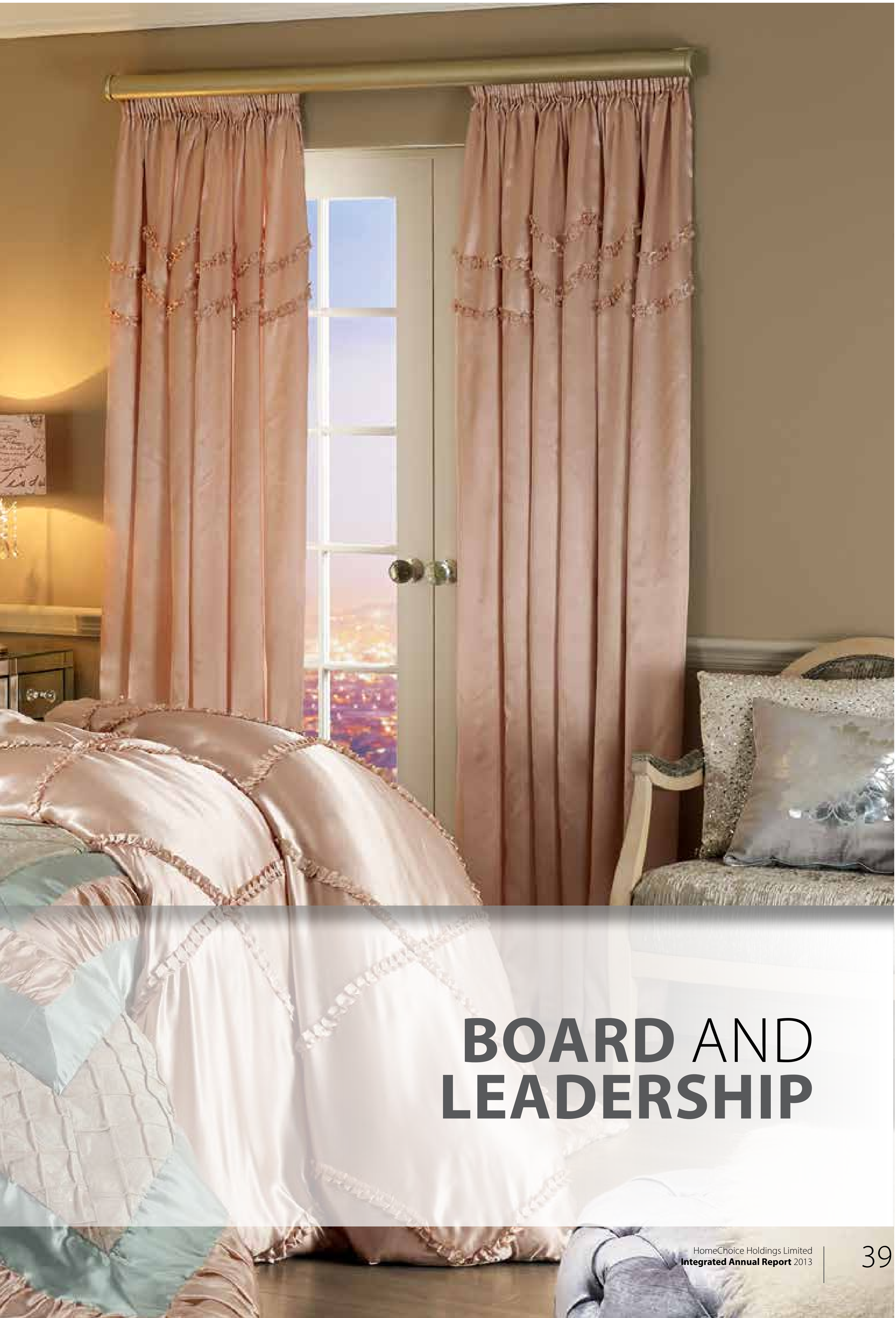
	2013		2012	
	R'000	%	R'000	%
Revenue	**1 661 952**		1 434 359	
Interest received	**2 070**		2 624	
Other net gains and losses	**(2 319)**		759	
Other income	**2 661**		5 036	
Paid to suppliers for goods and services	**(959 628)**		(826 416)	
Wealth created	**704 736**	**100,0**	616 362	100,0
Distribution of wealth:				
Employees				
Remuneration to employees	**192 435**	**27,3**	180 003	29,2
Taxation and duties				
South African normal taxation	**118 705**	**16,9**	98 046	15,9
Customs duty	**56 660**	**8,0**	46 951	7,6
Community				
The HomeChoice Development Trust	**3 150**	**0,5**	3 000	0,5
Other donations and bursaries	**247**	**0,0**	439	0,1
Providers of capital				
To lenders as finance charges	**7 554**	**1,1**	6 236	1,0
To shareholders as dividends paid	**94 733**	**13,4**	50 450	8,2
Reinvested				
Reinvested in the group to finance future growth	**231 252**	**32,8**	231 237	37,5
Depreciation and amortisation	**13 671**		11 800	
Deferred taxation	**2 991**		(14 610)	
Dividends paid	**(94 733)**		(50 450)	
Retained income	**309 323**		284 497	
	704 736	**100,0**	616 362	100,0

Total taxation and duties, including value-added tax and employees' tax channelled through the group amounted to R298,6 million (2012: R222,0 million).



Wealth created by the group





BOARD AND **LEADERSHIP**

BOARD OF DIRECTORS

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

Rick Garratt (67)

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 (42)

BCom, CPE, LPC, appointed 2004

Chief executive officer

Shirley joined the group in 2001, overseeing the credit and operations division, as well as all marketing activities. She was appointed chief executive officer of HomeChoice Retail in 2006 and to her current position in 2013.

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

John Bester (67)

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. He has 32 years of experience in commerce and industry which 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 Clicks Group, Ascendis Health, Tower Property Fund, Sovereign Foods, Business Connexion, Personal Trust International, The Children's Hospital Trust and Western Province Rugby. He chairs a number of audit committees and sits on the remuneration committees of these companies.

Amanda Chorn (55)

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 (48)

BCom, CA(SA), appointed 2009

Independent 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 co-head of the Global Markets division.

Willem Jungschläger (57)

BA (Hons), PhD, appointed 2009

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 24 years he has consulted to and provided specialist training to 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 (45)

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.

OPERATING BOARD

(From left to right) **Paul Burnett** (38) – Finance director | **Sean Wibberley** (43) – FinChoice CEO
Leanne Buckham (47) – Retail CEO | **Anthea Abrahams** (43) – Marketing Director
Annalize Kirsten (45) – Group CFO and Retail COO | **Rick Garratt** (67) – Chairman
Mike Roux (53) – Credit Risk Director | **Cathy MacKenzie** (45) – Merchandise Director
Guy Wills (39) – Logistics Director | **Shirley Maltz** (42) – Group CEO
Elmori Bester (39) – Human Resources Director | **Louis Pretorius** (48) – ICT Director

REPORTS TO **SHAREHOLDERS**

LETTER
TO SHAREHOLDERS

RICK GARRATT

Dear Fellow Shareholders

As a credit-based home shopping retailer and niche loans provider, our group has encountered one of the most intense periods of consumer and credit stress in several years.

Trading conditions have continued to be impacted by the weakening and volatile currency, unemployment affecting the mass middle market in which we trade, fragile consumer sentiment, increasing cost pressures, civil disruptions and strike action, and an air of uncertainty ahead of the country's fifth democratic elections. This is not only making our country less competitive and less attractive to foreign investment. It is having a marked impact on our trading environment.

Despite historically low interest rates, high levels of indebtedness, record numbers of consumers with impaired credit records and shrinking levels of disposable income have combined to create a credit environment even more challenging than our country experienced during the global economic and credit crisis of 2008/2009.

Our response in this environment was to adjust our marketing and credit strategies to adopt a defensive position which focuses on generating cash and maintaining the quality of the group's debtors' books, while at the same time investing in future growth.

In the deteriorating credit environment the flexibility and resilience of our business model again came to the fore. We reacted decisively early in the year by tightening our credit policy and significantly reducing credit extension across our retail and financial services businesses. This increased our customer exclusions from marketing campaigns by 20%, which inevitably impacted our revenue growth.

While our growth rates have understandably slowed from their levels in recent years, the group delivered a competitive performance in 2013 and grew revenue by 15,9%, EBITDA by 9,1% and headline earnings by 8,8%. These results were achieved despite debtor costs increasing from R228 million to R316 million, an increase of 38,9%.

We ended the year with a strengthened balance sheet, with our net asset value having grown by 20,1% year on year to R1 286 million and a net debt:equity ratio of 14,8%. Our defensive stance contributed to our cash generated from operations growing from R154 million to R278 million, an increase of 80,9%.

> "In the deteriorating credit environment the flexibility and resilience of our business model again came to the fore."

We believe this cautious approach has ensured the sustained health of our debtors' book, our largest asset, at R1,1 billion. Early vintages for 2014 show that the health of the book is stable with signs of improvement.

We have invested R150 million in the building of a world-class warehouse and distribution centre, which was completed shortly before year-end, as well as the continuing development of an ERP systems platform to ensure our technology-driven business remains at the leading edge in future years.

The group successfully entered the domestic bond market and issued the first tranche of R100 million of a R500 million medium-term note programme to fund and to accelerate our growth strategy over the next few years. The group was assigned a BBB+ credit rating ahead of the bond issue.

Our board has shown its confidence in the group's future by declaring a final dividend of 66 cents per share. The total dividend for the year is 110 cents per share, an increase of 120,0% on the 2012 dividend, at a cover ratio of 2,8 times.

We have a focused organic growth strategy with exciting plans to expand our omni-channel offering in retail, further drive online sales through the Internet and capitalise on the potential to take our business deeper into Africa.

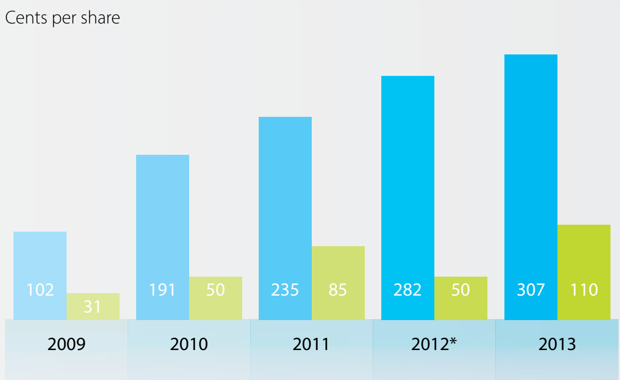
All these factors allow us to look forward to the new year with renewed confidence, although we expect little change in trading conditions and will continue a defensive strategy focused on the quality of the debtors' book and cash generation.

We have a strong and stable leadership, and I thank the management team so ably led by Shirley Maltz in her first year in her new role as Group CEO, Leanne Buckham, the HomeChoice CEO who joined us early in 2013, and Sean Wibberley, the CEO of FinChoice.

Thank you to all our stakeholders for your ongoing support and I extend my appreciation to my fellow directors for your active participation in the group. I also extend my thanks to our staff of over 1 000 people who continually strive to exceed the expectations of our stakeholders and all our suppliers both locally and overseas.

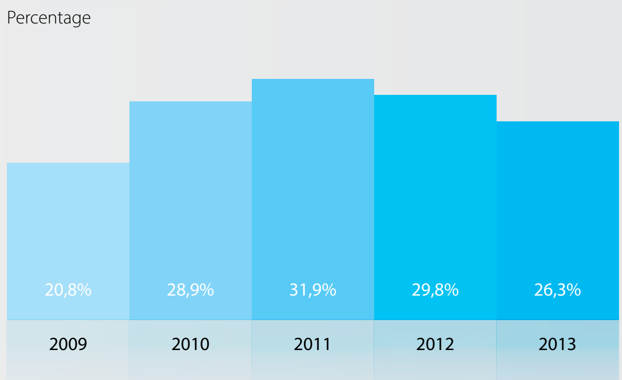
Sincerely

Rick Garratt
Chairman



Shareholder returns

*No interim dividend declared



Group return on equity

GROUP CHIEF EXECUTIVE OFFICER'S REPORT

SHIRLEY MALTZ

Defensive strategy with focus on cash generation

Our customers are the emerging mass market urban female population in the LSM 4 to 8 categories. While she continues to benefit from real wage increases, government grants and the low interest rate environment, she is under increasing pressure from rising food, transport and utility costs, and the negative credit cycle. This has contributed to consumer sentiment falling to its lowest levels since the global economic and credit crisis in 2008/2009, with confidence among lower-income earners being particularly impacted.

The Rand has lost significant ground against the US Dollar, our primary trading currency. This is placing pressure on input costs in general as well as our merchandise imports, and will continue to impact consumers while the currency remains weak and volatile.

In response to the turbulent credit conditions, the group adopted a defensive stance in 2013 and focused on generating cash and maintaining the quality of the debtors' books. This required a significant tightening of credit policy across the group in the first quarter of 2013 and a downscaling of revenue expectations. Our approach proved successful and the group achieved record levels of profitability and cash.

Despite the difficult climate we have continued to make significant investments in capital projects to support future growth. We further strengthened the balance sheet by raising a bond of R100 million through the debt capital markets which will support our growth strategy.

Solid results in constrained environment

The group produced a pleasing performance in the deteriorating trading and credit environment, driven by an intense focus on the execution of strategy in both HomeChoice and FinChoice. Highlights for the period included the following:

Growth: 2013 vs 2012	**Group (%)**	**Retail (%)**	**FinChoice (%)**
Revenue	**15,9**	**14,2**	**23,8**
Operating profit	**8,8**	**5,7**	**17,0**
Cash from operating activities	**80,9**	**23,9**	**621,0**

The group also performed well relative to its medium-term financial and operating target ranges:

- Gross profit margin 49,1% — Target 48% to 52%
- Operating profit margin 26,4% — Target 25% to 30%
- Return on equity 26,3% — Target 27% to 32%

"We adopted a defensive stance in 2013 and focused on generating cash and maintaining the quality of the debtors' books."

- Distribution cover 2,8 — Target 2,2 to 2,8 times
- Growth in customer base 9,3% — Target 10% to 12%

Management believes these targets remain relevant and are unchanged for the 2014 financial year.

Reviewing the operational performance, retail sales increased by 10,5%, with price inflation averaging approximately 9% for the year and volumes growing by 2%. Stock levels increased due to the prior year's closing stock being lower than normal, additional stock being brought in earlier in advance of the move to the new warehouse, as well as a strategic increase in bedding stock levels to improve availability to customers. The health of stock remains good at 88,7%. The retail division attracted 154 000 new customers to the group, whilst FinChoice granted 29 000 loans to new customers, resulting in a 9,3% growth in the group's customer base.

Credit extended through digital channels increased from 18,4% to 19,6% by driving both online shopping in retail and increasing loans granted to customers on digital platforms in FinChoice. The new HomeChoice website was launched in April 2013, although growth has been slower than expected. Mobi demand has continued to grow at a higher rate than other channels owing to the increasing number of consumers with smartphones. FinChoice has extended its digital strategy by enhancing the service and product offering on the self-service platform, KwikServe, and a new mobi site was launched targeted at their new customers.

The business has continued to invest for growth despite the prevailing headwinds. The retail business developed and built a new distribution centre at a cost of R150 million. The project was successfully completed on budget and on time, and the new facility was commissioned in December 2013. The first phase of the enterprise resource planning (ERP) project was implemented during the year.

Africa is becoming increasingly attractive for the retail business and we are seeing good demand outside South Africa and stable credit performance from these customers. Currently only HomeChoice operates outside of South Africa, with foreign sales representing 9,5% of total retail sales. FinChoice plans to investigate granting loans to HomeChoice customers outside South Africa in 2014, while the retail business will be expanding its retail footprint.

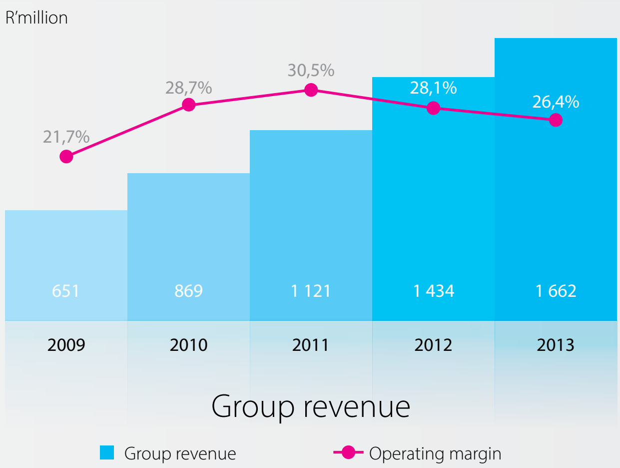
Increasingly conservative credit approach

The credit market has remained under pressure with consumers showing increasing signs of indebtedness and credit fatigue over the last 18 months, with a consequent reduction in credit extension across the industry. As outlined above, the group adopted an increasingly defensive stance during the course of the year.

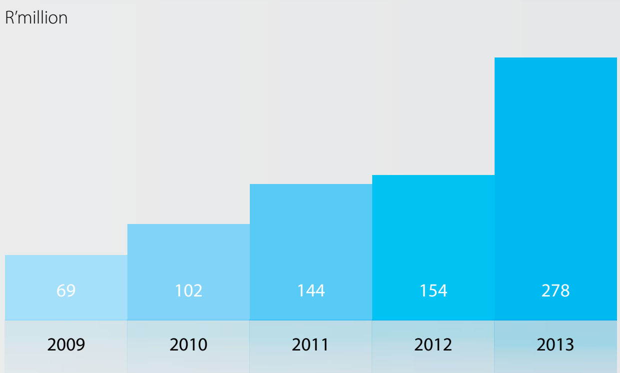
Against this background, the group increased net trade receivables by 15,4% to R1 148,5 million. Debtor costs as a percentage of revenue increased to 19,0% (2012: 15,9%) and the provision for impairment as a percentage of gross receivables increased to 16,2% (2012: 15,7%).

HomeChoice experienced weakening performance in the fourth quarter of 2012 and as a result began tightening credit policy in the first quarter of 2013. FinChoice introduced tighter credit criteria in the second quarter of the year. Management responded decisively by implementing a number of credit-related changes:

- reviewed and updated behavioural scorecards and reduced acceptance rates across the group;
- reviewed affordability processes across the group;
- increased frequency of reference to credit bureau data for existing customers;
- redeveloped new and behavioural scorecards in FinChoice and FoneChoice;



Group revenue



Group cash generated by operations

- reduced term and average value of loans in FinChoice;
- increased focus on collections across the group;
- reviewed debt review process across the group; and
- amalgamation of recovery strategy managed at group level.

This corrective action has seen the debtors' books stabilising and the credit-performance metrics starting to improve following the credit cutbacks. We believe the action taken in addressing the credit policy and processes in the group are adequate and do not currently anticipate further changes in credit policy in the near future despite the continuing uncertainty in the credit environment.

Compelling competitive advantages

Our businesses are competitively advantaged in both the retail and financial services markets. In the Group Overview on page 16 we outline factors which we believe will sustain our growth and ensure we maintain our competitive position, and I summarise these in three key themes:

- *Demographic shifts towards middle-income mass market*
  HomeChoice has operated in the mass market for almost 30 years and the brand is recognised for quality and innovative homeware products. We have developed a deep knowledge of our customer base, have excellent data and the ability to leverage this data to match the right customer to the right offer. Although our customer is undoubtedly under pressure from higher indebtedness and rising costs, the longer-term outlook for the mass middle market is positive. There has been substantial growth in the middle market over the past decade and we believe this demographic shift will continue, despite the current economic slowdown.

- *Home shopping and the digital wave*
  HomeChoice has been the leading home shopping retailer in the country for many years. In this time we have developed significant knowledge of omni-channel marketing, home delivery into the mass market, product returns and how to manage customer relationships over a distance. This gives us a strong base from which to launch our digital strategy across both the Internet and mobi sites, as Internet shopping is just another channel through which we interact with the customer. We are able to leverage our operational excellence within the home shopping arena and apply direct marketing skills in the Internet channel. We believe we are well placed to capitalise on the growth of mobi and Internet shopping in the future.

- *Defensive business model*
  As a direct marketer we essentially control which customers come into our "shop" by deciding whether or not to send a catalogue or a digital offer to the customer on a monthly basis. This gives us the opportunity to increase or decrease the number of catalogues and marketing offers if risk concerns arise. This was a feature of the 2013 credit cycle where we tightened our risk strategy in both businesses, reduced revenue targets to stabilise the books, shortened credit terms and focused on cash collection. This highlights the defensive and flexible qualities of our business model compared to a traditional store-based retailer. Credit is applied at a group level, with all performance, credit limits, scorecards and exposure being managed through a highly experienced central credit team. Whilst store-based retailers are constrained by long-term property leases and dependent on new retail space to extend their footprint, we can increase and decrease scale speedily and cost effectively.

Regulatory environment

2013 saw a heightened focus on regulation in the credit industry and with increasing indebtedness levels in the country we expect this pressure to be sustained. The National Credit Regulator (NCR), tasked with ensuring lenders follow responsible credit practices, issued proposals on affordability guidelines with the intention of limiting over-indebtedness without stifling credit extension unnecessarily and damaging the economy.

We have engaged with the regulator through the Large Non-Bank Lender Association to attempt to ensure that the regulations are appropriate for the home shopping industry and take into account the nature of the distance relationship. Although the guidelines have not been finalised, we have reviewed affordability processes across the group to attempt to ensure our readiness for potential changes.

The Protection of Personal Information Act was passed by parliament in late 2013. We are awaiting the appointment of the regulator as well as guidelines and a code of conduct. A review of all marketing, customer and information systems processes has been undertaken and we are implementing the requirements as appropriate. We do not anticipate this legislation having a significant impact on the group, but will need to amend certain of the digital acquisition campaigns to ensure compliance.

Investing in our people and community

HomeChoice strives to be recognised as a good employer and we acknowledge the support and dedication of our 1 031 employees in our successes in the past year.

Our commitment to reducing staff turnover resulted in the attrition of specialist staff improving to 14% (2012: 17%) and operational attrition improving to 26% (2012: 29%). Group attrition has been maintained at 22% and we appreciate the hard work that lies ahead to achieve our long-term target of 20%.

The development of team and individual skills is critical to the implementation of our strategy. We invested R2,3 million in skills development in 2013 and met our target of 1,5% of group payroll. The specialist orientation programme was reviewed and learning pathways introduced, whilst a dedicated FinChoice training function was established.

HomeChoice believes that transformation is critical to success and sustainability in the South African context. Our independently verified BBBEE score improved to level 5 from a level 6 in 2012. However, with the proposed changes to the BBBEE codes we do not anticipate maintaining this level into the future. Employment equity remains an ongoing focus with black staff accounting for 86% of all employees (2012: 85%). Black representation at senior management level increased from 18% to 24% during the year.

As a committed corporate citizen, the group invested a further R3,2 million in the HomeChoice Development Trust in 2013, bringing the total donations to the trust to R14,2 million since its formation in 2005. Over the past three years the trust has supported 90 educare centres in the Western Cape, facilitated the training of 270 teachers and provided development opportunities for over 5 000 children under the age of six. HomeChoice staff also actively participate at the centres supported by the trust.

Strategic focus areas for 2014

Our group strategy, together with the strategic objectives for HomeChoice and FinChoice, is outlined on page 8 and the focus areas for the year ahead are as follows:

- **Organic growth:** We will continue to focus on organic growth of both retail and financial services through product innovation and range extension. In the retail business we will enhance our customer offering by optimising the supply chain and making continual improvements in her shopping experience as we continue to develop our omni-channel strategy. The retail team has started testing its first bricks and mortar stores and this strategy will continue to be tested in 2014.
- **Group customer base:** The retail business will remain the primary driver of names for the group, using its well-recognised brand and reputation to attract new customers. FinChoice plans to conduct tests to limited volumes of external, non-HomeChoice customers in 2014.
- **Credit risk and customer analytics expertise:** The group has a strong focus on credit through retail and financial services. It is imperative that we continue to hold a group view on the customer, managing performance and exposure risk. We will continue to keep tight management on portfolio risk through acceptance rates as we believe the consumer will remain under pressure for 2014. We will continue to focus on collections internally and through our outsourced partners.
- **Drive online sales:** Sales through digital channels is a critical focus for the group aimed at strengthening the customers' omni-channel experience. New Internet and mobi sites will continue to be developed together with upgrades to existing sites.
- **Further expansion into new markets and Africa:** The retail business has experienced good growth outside South Africa and will continue to leverage this growth by expanding its customer base and extending its presence beyond the five countries in which it currently does business. Financial services will be investigating this market for the first time.

The material issues outlined on pages 18 to 33 provide detail on our plans and objectives for 2014, together with the associated risks and actions to mitigate against these risks.

Prospects

Economic conditions are expected to remain challenging in the coming year. We believe our credit strategy is appropriate within this environment and we will maintain our current practices. Inflation arising from the currency devaluation will continue, with increasing food and transport costs affecting our customers and Rand weakness placing pressure on our product margins. In brief, our customers will remain under pressure and we therefore plan another year of controlled revenue growth across the group. However, we will continue to invest in systems, processes and people to support our organic growth strategy.

Thanks and appreciation

My thanks to our Chairman, Rick Garratt: Your ongoing guidance is instrumental to the development of the group. My thanks to each of my colleagues on the operating boards: This year has been challenging and, thanks to your leadership, we have again weathered the storm while retaining our sanity.

Leanne Buckham, our retail CEO: We are all delighted with how well you have settled into the team and I appreciate your input and look forward to the years ahead. Equally to Sean Wibberley, CEO of FinChoice: Thank you for sharing your knowledge on unsecured credit, I have learnt an enormous amount under your tutelage.

To all our staff across the business, thanks for all the hard work and dedication this year.

Finally, to all of our customers and our local and international suppliers, thank you for your continued support.

Shirley Maltz
Group chief executive officer

RETAIL CHIEF EXECUTIVE OFFICER'S REPORT

LEANNE BUCKHAM

Introduction

The retail landscape in South Africa over the past year has been dominated by the deteriorating financial health of consumers as the impact of the weakening Rand on prices and mounting cost pressures have reduced discretionary income and, consequently, retail spend. This has been compounded by increasing levels of indebtedness, higher debt-servicing costs and declining access to credit.

As outlined in the Group CEO's Report, we adopted a defensive position and tightened credit policy. This limited existing and potential customers' access to credit, and this had a negative impact on customer demand and, therefore, revenue.

Our target market profile of female customers in the urban mass middle market, or LSM 4 to 8 groups, has been impacted by the downturn but continues to benefit from real wage increases, government grants and more people entering formal employment. This segment of the market has grown strongly over the past decade as customers benefit from rising living standards and higher income. We remain firmly committed to this market and have focused on improving her shopping experience by providing value, quality and exclusive own-brand products to decorate her home.

Solid financial performance

HomeChoice delivered a good performance in a challenging consumer and credit environment. Our merchandise offer was well received, attracting 154 000 new customers to the group, and the retail customer base increased by 8,5% to 538 000 (2012: 496 000).

Revenue increased by 14,2% to R1 344,8 million, with retail sales growing 10,5% to R929,7 million (2012: R841,5 million). This growth was driven mainly by the success of the bedding range, the expansion of the furniture range, electronics sales in FoneChoice and better product availability through ongoing improvements in the supply chain. Product price inflation averaged 9% for the year and we experienced volume growth of 2%.

The gross profit margin was well managed and the decline was contained to 200 basis points to 49,1%. The margin was severely impacted by the Rand depreciating by 22% against the US Dollar from R8,50 in January to R10,37 at December 2013. The impact of the currency on the margin was limited by reconfiguring the merchandise offer and repricing products. Management took a conscious decision not to pass the full price impact on but rather to retain customers and grow volumes.

Margin was also impacted by stock clearance ahead of the move to the new warehouse and a mix change owing to increased sales of lower-margin merchandise categories.

> "Our merchandise range was extended to give our customers more choice, with a 31% increase in product newness."

Debtor costs as a percentage of revenue increased to 15,8% (2012: 12,7%) owing to increased bad debt write-offs and the higher provision held for future bad debts. This result was not unexpected given the credit turbulence and the market deterioration which started in late 2012.

Continued focus on cost management contained growth in other trading expenses to 7,0%. These costs reduced as a percentage of revenue from 30,4% to 28,5%, demonstrating the flexibility of our business model.

Operating profit increased by 5,7% to R277,9 million, with the headwinds from the lower gross margin and higher debtor costs resulting in the operating margin declining slightly from 22,3% to 20,7%.

As part of the group's defensive strategy in the current market conditions, the retail business focused strongly on cash generation through efficient collections and payments processes. Working capital was well managed and cash generated by operations was up 23,9% to R160,7 million.

Managing the risk of buying

Core to the merchandise strategy is offering our customer a compelling range of innovative, quality merchandise which provides a complete décor solution for her home. HomeChoice offers own-brand products from fashion-oriented categories of bedding and textiles, to homewares, appliances, electronics and furniture.

In the past year the HomeChoice merchandise range was extended from 722 to 749 lines to give her more choice, with a 31% increase in product newness, the highest level ever achieved. The FoneChoice range was extended with the successful launch of tablets and bundling of products. In response to the tough environment we improved our pricing architecture with "good, better, best" price tiering.

As a home shopping retailer, the monthly catalogue mailed to customers is our retail shop window. The catalogue has been revamped to improve visual appeal and expanded to showcase a wider range of products, with the biggest ever catalogue produced in November 2013.

Owing to the heightened focus on working capital, significant emphasis was placed on optimising stock management. Inventory levels at year-end were 31,5% higher at R145,0 million. This increase was due to stock levels at the end of 2012 being lower than normal, additional stock being brought in early to ensure adequate cover during the move to the new warehouse and a strategic decision to increase bedding stock to improve customer availability. The inventory turn declined to 3,7 times (2012: 4,1 times), however, the health of the stock on hand at year-end was up from 85,2% to 88,7%.

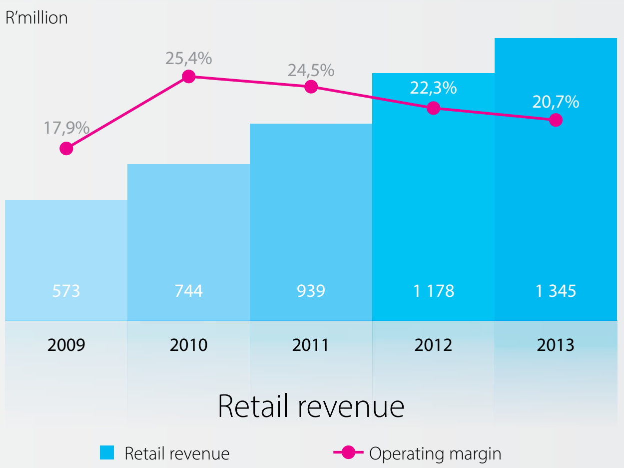
Optimising supply chain efficiency

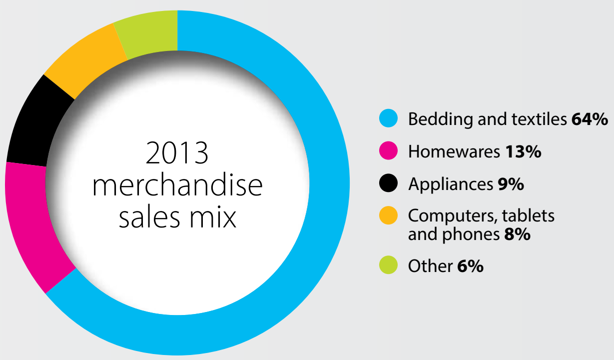
Improvements in the supply chain, particularly in faster shipping times and reduced manufacturing lead times, have ensured better product availability during the year.

Strong growth in customer demand in recent years created capacity constraints in the warehouse facilities, resulting in the need to expand distribution and warehouse capacity. A new centralised distribution facility was completed in Cape Town in late 2013 which will increase total storage capacity from 80 000 m^3 to approximately 200 000 m^3. The facility was completed on time and within budget, and was commissioned in December 2013 with despatching from the warehouse commencing ahead of plan early in January 2014.

These new facilities are expected to meet the group's distribution needs for the foreseeable future. In 2014 the focus will be on extracting efficiencies and cost savings from this investment.

Delivery time to customers improved from 5,5 to 5,0 days in 2013 by expanding the courier capability and optimising routing. HomeChoice operates its own home delivery service using owner-drivers and 55% of South African deliveries are direct to





customers' homes. The balance of deliveries is done through the SA Post Office (SAPO). Deliveries were impacted by industrial action at the SAPO in the early part of the year which had an adverse impact on our business. Contingency plans have been developed to mitigate the impact of strikes but the business remains vulnerable to further industrial action by postal workers.

Growing our customer base

Customer growth rates were consciously curtailed by tightening credit policy to ensure that existing customers did not take on more debt than they could afford. These more stringent credit criteria increased customer exclusions from marketing campaigns by 20%.

HomeChoice attracted 154 000 (2012: 156 000) new customers in South Africa and our neighbouring African countries. The acquisition cost per new customer name increased from R591 in 2012 to R822 in 2013 owing to the lower acceptance rates of credit customers due to tightened credit criteria and the continued shift in acquisition channel mix. Sales per new customer, however, showed a pleasing increase of 10% from R1 388 in 2012 to R1 527 in 2013.

Existing customers are more responsive to product offers and are therefore more cost effective from a marketing perspective. Marketing activity shifted to focus on mining the existing customer base with proven credit history. Through targeted monthly promotions to existing customers to encourage repurchase, HomeChoice achieved good response rates in the active customer segment and even better reactivation results, growing overall sales per existing customers from R1 393 to R1 434. Our customer repurchase rate was maintained at 64%.

A customer segmentation programme using RFM models has been initiated which will enhance our ability to market to our customer base in future.

Managing the risk of credit

While credit is the key enabler of sales among our customer segment, the group took a deliberate decision to tighten credit policy and reduce risk as the environment deteriorated. There has been significant management focus on credit risk, including revision of behavioural scorecards, increased customer exclusions, reduced acceptance rates combined with proactive management of collections. New customer acceptance rates declined from 54,8% in 2012 to 49,5% in 2013.

This was a bold move from a retail sales perspective as it reduced our customers' ability to trade with us, which has negatively impacted demand and resulted in slower sales growth. However, we believe this was the right approach to control credit risk and manage bad debts. These actions did not make HomeChoice immune from the impact of the tough credit environment and bad debt levels have increased. Debtor costs as a percentage of revenue increased from 12,7% in 2012 to 15,8% in 2013.

The impact of the tightened credit policy is showing pleasing signs of early vintages returning to acceptable levels. However, in line with our conservative provisioning policy, provisions have been increased to 18,8% (2012: 18,5%) as the credit environment is expected to remain challenging in 2014.

As part of the focus on cash management, collections efforts were intensified and this proved successful, evidenced by HomeChoice's strong cash position at year-end. There was also a greater focus on the increased use of Naedo debit order collections.

Please refer to the Managing the Risk of Credit Report on page 66 for a detailed overview of credit performance.

Enhancing our customer experience

As a home shopping retailer, our relationship with our customers is conducted over a distance, with no direct face-to-face contact and our customers are not able to touch and feel product. This is the essential difference between our business model and that of a traditional store-based retailer. The business is therefore constantly striving to improve our customer experience through investment in people, processes and systems.

HomeChoice has over 400 agents in outbound and inbound call centres which accounted for 82,6% (2012: 77,8%) of retail sales. HomeChoice makes a substantial investment in the training of agents, with a focus on customer service. A customer experience index tracks the quality of our service and the average score achieved for the year increased from 87% to 92%. After-call surveys are also conducted to track the shopping, ordering, delivery, payment and query resolution experience.

A key measure of customer service and her experience with us is the speed and quality of delivery from the time of order to receiving her parcel. This year we improved order processing time for new customers by 47% and for existing customers by 6%. Average delivery days throughout South Africa were reduced from 5,5 days to 5,0 days through more efficient address capturing and warehouse processes.

We also experienced a pleasing reduction in the level of customer queries, with an intense focus on first contact resolution. Query volumes will be reduced even further through multi-skilling our agents and as the benefits of the investment in telephony infrastructure are realised.

Implementing leading IT systems

An integrated IT platform is critical for our home shopping business and we have committed substantial investment in systems and technology to support our growth.

Phase 1 of the ERP system (finance and procurement) was successfully implemented in the last quarter of the year while the design and planning of the warehouse and merchandise module will be completed in 2014 for implementation in 2015.

The development of the new warehouse included an upgrade of our IT systems and the launch of a specific warehouse IT tool, Qwix, which will give us efficiency gains in our warehouse processes.

As a home shopping business we are highly dependent on our call centres for interacting with the customer. We are continually improving our telephony infrastructure to provide her with a better customer experience and enable efficiencies in our operations. We spent R7 million on our telephony infrastructure in 2013 which included a new PABX and upgrading our dialer.

Delivering on our retail strategy

Today HomeChoice is primarily a call centre-based business, which accounts for 82,6% of retail sales. Our strategy is to develop an omni-channel proposition for customers through investment in electronic channels and developing a retail presence.

Online retail sales now represent 8,1% of HomeChoice retail sales (2012: 7,4%). Five years ago online sales accounted for only 3% of retail sales. An upgraded HomeChoice website was launched in April 2013 and attracted 5,5 million visitors while the mobi site recorded over 1,4 million visits. As a result of website instability following the relaunch, sales growth was slower than expected. In the year ahead the focus will be on continually improving our web and mobi sites and expanding the range offered online.

The Internet remains the most efficient channel with the lowest acquisition cost of new customers. HomeChoice continues to actively engage its customers through Facebook (100 000 followers) and Twitter to increase the frequency of contact with customers, and will focus on capitalising on the opportunity to generate income from these social media.

HomeChoice successfully tested three "pop-up shops" in malls in Cape Town, Johannesburg and Pretoria over the past year as an additional channel to acquire new customers and generate revenue. Based on the success of this pilot, we plan to expand this retail channel in 2014.

Africa presents a meaningful growth opportunity in the medium to long term. Currently 9,5% of HomeChoice sales are generated from the bordering countries of Botswana, Lesotho, Namibia and Swaziland. This is a higher sales contribution from Africa than many of the listed retailers. A renewed focus on marketing in these countries proved successful, with extensive mining of inactive customers and attraction of new customers bringing the total non-South African customer base to 41 000 at year-end.

Prospects and focus areas for 2014

2014 will be another challenging year for our customer as the pressures on her disposable income are unlikely to abate in the short term and the negative credit cycle will continue for some time before consumer indebtedness starts to decline. A weak Rand and higher interest rates will also adversely impact price inflation.

Our focus for the year ahead will therefore be consistent with 2013 as we aim to deliver a compelling customer proposition while maintaining tight control over costs and continually focusing on cash generation.

Our retail strategy will focus on the following:

- continuing to drive organic growth through expanding our customer base, and extending and improving our product range;
- applying our credit expertise in managing the risk of credit;
- investing in our electronic channel by enhancing the website and mobi platform;
- developing our retail presence. Following the success with piloting pop-up shops in retail malls, we are evaluating developing a "retail showroom" concept; and
- expanding our customer base in the African countries in which we currently operate and cautiously entering new markets over the next few years.

Thanks and appreciation

In my first year in the HomeChoice Group I have been encouraged by the fantastic teamwork, innovation and creativity of our people. Thank you to the directors and staff for rising to the challenge of providing a compelling offer to our customers in a very tough market. Thank you too for welcoming me into the HomeChoice fold and for sharing your knowledge so willingly.

Thank you to our loyal and growing customer base for continuing to shop with us. We have an unwavering commitment to constantly offer you new and exciting quality products to decorate your home. We also thank our suppliers of goods and services for your support and co-operation over the past year.

Leanne Buckham
Chief executive officer: Retail

FINCHOICE CHIEF EXECUTIVE OFFICER'S REPORT

SEAN WIBBERLEY

Against the background of a slowdown in the unsecured lending market and a worsening consumer economy, FinChoice posted a creditable performance, increasing revenue by 23,8% to R315,9 million and loan disbursements by 15,6%. The active account customer base increased by 8,3% to 67 610 and the loan book by 12,3% to R462,1 million.

Operating profit was 17,0% higher at R116,4 million and FinChoice increased its contribution to group operating profits from 32,1% in 2012 to 33,1% in 2013.

As trading conditions continued to deteriorate in 2013, FinChoice adopted a more defensive strategy by focusing on shorter-term products to limit risk. The business launched a one-month loan product, KwikAdvance, which significantly reduced the average repayment term of loan accounts booked during the year to 8,0 months (2012: 11,1 months; 2011: 10,7 months).

Credit vintages worsened in the first two quarters of the year for the first time since FinChoice commenced business in 2007. Management responded decisively by tightening credit policy further and vintages recovered to prior levels by the fourth quarter.

In this environment where several well-established credit providers reported large-scale impacts on earnings due to excessive write-offs and bad debt provisions, FinChoice successfully protected its operating margin and contained the decline to 36,8% from 39,0%. Our operating margin has been restated to report on a similar basis of that of other credit providers which will improve comparability with our peers (refer to note 12 on page 99). The margin decline was due to higher loan write-offs in the year, increasing numbers of customers seeking debt counselling support and an increase in the doubtful debt provision.

A key competitive advantage of FinChoice is its agility in delivering innovations to its customers and business operations. Over the past year, while contending with the tougher trading conditions, the business continued to introduce new product and channel solutions, including KwikAdvance previously referred to, and a mobi site for new customer acquisition.

Unsecured lending environment

Following the aggressive growth in unsecured credit extension in South Africa in recent years, mainly fuelled by certain providers offering larger loans and longer instalment terms, the growth rate slowed dramatically over the past year.

The National Credit Regulator (NCR) reported an increase of 19,4% (2012: increase of 38,2%) in the combined gross debtors' book for unsecured and short-term lending to R168 billion (2012: R141 billion) for the year to September 2013.

> "FinChoice has been successful in differentiating itself by offering flexible, convenient, fast and innovative products and services."

The deteriorating credit environment has resulted in higher levels of indebtedness as many consumers are unable to meet their loan repayment obligations. In this climate an increasing number of FinChoice customers have sought the protection of the debt review process of the National Credit Act.

On the regulatory front several changes are on the agenda. The NCR has published draft affordability guidelines for the industry to assess a consumer's ability to repay a prospective loan debt. FinChoice is reviewing its affordability assessment processes in anticipation of changes that may be required.

The abuse of garnishee orders remained under the spotlight in 2013. Garnishee orders are set to be severely curtailed and we applaud the restriction of this unethical practice of using the courts to collect debt.

Credit life insurance faced increased scrutiny and a task team comprising several industry regulators was established to investigate current practices. FinChoice charges a premium rate of R4,50 per R1 000 of cover and settles a customer's full loan balance in the event of death, retrenchment or permanent disability. This premium is well below the average charged in the credit industry and we are confident that any regulation of maximum premium rates will have minimal impact on our business.

FinChoice welcomes regulatory intervention aimed at protecting consumers and ensuring the sustainability of the unsecured lending market in the country, without limiting the right of credit providers to earn a fair return and without hampering customer-friendly innovation.

FinChoice loans strategy

The core FinChoice strategy is to market short-term unsecured loan products to HomeChoice customers of known and acceptable credit risk, with a track record of repaying retail credit. The retail business "cleanses" prospective customers and the best quality customers are filtered through to FinChoice and receive pre-qualified loan offers.

FinChoice is able to flexibly control product term mix and credit limits to optimise cash yield and credit performance. Loan products range from the new KwikAdvance product to a 36-month term loan. KwikAdvance enables existing customers to have two concurrent loans: a longer-term loan for lending needs and the KwikAdvance loan for short-term cash flow needs.

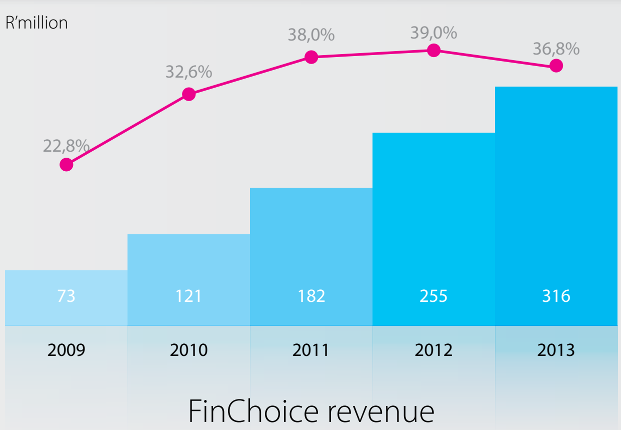
In response to the worsening market conditions, FinChoice reduced credit limits based on risk profile and focused the term mix of loan disbursements towards the shorter-term products. Loan disbursements on repayment terms of six months or less accounted for 47% of all loans disbursed in 2013, significantly up from 37% in 2012. The 36-month term product is reserved for top-rated customers and accounted for only 3% of the total loan disbursements in 2013.

FinChoice's average loan term in the book at year-end was 18,2 months (2012: 17,8 months). The NCR does not report on average term, however 75% of disbursements were on terms longer than 24 months. The average FinChoice loan balance of R7 269 (2012: R7 534) compares to the market average of R18 561 at the third quarter in 2013.

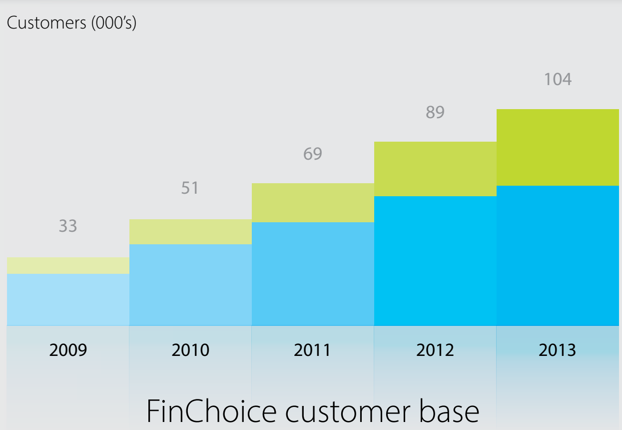
Continued product innovation

FinChoice has been successful in differentiating itself in the market by offering flexible, convenient, fast and innovative products and services. The business has a strategic focus on the self-actualisation of its female-biased customer base by offering convenience through self-service channels and flexibility in the repayment of loans.

Customer engagement through KwikServe, the USSD mobile self-service channel, continues to exceed expectations. The service was enhanced in 2013 to enable customers to purchase airtime on their mobile handsets and update their financial



FinChoice revenue



FinChoice customer base

details. KwikServe provides customers with 24/7 access to self-manage their loan accounts, empowering them to review account balances, apply for a repeat loan or request an instalment skip in difficult months.

In 2013 FinChoice developed a loan restructuring product to aid distressed HomeChoice retail customers. The product allows over-indebted HomeChoice customers to restructure their retail debt by ceding it to FinChoice over a longer period to make repayments more affordable. The superior FinChoice early debit order collection system then facilitates the monthly debt repayments. This product has proved attractive to delinquent HomeChoice customers seeking relief and provides an effective solution for reducing overall group bad debt cost, although at the expense of some worsening of bad debt in the FinChoice business.

Growing our customer base

In 2013, 29 175 (2012: 30 078) loans were granted to new FinChoice customers and new disbursements decreased by 4,3% to R187,0 million (2012: R195,4 million). The reduction from 2012 reflects the stricter marketing selection criteria, reduced acceptance rates and credit limit reductions implemented during the year in response to the worsened environment.

Management views new loan disbursements as an investment as each new customer represents an opportunity for repeat business. Approximately 75% of new loan customers apply for a repeat loan over time.

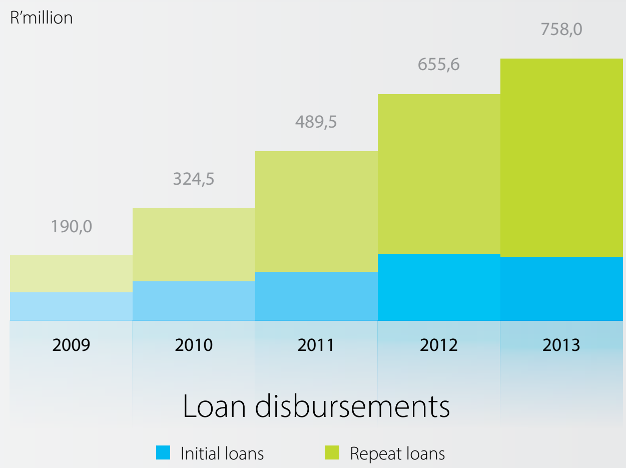
Repeat loan disbursements grew by 24,1% to R571,0 million, accounting for 75,3% (2012: 70,2%) of total loan disbursements. This is higher quality business as repeat loans have a lower acquisition cost and a better repayment experience than new loans.

Management focused increased attention on customer retention and reactivation of quality customers during 2013. The active customers in force grew by 8,3% from 62 441 at the end of 2012 to 67 610 at the end of 2013. The average loan balance in FinChoice decreased 3,5% from R7 534 in 2012 to R7 269 in 2013.

FinChoice's share of the country's unsecured and short-term lending market remained stable year on year at 0,3%.

Managing the risk of credit

2013 was a challenging year for unsecured credit in South Africa. After the usual seasonal spikes in December 2012 and January 2013, credit vintages across both initial and repeat loans failed to revert back to normal levels. The business implemented two further credit risks strategies: firstly, focusing on the front-end of the book by tightening further credit extension, and secondly, focusing on the back-end of the book by enhancing collections processes.



Loan disbursements

In tightening credit extension, FinChoice introduced a new suite of behavioural scorecards and increased the frequency with which credit bureau information is reviewed. This ensures greater agility to respond to the changing credit conditions. The scorecard thresholds were tightened for both initial and repeat loan customers, resulting in vintages improving in the third quarter and returning to prior year levels by the fourth quarter of 2013. FinChoice also reduced credit limits based on customer risk profile to limit exposure and reduced the average repayment terms to minimise event risk.

The tighter credit criteria imposed by management contributed to the growth in disbursements slowing to 15,6% compared to 33,9% in the previous year. However, the R102,4 million increase in disbursements to R758,0 million, together with the favourable credit performance, was a pleasing result in the current environment.

In focusing on collections processes, the headcount of the arrears collection team was increased by 20% and more detailed reporting developed to monitor agent and team performance. A predictive dialler system was introduced to improve the efficiencies of the outbound call centre. The new restructured loan product for distressed HomeChoice retail customers, referred to earlier, aided the group bad debt experience. FinChoice also offered restructuring arrangements to its distressed customers.

In 2013 FinChoice collected R932,1 million, up 29,9% from R717,8 million in 2012, reflecting the benefit of the strategic reduction in loan disbursements and the favourable collections efforts.

Owing to the poor outlook for consumer credit in the year ahead and the inclusion of restructured debt from the retail business, the provision for doubtful debt has been increased to 12,0% (2012: 11,4%) of gross receivables. The provision of 12,0% is down from the 12,5% held at the June 2013 interim stage as management is satisfied with the improved credit performance of the book in the second half of the year. The provision for doubtful debt is conservative and takes cognisance of the distressed consumer credit cycle.

Debtor costs as a percentage of revenue grew to 33,1% (2012: 30,5%) owing to the increased provisioning levels held, higher bad debt write-offs in the year and more customers applying for debt review.

Please refer to the Managing the Risk of Credit Report on page 66 for further detail.

Plans for 2014

FinChoice will continue to adopt a defensive approach to credit extension in the current market cycle while pursuing its proven strategy of targeting HomeChoice customers and leveraging its existing customers for repeat business.

In line with the group's strategy of growing online channels, FinChoice will focus on enhancing the successful KwikServe offering and expanding its mobi platform as increasing numbers of customers migrate to technology-rich smartphones.

Management expects trading conditions to remain difficult into 2014 as consumers are squeezed by slower credit supply and inflationary pressures. Revenue is expected to grow in 2014, although not at the levels of previous years owing to the base effect of this growing business, the cautious approach to lending and the subdued market conditions.

Thanks and appreciation

I would like to thank my board, my executive team, and my specialists and operational staff for their focus and commitment in 2013. We delivered good results in a tough environment. My thanks also go to the HomeChoice retail business for providing the customer base and marketing engine which makes the FinChoice business model so successful. Lastly, I would like to thank our customers for their continued loyalty and engagement with our products and services.

Sean Wibberley
Chief executive officer: FinChoice

CHIEF FINANCIAL OFFICER'S REPORT

ANNALIZE KIRSTEN

Overview

2013 saw the group continue to encounter tough trading conditions due to increasing pressures on the consumer, higher levels of consumer indebtedness as credit conditions deteriorated and a weakening exchange rate.

The Rand depreciated by 22% against the US Dollar from R8,50 in January to R10,37 at December 2013 and continued to decline into the new year.

Despite these challenges in the external environment revenue grew by 15,9% to R1 662,0 million and operating profit increased by 8,8% to R438,3 million.

The operating margin declined from 28,1% to 26,4%, mainly due to pressure on debtor costs and the lower gross profit margin which was impacted by Rand weakness. Earnings before interest, taxation, depreciation and amortisation (EBITDA) increased by 9,1% from R412,7 million to R450,2 million.

Costs were again well contained, with other trading expenses continuing to reduce as a percentage of revenue from 27,8% to 26,2%.

Headline earnings per share (HEPS) increased by 8,8% from 282,1 cents to 306,9 cents, having grown at an annual compound rate of 31,7% since 2009. The dividend was increased by 120,0% to 110 cents based on a cover ratio of 2,8 times.

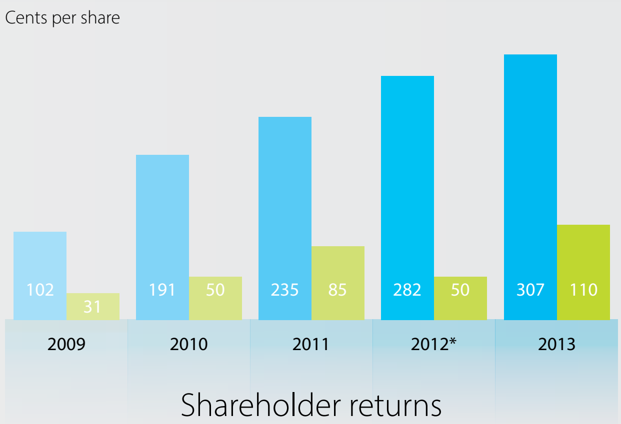
Prudent cash management contributed to an 80,9% increase in cash generated from operations.

"Cash management and collections have been our focus and the good cash yield highlights the underlying quality of the debtors' and loan books."

Performance review and targets

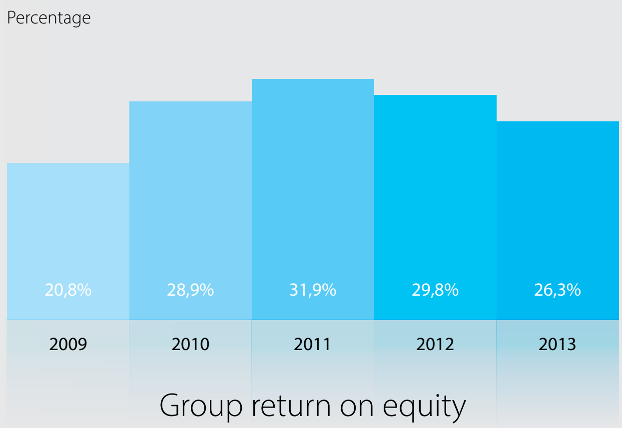
		Medium-term targets	**2013**	2012	2011	2010	2009
Revenue	(Rm)		**1 662,0**	1 434,4	1 121,1	869,4	651,2
Growth in revenue	(%)		**15,9**	27,9	28,9	33,5	16,9
Retail sales	(Rm)		**929,7**	841,5	670,5	527,5	387,3
Growth in retail sales	(%)		**10,5**	25,5	27,1	36,2	9,8
Gross profit margin	(%)	48 – 52	**49,1**	51,1	53,4	57,1	53,0
Operating profit	(Rm)		**438,3**	402,9	341,6	249,7	141,5
Growth in operating profit	(%)		**8,8**	17,9	36,8	76,5	120,9
Operating profit margin	(%)	25 – 30	**26,4**	28,1	30,5	28,7	21,7
EBITDA	(Rm)		**450,2**	412,7	352,5	257,7	150,1
Growth in EBITDA	(%)		**9,1**	28,8	31,4	29,6	23,1
Operating cash flow before working capital changes	(Rm)		**451,9**	413,7	346,8	277,3	145,9
HEPS	(cents)		**306,9**	282,1	234,8	191,0	102,1
Growth in HEPS	(%)		**8,8**	20,1	22,9	87,1	86,0
Distribution cover	(times)	2,2 – 2,8	**2,8**	5,6	2,8	3,5	3,3
Net asset value per share	(cents)		**1 275,8**	1 062,0	829,9	661,3	520,0
Return on equity	(%)	27 – 32	**26,3**	29,8	31,9	28,9	20,8

Shareholder wealth creation:



Shareholder returns

*No interim dividend declared



Group return on equity

Financial performance

This detailed commentary on the group's financial performance should be read together with the summarised financial statements on pages 88 to 99 and the audited annual financial statements on the website. The segmental performance of the retail and financial services businesses is covered in the Retail and FinChoice CEOs' Reports respectively. A five-year history of financial performance is available on pages 34 to 36.

Statement of comprehensive income

Revenue

Group revenue increased by 15,9% to R1 662,0 million (2012: R1 434,4 million) and retail sales grew by 10,5% to R929,7 million (2012: R841,5 million). Revenue growth moderated over the past year owing to the tightening of credit policies and the resultant higher decline rate of customer credit applications. This impacted the retail business more than financial services as new customers for the group are acquired by retail. Revenue in the retail business increased by 14,2% to R1 344,8 million and financial services by 23,8% to R315,9 million.

Finance charges and initiation fees earned

Finance charges increased by 24,6% to R452,9 million owing to slightly longer average repayment terms in retail (14,1 months in 2013 versus 13,7 months in 2012) and FinChoice growing by 23,8%. Initiation fees increased 24,0% to R166,9 million, in line with the growth in finance charges, owing to the high level of repeat loans in FinChoice.

Fees from ancillary services

Fees from ancillary services rose by 18,6% to R112,4 million due to an increase in the monthly service fee charged to retail customers from R15 to R16 per month, which is still well below the maximum of R57 that can be charged in terms of the National Credit Act.

Gross profit

The gross profit margin remains within the medium-term target of 48% to 52% but declined from 51,1% to 49,1% in 2013. Considering the 22% depreciation of the Rand against the US Dollar during the year and that the majority of merchandise is imported, the margin was well managed through repricing and reconfiguring the merchandise offer. The margin was further impacted by stock clearance ahead of the move to the new warehouse and a product mix change owing to increased sales of lower-margin merchandise categories.

Debtor costs

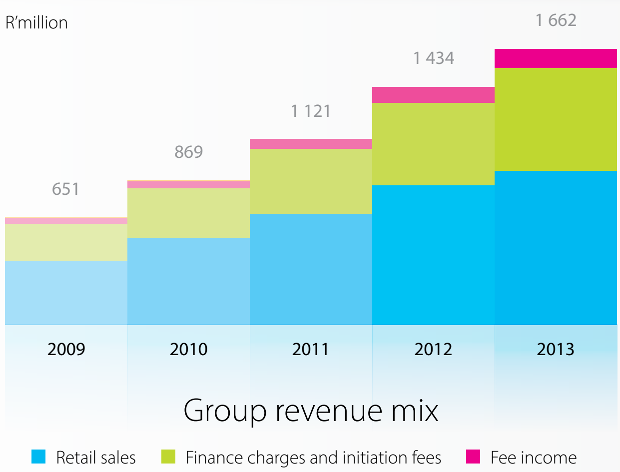
Debtor costs increased 38,9% to R316,5 million (2012: R227,8 million) in 2013, in line with management's expectations in the deteriorating credit environment. Debtor costs as a percentage of revenue increased from 15,9% in 2012 to 19,0% in 2013.

For further detail on debtor cost management, as well as the credit and provisioning policies applied during the year, please refer to the Managing the Risk of Credit Report on page 66.

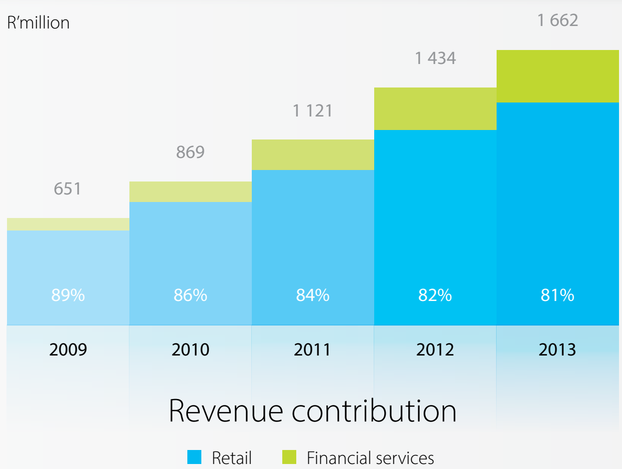
Other trading expenses

	2013 R'000	2012 R'000	Change on prior period %	**2013 % of revenue**	2012 % of revenue
Marketing costs	**138 808**	119 789	15,9	**8,4**	8,4
Staff costs	**173 850**	164 490	5,7	**10,5**	11,5
Amortisation and depreciation	**13 671**	11 800	15,9	**0,8**	0,8
Other	**108 410**	102 041	6,2	**6,5**	7,1
Other trading expenses	**434 739**	398 120	9,2	**26,2**	27,8

Management's ongoing focus on cost management has resulted in the increase in other trading expenses (which excludes debtor costs) being contained to only 9,2% and



Group revenue mix



Revenue contribution

reducing as a percentage of revenue from 27,8% to 26,2%. Staff costs were well contained with only a 5,7% increase compared to 2012. Our flexible business model, with more variable than fixed costs, gives us a greater ability to manage costs during tough credit cycles when revenue growth is slower due to credit cuts.

Cost pressures are expected to increase in 2014 owing to the additional depreciation of the new distribution centre racking and equipment, and the increased investment in electronic channel resources.

Operating profit and margin

Operating profit increased by 8,8% to R438,3 million (2012: R402,9 million). The operating margin remains at a highly competitive level, despite reducing from 28,1% to 26,4% owing mostly to the depreciation of the currency and increased debtor costs. The operating margin is well within the medium-term target of 25% to 30%.

Taxation

The tax rate at 28,2% (2012: 28,4%) is slightly above the corporate tax rate owing to certain non-deductible expenses in the group.

Statement of financial position

The group's balance sheet continued to strengthen over the period, with net asset value per share increasing by 20,1% to 1 275,8 cents.

Return on equity reduced to 26,3% from 29,8% in 2012 and is slightly below the medium-term target guidance of 27% to 32%.

Property, plant and equipment

Property plant and equipment increased by 77,0% to R292,8 million (2012: R165,4 million) due to the development and completion of the new distribution centre which began operating in January 2014. The distribution centre was completed within budget and will provide increased capacity and expected operational efficiency improvements.

Intangible assets

Intangible assets increased by 50,5% to R61,2 million due to the development of the ERP system. Phase 1 (finance and procurement) of the ERP went live in October 2013 with phase 2 go-live planned for early 2015. Further detail on the ERP system is covered in the Retail CEO's Report on page 52.

Inventories

Inventories increased by 31,5% to R145,0 million. This increase is due to stock levels being lower than normal at the start of 2013, as advised to shareholders in the interim report, and the increase in stock ahead of the move to the new distribution centre.

Trade and other receivables

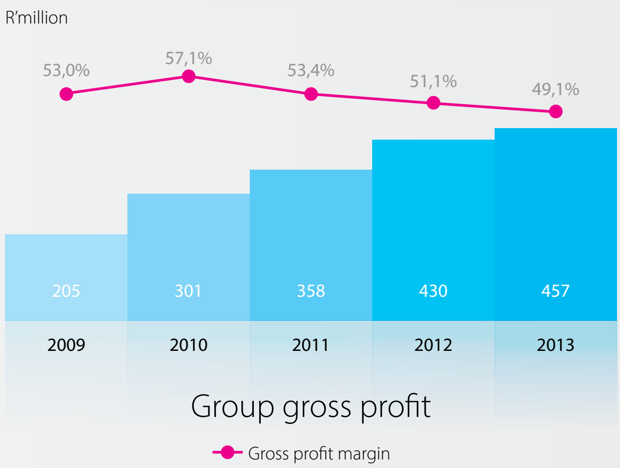
Trade and other receivables increased 14,6% to R1 169,9 million, slightly below revenue growth. The receivables book has been well managed and produced a good cash yield during a difficult year. Refer to the Managing the Risk of Credit Report on page 66.

Cash, cash equivalents and overdraft

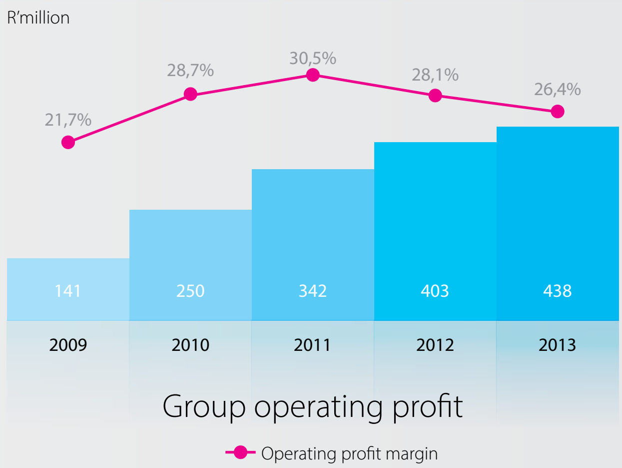
The net cash balance at year-end was at a healthy R19,1 million and improved from R7,7 million at the end of 2012.

Interest-bearing liabilities

Interest-bearing liabilities more than doubled from R100,2 million in 2012 to R209,4 million in 2013. This is mainly due to the financing of costs relating to the development of the new distribution centre as well as the financing of equipment and racking of approximately R40 million. The distribution centre development loan of R105 million, which was initially planned to be converted into a term facility, has temporarily been settled with the proceeds of the corporate bond (refer to the Capital Management section below). The term loan will be utilised during the course of 2014. Gearing remains low at 14,8%.



Group gross profit



Group operating profit

Trade and other payables

Trade and other payables increased by 19,4% to R134,6 million, with efficient working capital management through managing creditor payment terms.

Statement of cash flows

Cash and cash equivalents (net of overdrafts) increased from R7,7 million to R19,1 million.

Operating cash flow before working capital changes increased by 9,2% to R451,9 million. Cash generated from operations increased by 80,9% to R278,0 million due to the slower growth of the business as well as the good cash yield from the debtors' and loan books. Cash management and collections have been a focus during the year and the good cash yield highlights the underlying quality of the debtors' and loan books. The level of cash has improved despite longer terms of 24 months being offered to qualifying retail customers.

The increase in the purchase value of property, plant and equipment from R35,5 million to R134,7 million relates primarily to the new distribution centre.

Proceeds from interest-bearing liabilities relate mainly to the proceeds from the corporate bond and the new distribution centre development loan.

Capital management

The group's capital management strategy is focused on investing in the organic growth of the business, expanding the group's customer base and identifying opportunities for new businesses or markets to optimise returns to shareholders, while ensuring adequate capital to support this growth.

During the period dividends of R94,7 million were paid to shareholders and the dividend cover was restored to 2,8 times.

Following the postponement of the proposed listing in 2012, the group entered the corporate bond market with the launch of a R500 million domestic medium-term note (DMTN) programme. The first tranche of R100 million, in the form of three-year unsecured notes, was issued in October 2013.

Capital expenditure of R161,6 million was incurred during the period, up from R60 million in 2012, mainly for the development of the new distribution centre and the new ERP system. Capital expenditure planned for 2014 includes the new ERP system and development of the office building next to the main office building for future call centre space.

Accounting policies and standards

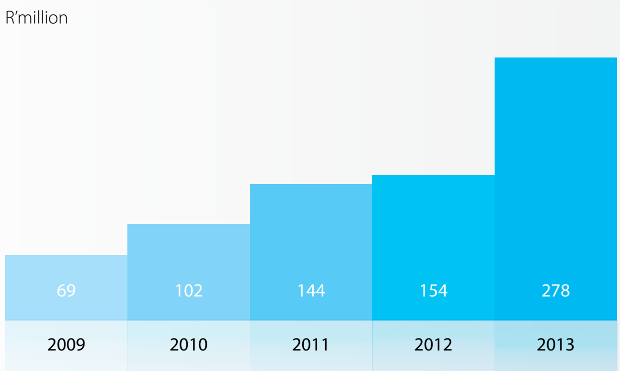
The annual financial statements have been prepared in accordance with the group's accounting policies, which comply with International Financial Reporting Standards (IFRS), interpretations issued by the International Financial Reporting Interpretation Committee (IFRIC) and the requirements of the Companies 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 pages 19 and 20 of the annual financial statements, available on the website.

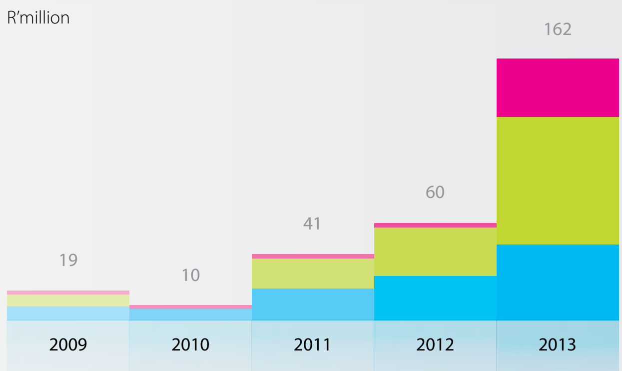
Acknowledgements

I would like to thank my colleagues in the finance department for their support and commitment, and for maintaining a high standard of financial reporting. For the second consecutive year the group won the award for the top-rated integrated report by a non-listed company in the Chartered Secretaries South Africa Awards.

Annalize Kirsten
Chief financial officer



Group cash generated by operations



Capital expenditure

Computer equipment, software and licences
Land and buildings
Equipment


SHOP

MANAGING THE RISK OF CREDIT

Deteriorating credit environment

Credit conditions continued to deteriorate in the first half of 2013 and remained challenging for the rest of the year as consumers faced increasing pressures on disposable income mainly from rising utility, food and transport costs. The National Credit Regulator's quarterly reports show that the number of consumers with an impaired credit record has increased to over 48% in the third quarter of 2013 (27% of accounts), and this proportion has been increasing steadily over the last few years.

Unsecured credit extension increased rapidly during 2011 and 2012, particularly to higher-income groups earning over R15 000 per month. The rate of growth slowed sharply during the second half of 2013 as large lenders tightened credit policy in an attempt to contain the growth of bad debt in their markets.

As credit stress levels of consumers have risen there has been an increase in debt review activity, with greater customer awareness and use of debt counselling services.

Kindly refer to the Group CEO's, Retail CEO's and FinChoice CEO's Reports for background on the trading and credit conditions experienced over the past year.

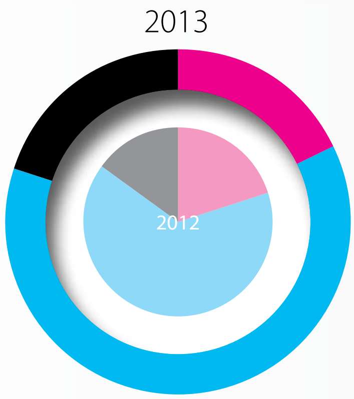
Credit performance in 2013

Group	2013	2012	2011
Gross trade and loans receivable (Rm)	**1 370,8**	1 180,4	866,7
Growth (%)	**16,1**	36,2	36,0
Debtor costs (Rm)	**316,5**	227,8	148,1
Debtor costs as a % of revenue (%)	**19,0**	15,9	13,2
Provision for impairment as a % of gross receivables	**16,2**	15,7	14,7

Group

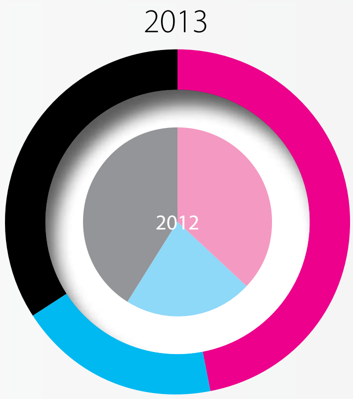
Group gross receivables increased by 16,1% to R1,4 billion, driven mainly by the higher sales volumes and an increased proportion of retail products being sold on the longer-term 24-month contracts. The provision for impairment of receivables has been increased to 16,2% of the gross book (2012: 15,7%) as the group continues to apply its conservative provisioning policy and ensure that expected bad debts from the current book are fully provided for.

The credit policy and management of the debtors' book for the retail business is managed separately from that of the FinChoice financial services book. This allows credit decisions in the retail business to take into account the retail margin in the profitability of a credit decision. Although separate teams of analysts monitor the books and develop appropriate credit policy, the full group data on a customer is taken into account in each credit decision.



Retail term mix

- 6 months **18%** (2012: 20%)
- 16 months **62%** (2012: 65%)
- 24 – 36 months **20%** (2012: 15%)



FinChoice term mix

- 6 months **47%** (2012: 37%)
- 12 months **19%** (2012: 22%)
- 24 – 36 months **34%** (2012: 41%)

2013 started with the overhang of the high levels of customer acquisition in the second half of 2012. This new business incurs a higher than average bad debt charge than existing customer sales. The write-off experience from this tranche of business was in line with the guidance provided to shareholders in the 2012 integrated report and was covered by the increased level of provisioning in 2012.

The weakening credit environment, however, led to increases in bad debt experience across the group. In response to this increase in bad debt, the group tightened credit policy significantly in all businesses and reviewed policy and processes, including rebuilding scorecards where required.

The growth of credit to both new and existing customers was restrained, impacting on sales and credit revenue growth. Debtor costs as a percentage of revenue increased to 19,0% (2012: 15,9%). This is a result of the higher bad debt charge in both the Retail and FinChoice businesses as well as the higher proportion of FinChoice revenue. As FinChoice revenue results only from the extension of credit, and does not include sales revenue, as is the case in the retail business, it has a higher bad debt charge as a percentage of revenue. Bad debt write-off policies were consistently applied and are automated across the group.

Retail

Retail	2013	2012	2011
Gross trade and loans receivable (Rm)	**845,7**	716,0	534,8
Growth (%)	**18,1**	33,9	32,0
Debtor costs (Rm)	**212,0**	150,0	95,0
Debtor costs as a % of revenue (%)	**15,8**	12,7	10,0
Provision for impairment as a % of gross receivables	**18,8**	18,5	17,4

The gross debtors' book increased by 18,1% to R845,7 million (2012: R716,0 million), benefiting from the 24-month contracts offered to selected Retail customers. Sales on credit accounted for 93,9% of sales in 2013 (2012: 94,0%). Debtor costs as a percentage of revenue increased to 15,8% (2012: 12,7%) owing to higher bad debt write-offs and the increased provision held for future bad debt write-offs, as the current credit conditions are expected to continue into 2014.

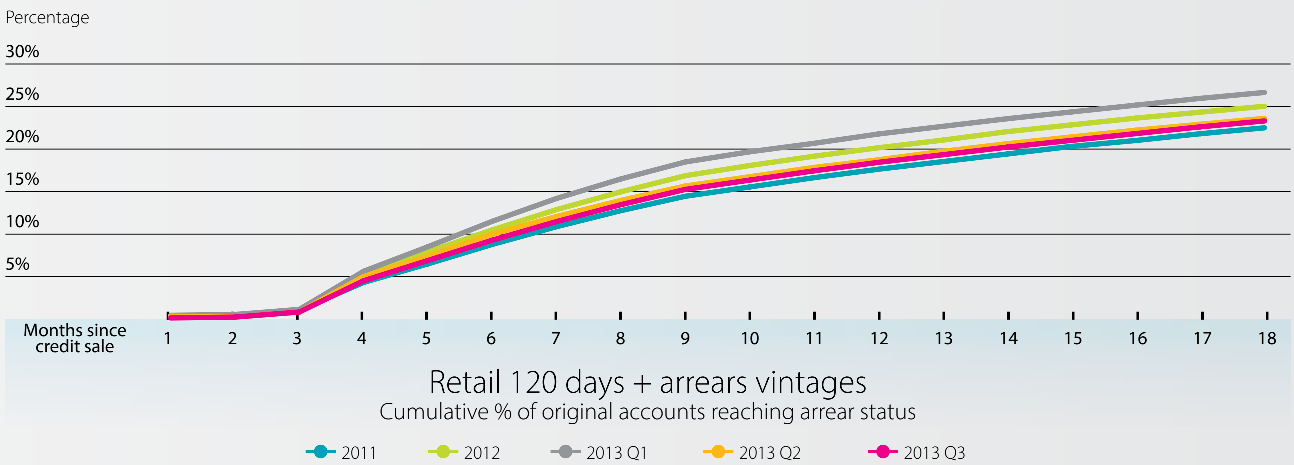
Vintage curves were higher than desired in the first quarter. Following credit policy tightening early in 2013 vintages have returned to acceptable levels. New customer scorecards and credit policy were upgraded, and tighter cut-off decisions made. New customer acceptance rates declined from 54,8% in 2012 to 49,5% in 2013, impacted by the tightening of the risk policy.

Existing customer vintages remained relatively stable throughout the year and only experienced minor worsening as a result of the credit environment. This reflects the continued ability of behaviour scorecards to identify high-risk accounts efficiently. Nevertheless, tightened credit policy has led to a 20% increase in the customer exclusion rate, as HomeChoice sacrificed potential sales to contain bad debt experience. More extensive use of bureau data, coupled with revised scorecards and cut-off changes, have also improved existing customer vintages. The influx of lower-risk new business started to improve the early existing customer vintages towards the end of the year.

The vintage graphs demonstrate that the credit policy tightening has improved vintages in the second half of the year back to acceptable levels.

In 2012, 24-month terms were tested and credit criteria developed for offering these extended terms to lower-risk existing customers. These criteria were tightened in 2013 owing to the deteriorating credit environment. Sales on 24-month terms increased to 20,2% of credit sales (2012: 14,7%) in line with this strategy.

In response to commitments made by the Credit Industry Forum to assist financially stressed customers to rehabilitate



Retail 120 days + arrears vintages
Cumulative % of original accounts reaching arrear status

voluntarily, a loan restructuring product was introduced to enable customers to maintain payments. The product uses the debit order processes of FinChoice. Loan repayments are more affordable to ensure that customers are able to maintain payments rather than having to default and undergo interventions such as debt counselling.

The balance of non-performing retail accounts decreased marginally to 10,6% of the debtors' book (2012: 11,1%) by year-end and 77,5% (2012: 75,3%) of customers were eligible to purchase on credit. While credit-tightening initiatives have helped to improve the overall quality of the retail book, the biggest impact has been from an increased proportion of debtors paying their accounts through debit order processes. This payment mechanism results in a more reliable collections stream.

The proportion of balances under debt review increased to 2,1% of the book (2012: 1,3%). The increase is driven by increased volumes of debt review applications as well as the slower pay-down of customers under debt review. All customers under debt review are provided for in line with our expectation of bad debt performance. Late stage collections, after consistently improving through 2012 and the first half of 2013, showed a marked deterioration in the last quarter of 2013. Provisioning levels have therefore been conservatively increased to 18,8% (2012: 18,5%) to reflect our expectation of faster roll-through to bad debt of the non-performing loans.

Financial Services

FinChoice	2013	2012	2011
Gross trade and loans receivable (Rm)	**525,1**	464,4	331,9
Growth (%)	**13,1**	39,9	43,0
Debtor costs (Rm)	**104,5**	77,8	53,2
Debtor costs as a % of revenue (%)	**33,1**	30,5	29,3
Provision for impairment as a % of gross receivables	**12,0**	11,4	10,6

Gross loans receivable in FinChoice increased by 13,1% to R525,1 million (2012: R464,4 million), with the growth being tempered by slower loan disbursements due to the redevelopment of scorecards and strict tightening of credit policy, and a focus on reducing the average term. Stricter and shorter loan term policies have been applied, and the average term for disbursements has reduced from 15,0 months in 2012 to 12,8 months in 2013. These stricter policies and enhanced processes, together with the stricter marketing selection process, curtailed loan growth.

These measures included reducing loan terms offered to customers, with a focus on shorter-term loans. A one-month product, KwikAdvance, was introduced which further reduced the average lending term. The performance of this product has been stable and well within risk tolerance levels. All customer vintages deteriorated in the first half of the year. Following the implementation of tighter credit policy, the redevelopment of scorecards and substantial investment in enhancing collections processes, early vintages indicate that risk has been contained and reverted to previous levels.

The accompanying vintage graph on page 69 demonstrates the risk improvement experienced in the FinChoice loan book.

Debtor costs as a percentage of revenue increased to 33,1% (2012: 30,5%) owing to higher bad debt write-off and an increased provision level. Repeat loans accounted for 75,3% (2012: 70,2%) of the total value of loans disbursed, impacted by the stricter credit tightening among new loan customers. Repeat loan customers demonstrate good payment behaviour in both the HomeChoice and FinChoice credit books and remain the lowest risk customers.

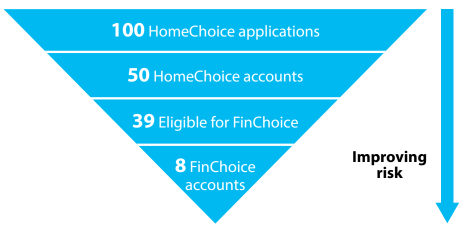
The collections area has been bolstered with the introduction of automated dialer processes and improved reporting of collections metrics. This has not only improved collections efficiencies but has also enabled FinChoice to be more proactive in identifying and addressing any problem areas. Owing to the faster write-off policies in FinChoice, the debtors' book ended the year with a non-performing loan profile at 4,0% (2012: 3,3%). The provision level has been increased to 12,0% of the gross book (2012: 11,4%). This fully covers our expected losses from the book as a result of the non-performing loans distribution, as well as the HomeChoice rehabilitation product discussed above. This provision level shows a decrease from the interim results, as the impacts of credit policy tightening have started to show the required improvements in the book.

The increase of debt review in the market has also shown an increase in debt review applications of 76% in the FinChoice customer base. Debt review approvals are treated as bad debt in FinChoice accounting policies and any payments received from debt review customers treated as recoveries. This is a conservative treatment of debt review customers.

Credit risk management

The group uses credit to facilitate merchandise sales which enables customers in the mass middle-income market to purchase higher-value products on instalment credit. Credit is offered for HomeChoice purchases in South Africa, Botswana, Namibia, Lesotho and Swaziland, while FinChoice loans are currently only available to customers in South Africa.

The risk-filtering process



Credit risk is managed through a process of continued multiple-level risk filtering. New customers are acquired through HomeChoice and the group customer base has a female bias of 84,7%. Females, particularly those buying homeware products, have proven better credit risk than their male counterparts.

In assessing applications for credit, strict affordability criteria are applied together with in-house developed scorecards based on credit bureau data. New customers are granted a low credit exposure relative to their affordability. This allows the group to monitor payment behaviour with low exposure risk. As a customer demonstrates good payment performance and the behaviour scorecards identify her as a better risk, the purchase limit is raised closer to the maximum affordability level. Behaviour scorecards are used to determine credit extension to good-paying customers, to drive repurchase rates and repeat loans, and reduce average bad debt. These scorecards are regularly reviewed and upgraded to ensure the group's credit policy remains in line with an acceptable level of risk for repeat business. As a direct marketer the group has the ability to manage credit risk by restricting potential customers to receive marketing offers.

FinChoice initial 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 have enabled the business to select a profitable group of loan customers, with a stable and acceptable risk of bad debt. All group data is taken into account when considering a customer for credit extension. In this way a customer in arrears with any group product will not be granted further credit for HomeChoice or FinChoice.

Regulatory headwinds

The credit industry faced increased regulatory intervention in 2013 with proposals for new affordability guidelines; amendments to the National Credit Act covering credit life insurance, garnishee orders and debt review rules; as well as a proposed credit amnesty for consumers. The credit amnesty is aimed at removing adverse information of consumers. The historical information of millions of consumers with impaired records could be removed, and hidden from our credit-decisioning process and the group will adopt more conservative credit policies to reduce the impact.

Credit risk plans for 2014

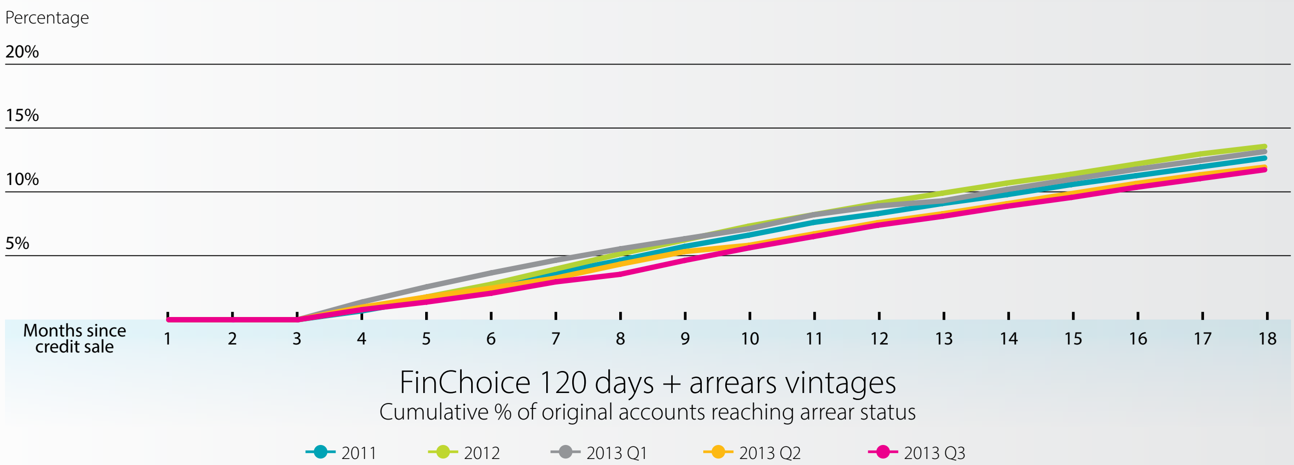
In the current stressed credit environment, continued focus on collections processes remain critical in maintaining acceptable levels of bad debt. The growth of mobile phone, laptop and tablet sales to top-rated HomeChoice customers is expected to drive more customers on to regular debit order payments, which would benefit payment performance. HomeChoice will also continue to encourage the use of debit order payment methods for its customers, as this provides a more reliable payment stream and reduced arrears.

A major project to simplify the customer account structure in the retail business is under way and scheduled for implementation in the first half of 2014. This should improve customers' understanding of their statement, and potentially lead to improved collections and sales performance.

Credit outlook for 2014

The severe credit-tightening measures ensured that risk levels were brought back to targeted levels. We anticipate that the credit environment will remain challenging in 2014 and will continue to carefully monitor credit risk and payment performance and take appropriate action.

Mike Roux
Credit risk director



CORPORATE **GOVERNANCE**

CORPORATE GOVERNANCE REPORT

HomeChoice Holdings has robust governance and risk management practices aimed at safeguarding the interests of all stakeholders and creating long-term value for shareholders.

King III principles

The directors confirm that the group has applied the recommendations of the King Code of Governance Principles 2009 (King III) and the governance requirements of the Companies Act.

The board committees are responsible for monitoring and evaluating the application of the recommendations of King III to ensure fairness, accountability, responsibility and transparency in all business activities.

King III recommends that the chairman of the board should be an independent non-executive director. The chairman is 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 therefore appointed an independent non-executive, John Bester, as lead independent director.

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

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. As described above, one of the non-executive directors is not classified as independent under King III by virtue of his beneficial shareholding in the group.

Board appointments and rotation

Director appointments are made by the board in a formal and transparent manner and are ratified at the following annual general meeting. 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.

Director induction and development

Newly appointed directors participate in an induction programme. 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 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 group;
- providing strategic direction to the group;
- appointing the chief executive officer and ensuring effective succession planning;
- identifying key risk areas and key performance indicators of the business enterprise;
- ensuring the effectiveness of the company's internal systems of control;
- ensuring compliance with all relevant laws, regulations and codes of business practice;

- 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 provided 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.

Personal share dealings

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. Meeting invitees include the executive chairman, chief financial officer, finance director, group company secretary, group financial manager, 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 pages 76 and 77.

Remuneration and nomination committee

The committee, which is chaired by a non-executive director, comprises two non-executive directors and the executive chairman. Meeting invitees include the group chief executive officer, retail chief executive officer and chief financial officer, 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 pages 78 to 81.

Social and ethics committee

The committee, which is chaired by a non-executive director, comprises two non-executive directors and the executive chairman. Meeting invitees include the group 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 pages 82 and 83.

Board and committee attendance

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

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

[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 formally reports to the board monthly 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 43.

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 proactive 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. In the past year risk management software was installed for all risk champions in the group.

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, however, 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 2014 have been identified on pages 18 to 33.

Risk sub-committee

The operating board is responsible for implementing the risk management plan. To assist 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 risks;
- initiating and monitoring key projects to address risks 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 an information security sub-committee 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.

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.

Stakeholder engagement

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

The primary stakeholders that are most likely to influence the sustainability of the business are customers, staff and shareholders, with secondary stakeholders including suppliers, regulatory bodies and the communities served by the business. Detail on the group's engagement with these stakeholders is included on our website.

Governance developments and priorities for 2014

An information security sub-committee was established during the year with a primary focus of enhancing the controls over the group's data and information technology assets. The sub-committee provides feedback on its progress at each meeting of the audit and risk committee.

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 planned in 2014 include:

- enhancing the group's legislative compliance processes and, in particular, ensuring compliance with the Protection of Personal Information Act (POPI) which was enacted in November 2013;
- strengthening the group's IT governance framework through enhanced processes and policies; and
- strengthening the disaster risk management capability, including the completion of a review of all key assets and establishing a disaster recovery capacity at the new distribution centre.

AUDIT AND RISK COMMITTEE REPORT

The audit and risk committee is pleased to present its report for the financial year ended 31 December 2013 to the shareholders of HomeChoice Holdings Limited in compliance with the requirements of the Companies Act and the King Code of Governance Principles (King III).

Role of the committee

The audit and risk committee (the committee) is a statutory committee appointed by shareholders and is accountable to shareholders and the board. The committee is governed by a board-approved charter that guides the committee in terms of its authority and objectives, and the responsibilities of the committee include the following:

- reviewing significant accounting and reporting issues, and assessing the fairness of all financial information issued to shareholders;
- overseeing integrated reporting and 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 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 41 of the integrated annual report.

Meetings are also attended by invitees, including the executive chairman, chief financial officer, finance director, company secretary, group finance manager, 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:

Annual financial statements

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

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, and recommended the approval of the integrated annual report to the board. The committee also gave due consideration to the need for assurance on the sustainability information contained in the report and decided not to obtain independent assurance at this time.

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 7 of the summarised financial statements.

The committee determined the nature and extent of any non-audit services and preapproved any proposed contracts with the auditors for the provision of non-audit services. During the year PricewaterhouseCoopers Inc. received fees of R142 160 for non-audit services amounting to 10% 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 for approval by the shareholders the reappointment of PricewaterhouseCoopers Inc. as external auditor, and Thinus Hamman as the engagement partner for 2014.

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.

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 audit

The internal audit function provides assurance to the board on the adequacy and effectiveness of the group's internal control and risk management processes. The committee has ensured that the internal audit department has functioned independently and has the authority to enable it to fulfil its duties. The chairman of the committee regularly meets 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.

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.

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.

Election of committee members

The following members have made themselves available for election to the committee and are hereby proposed to shareholders for consideration and approval at the annual general meeting in May 2014:

- John Bester
- Willem Jungschläger
- Pierre Joubert

John Bester
Chairman of the audit and risk committee

Cape Town
13 March 2014

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). The committee is governed by a board-approved charter and the primary responsibilities of the committee are:

- 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 41. The group chief executive officer, retail chief executive officer and chief financial officer 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 executive directors' remuneration based on market benchmarks;
- reviewed terms of executive directors' service agreements;
- reviewed annual adjustments to director, management and employee remuneration;
- approved the 2013 bonus scheme targets;
- proposed employee share option allocations and their vesting conditions;
- reviewed group performance against the bonus scheme rules and targets, and approved the payment of bonuses; and
- reviewed and updated the committee charter.

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.

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 targets. All other employees are eligible for annual bonuses subject to individual and company performance.	**Long-term performance and retention** • Share incentive scheme • Share option incentive scheme
Salary is based on competitive market value and adjusted in accordance with performance and contribution.	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.

The group's remuneration policy was proposed to shareholders for a non-binding advisory vote at the annual general meeting in May 2013 and was approved by shareholders.

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 granted on 1 March 2013 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.

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 discretionary bonus linked to their individual performance and to 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 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 financial targets based on revenue, operating profit and cash flow, as well as non-financial targets including managing the risk of buying, increasing sales revenue from existing customers, expanding the customer base, optimising supply chain efficiencies, managing talent and driving transformation, implementing leading information systems, enhancing the customer experience and managing credit risk. Remuneration is reviewed annually by the remuneration committee, is calibrated for consistency across all departments in the company 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**	**Directors' fees**	**Salary**	**Other benefits**	**Performance bonus***
2013					
Executive directors					
Richard Garratt	**12**	**–**	**3 583**	**1 749**	**1 000**
Shirley Maltz	**12**	**–**	**2 304**	**–**	**1 729**
Annalize Kirsten	**12**	**–**	**1 645**	**–**	**1 347**
		–	**7 532**	**1 749**	**4 076**
Non-executive directors					
John Bester	**12**	**287**	**–**	**–**	**–**
Pierre Joubert	**12**	**–**	**–**	**–**	**–**
Willem Jungschläger	**12**	**519**	**–**	**–**	**–**
Amanda Chorn	**12**	**227**	**–**	**–**	**–**
		1 033	**–**	**–**	**–**
Total remuneration		**1 033**	**7 532**	**1 749**	**4 076**
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

* *The performance bonus paid in March is based on the prior year's results.*

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

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**
	27 August 2017	**50**	**11,00**
		550	**10,53**
Annalize Kirsten	20 May 2015	**25**	**7,47**
	31 March 2016	**25**	**10,64**
	29 June 2016	**50**	**10,64**
	20 March 2017	**10**	**13,88**
		110	**10,21**
		660	**10,48**

Willem Jungschläger
Chairman of the remuneration and nomination committee

Cape Town
13 March 2014

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
–	**–**	**6 332**	**–**	**–**
277	**–**	**4 310**	**144**	**–**
197	**138**	**3 327**	**29**	**1 642**
474	**138**	**13 969**	**173**	**1 642**
–	**–**	**287**	**–**	**–**
–	**–**	**–**	**–**	**–**
–	**52**	**571**	**–**	**746**
–	**–**	**227**	**–**	**–**
–	**52**	**1 085**	**–**	**746**
474	**190**	**15 054**	**173**	**2 388**
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

SOCIAL AND ETHICS COMMITTEE REPORT

The social and ethics committee is a formal sub-committee of the board established in terms of the Companies Act. The committee has an independent role and is governed by a formal charter.

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, retail chief executive officer, human resources director and members of operational management. The committee meets on a quarterly basis. Biographical details of the committee members appear on page 41.

Activities of the committee

The following matters are addressed at each committee meeting:

- Employment equity: Review diversity plan and metrics
- Training and development: Review training plan and metrics
- Corporate social investment: Monitor activities of the HomeChoice Development Trust; CSI projects; employee wellness
- Customer relations: Feedback on customer research; review customer complaints
- Labour dispute trends and successful management
- Talent management
- Facilities: Review occupational health and safety practices; review recycling, water and electricity usage
- Tip-Offs Anonymous

Empowerment and transformation

The group is committed to driving transformation across the business and improved its BBBEE rating to Level 5 in 2013. The overall score on the dti scorecard increased from 53,95 to 55,98. The social and ethics committee has set a target for the group to achieve a level 5 rating in 2014, however it is currently assessing the recent amendments to legislation which are expected to have a detrimental impact on the group's rating in the medium term.

Element	Points	**2013**	2012
Ownership	20,00	**2,34**	1,88
Management and control	10,00	**3,89**	2,25
Employment equity	15,00	**5,67**	8,39
Skills development	15,00	**8,40**	4,67
Preferential procurement	20,00	**15,68**	16,76
Enterprise development	15,00	**15,00**	15,00
Socio-economic development	5,00	**5,00**	5,00
Overall score	100,00	**55,98**	53,95

Ownership

The group 's shareholding structure remained unchanged during the year and black ownership would be likely to increase should the group list on the JSE in the future.

Management and control

Black representation at senior management level improved from 18% in 2012 to 24% in 2013. However, there is currently no black representation at top management level.

Employment equity

The group continues to make pleasing progress in improving the diversity of its workforce. Black staff representation improved from 85% to 86% while females now comprise 68% of total staff compared to 66% last year. Black female staff representation remained at 90%. Employees with disabilities currently account for 1% of the staff complement.

Skills development

People and skills development is critical to the group's success and R2,3 million was invested in the past year, achieving the target of 1,5% of payroll being assigned to skills development. This year 18 bursaries were awarded, with the major focus being on developing black talent.

Preferential procurement

While procurement from black-owned suppliers and black women-owned suppliers declined marginally in the past year, the focus of procurement has been maintained on qualifying small enterprises and exempt micro enterprises.

Enterprise development

The retail business operates a home delivery network which accounted for 55% of parcel deliveries in South Africa in 2013. Independent owner-drivers are contracted for these home deliveries.

Socio-economic development

In the past year the group donated R3,15 million to the HomeChoice Development Trust (HDT), which has a focus on supporting early childhood development in disadvantaged communities. The group also awarded bursaries totalling R234 000 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				6	**6**				7	**7**	**13**
Senior professional/senior management	1	4	1	12	**18**		2	1	17	**20**	**38**
Middle professional/middle management		14		32	**46**	1	19	1	35	**56**	**102**
Junior professional/junior management	7	62	2	17	**88**	8	43	2	12	**65**	**153**
Semi-skilled	276	254	3	2	**535**	81	96		5	**182**	**717**
Unskilled	2	2			**4**	2	2			**4**	**8**
Grand total	**286**	**336**	**6**	**69**	**697**	**92**	**162**	**4**	**76**	**334**	**1 031**

HomeChoice Development Trust

HomeChoice Holdings is committed to community upliftment and, through the HomeChoice Development Trust (HDT), has invested R14 million in education and women empowerment projects since its formation in 2005.

Early childhood development

Through a renewed focus on early childhood development the HDT facilitates the upgrading of infrastructure and equipment, teacher training and nutritional support of unregistered educare centres. The HDT aims to promote the sustainability of these community-based centres and facilitate their registration with the Department of Social Development to be able to access government grants.

Over the past three years the HDT has supported 90 educare centres, facilitated the training of 270 teachers and provided development opportunities for over 5 000 children younger than six.

In 2013 the HDT funded the R1,3 million upgrade of the Noel Stanton Educare Centre in Delft in the Western Cape. The project included the addition of three classrooms, baby care and after-care facilities and a sick bay. A soup kitchen was built to provide meals to the local community. HomeChoice staff volunteered to paint the facility in their spare time.

The support from the HDT is founded on the philosophy that quality early childhood development programmes are a powerful means of overcoming the effects of poverty. The benefits of intervention at a young age mean that children perform better at formal school and are more likely to be employed, while they are less likely to need remedial education, get involved in crime and drugs, or fall pregnant while at school.

Staff involvement in CSI

HomeChoice staff participate in the Community Chest "Give As You Earn" programme which encourages staff to make a small monthly donation which is then matched by the company. Staff, family and friends also support the annual Blisters for Bread walk in Cape Town to raise funds for the Peninsula School Feeding Association.

Staff wellness

A comprehensive employee assistance programme, ChoiceCare, has been introduced to provide staff with all hours toll-free telephonic support on legal, financial and psycho-social issues. Staff and their dependants also have access to free personal counselling.

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 2014, in compliance with the requirements of the Companies Act. 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

Cape Town
13 March 2014

SUMMARISED **FINANCIAL STATEMENTS**

REPORT OF THE INDEPENDENT AUDITOR ON THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

TO THE SHAREHOLDERS OFHOMECHOICE HOLDINGS LIMITED

The summary consolidated financial statements, which comprise the summary consolidated statement of financial position as at 31 December 2013, 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 88 to 99, are derived from the audited consolidated financial statements of HomeChoice Holdings Limited for the year ended 31 December 2013. We expressed an unmodified audit opinion on those consolidated financial statements in our report dated 13 March 2014. 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 summary 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 2013 are consistent, in all material respects, with those consolidated financial statements, in accordance with the basis described in note 1 to the summary 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 13 March 2014 states that as part of our audit of the consolidated financial statements for the year ended 31 December 2013, 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
13 March 2014

SUMMARISED GROUP STATEMENT OF FINANCIAL POSITION

at 31 December 2013

	Notes	2013 R'000	% change	2012 R'000
ASSETS				
Non-current assets				
Property, plant and equipment		**292 785**	77,0	165 438
Intangible assets		**61 237**	50,5	40 678
Loans to employees		**6 362**		9 580
Investment in associates		**6 536**		3 951
Deferred taxation		**18 133**		13 206
		385 053	65,4	232 853
Current assets				
Inventories	2	**144 964**	31,5	110 241
Taxation receivable		**77**		11
Trade and other receivables	3	**1 169 921**	14,6	1 020 777
Trade receivables – retail		**686 375**	17,6	583 528
Loans receivable – financial services		**462 080**	12,3	411 646
Other receivables		**21 466**	(16,2)	25 603
Cash and cash equivalents		**67 981**		10 192
		1 382 943	21,2	1 141 221
Total assets		**1 767 996**	28,7	1 374 074
EQUITY AND LIABILITIES				
Equity attributable to equity holders of the parent				
Stated capital		**30 980**		30 980
Treasury shares		**(13 733)**		(11 331)
Other reserves		**1 902**		1 084
Retained earnings		**1 266 575**		1 049 589
Total equity		**1 285 724**	20,1	1 070 322
Non-current liabilities				
Interest-bearing liabilities		**188 208**	106,9	90 977
Deferred taxation		**68 015**		60 097
Other payables		**3 510**		3 480
		259 733	68,1	154 554
Current liabilities				
Interest-bearing liabilities		**21 148**	130,4	9 178
Taxation payable		**8 953**		5 850
Trade and other payables		**134 552**	19,4	112 718
Provisions		**9 000**		18 934
Bank overdraft		**48 886**		2 518
		222 539	49,2	149 198
Total liabilities		**482 272**	58,8	303 752
Total equity and liabilities		**1 767 996**	28,7	1 374 074

SUMMARISED GROUP STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2013

	Notes	2013 R'000	% change	2012 R'000
Revenue	6	**1 661 952**	15,9	1 434 359
Retail sales		**929 730**	10,5	841 480
Finance charges and initiation fees earned		**619 848**	24,4	498 121
Finance charges earned		**452 912**	24,6	363 474
Initiation fees earned		**166 936**	24,0	134 647
Fees from ancillary services		**112 374**	18,6	94 758
Cost of retail sales		**(472 771)**	14,9	(411 403)
Retail gross profit margin (%)		***49,1***		*51,1*
Operating costs		**(751 202)**	20,0	(625 889)
Debtor costs	7	**(316 463)**	38,9	(227 769)
Other trading expenses	7	**(434 739)**	9,2	(398 120)
Other net gains and losses		**(2 319)**		759
Other income		**2 661**		5 036
Operating profit		**438 321**	8,8	402 862
Interest received		**2 070**	(21,1)	2 624
Interest paid		**(7 554)**	21,1	(6 236)
Share of loss of associates		**(1 818)**	(13,3)	(2 097)
Profit before taxation		**431 019**	8,5	397 153
Taxation		**(121 696)**	8,0	(112 656)
Profit and total comprehensive income for the year		**309 323**	8,7	284 497
Earnings per share (cents)				
Basic	8	**306,9**	8,8	282,1
Headline	8	**306,9**	8,8	282,1
Diluted		**305,6**	9,1	280,1
Diluted headline		**305,6**	9,1	280,2

SUMMARISED GROUP STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2013

	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 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)	–	–	–	–
Profit and total comprehensive income for the year	–	–	–	–	284 497	284 497
Net purchases of treasury shares by share trust	–	–	(1 599)	–	–	(1 599)
Reduction in share premium	–	–	–	–	(50 450)	(50 450)
Share option scheme	–	–	–	539	–	539
Total changes	29 941	(29 941)	(1 599)	539	234 047	232 987
Balance at 1 January 2013	30 980	–	(11 331)	1 084	1 049 589	1 070 322
Changes in equity						
Profit and total comprehensive income for the year	**–**	**–**	**–**	**–**	**309 323**	**309 323**
Purchases of treasury shares by share trust	**–**	**–**	**(2 536)**	**–**	**–**	**(2 536)**
Sale of treasury shares by share trust	**–**	**–**	**134**	**–**	**2 396**	**2 530**
Dividends paid	**–**	**–**	**–**	**–**	**(94 733)**	**(94 733)**
Share option scheme	**–**	**–**	**–**	**818**	**–**	**818**
Total changes	**–**	**–**	**(2 402)**	**818**	**216 986**	**215 402**
Balance at 31 December 2013	**30 980**	**–**	**(13 733)**	**1 902**	**1 266 575**	**1 285 724**

SUMMARISED GROUP STATEMENT OF CASH FLOWS

for the year ended 31 December 2013

	Notes	2013 R'000	% change	2012 R'000
Cash flows from operating activities				
Operating cash flows before working capital changes		**451 910**	9,2	413 710
Movements in working capital		**(173 900)**	(33,1)	(259 992)
Cash generated from operations	10	**278 010**	80,9	153 718
Interest received		**2 078**		2 624
Interest paid		**(5 883)**		(6 236)
Dividends paid		**(94 733)**		(50 450)
Taxation paid		**(115 668)**		(93 441)
Net cash inflow from operating activities		**63 804**	926,6	6 215
Cash flows from investing activities				
Purchase of property, plant and equipment		**(134 700)**		(35 464)
Proceeds on disposal of property, plant and equipment		**9**		–
Purchase of intangible assets		**(26 883)**		(24 612)
Loans repaid by employees		**4 115**		3 609
Investment in associates		**(4 403)**		(4 371)
Net cash outflow from investing activities		**(161 862)**	166,1	(60 838)
Cash flows from financing activities				
Purchase of treasury shares		**(707)**		(1 599)
Proceeds from sale of treasury shares		**2 530**		–
Proceeds from interest-bearing liabilities		**229 950**		31 585
Repayments of interest-bearing liabilities		**(120 357)**		(13 758)
Financing costs paid		**(1 937)**		–
Net cash inflow from financing activities		**109 479**	574,6	16 228
Net increase/(decrease) in cash and cash equivalents and bank overdrafts		**11 421**		(38 395)
Cash, cash equivalents and bank overdrafts at the beginning of the year		**7 674**		46 069
Cash, cash equivalents and bank overdrafts at the end of the year		**19 095**	148,8	7 674

SUMMARISED GROUP SEGMENTAL ANALYSIS

for the year ended 31 December 2013

	Retail			Financial services		
	2013 R'000	% change	2012 R'000	**2013 R'000**	% change	2012 R'000
Segmental revenue	**1 344 840**		1 178 017	**315 923**		255 153
Retail sales	**929 730**	10,5	841 480	**–**		–
Finance charges and initiation fees earned	**361 808**	24,2	291 221	**258 040**	24,7	206 900
Fees from ancillary services	**53 302**	17,6	45 316	**57 883**	20,0	48 253
Dividends received	**–**		–	**–**		–
Intersegment revenue	**–**		–	**–**		–
Revenue from external customers	**1 344 840**	14,2	1 178 017	**315 923**	23,8	255 153
Segmental results*	**277 885**	5,7	262 960	**116 368**	17,0	99 436
Segmental assets**	**1 038 561**		782 937	**502 783**		444 326
Segmental liabilities**	**305 290**		188 172	**12 127**		16 896
Group loans receivable/(payable)	**104 071**		42 212	**(249 633)**		(270 335)
Segmental equity	**837 342**		636 977	**241 023**		157 095
Operating cash flows before working capital changes	**290 596**	6,5	272 960	**145 788**	11,5	130 766
Movements in working capital	**(129 877)**		(143 211)	**(47 441)**		(117 125)
Cash generated/(utilised) by operations	**160 719**	23,9	129 749	**98 347**	621,0	13 641
Gross profit margin	**49,1**		51,1			
Segmental results margin	**20,7**		22,3	**36,8**		39,0
Capital expenditure						
Property, plant and equipment	**55 286**		4 759	**610**		620
Intangible assets	**26 649**		24 587	**234**		25
Items included in segmental results:						
Interest received – Other and Financial Services	**–**		–	**159**		120
Interest paid – Other and Financial Services	**–**		–	**(28 993)**		(30 149)
Marketing costs	**125 754**	12,7	111 613	**13 054**	59,7	8 176
Staff costs	**141 211**	(0,1)	141 371	**30 781**	34,0	22 972
Depreciation and amortisation	**11 992**	23,1	9 739	**490**	(45,3)	896
Other costs	**104 733**	9,2	95 889	**22 495**	41,5	15 892
Other trading expenses	**383 690**	7,0	358 612	**66 820**	39,4	47 936
Debtor costs	**212 002**	41,3	149 997	**104 461**	34,3	77 772
Total trading expenses (refer to note 7)	**595 692**	17,1	508 609	**171 281**	36,3	125 708
Reconciliation of segment results						
Segmental results, as reported above						
Interest received						
Interest paid						
Share of loss of associates						
Profit before taxation						

* *Refer to note 11 for further details on the measurement basis of segmental results*

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

Property			Other			Eliminations			Total		
2013 R'000	% change	2012 R'000	**2013 R'000**	% change	2012 R'000	**2013 R'000**	% change	2012 R'000	**2013 R'000**	% change	2012 R'000
18 689		18 462	**2 905**		153 266	**–**		–	**1 682 357**		1 604 898
–		–	**–**		–	**–**		–	**929 730**	10,5	841 480
–		–	**–**		–	**–**		–	**619 848**	24,4	498 121
18 689		18 462	**–**		–	**–**		–	**129 874**	15,9	112 031
–		–	**2 905**		153 266	**–**		–	**2 905**		153 266
(17 500)		(17 273)	**(2 905)**		(153 266)	**–**		–	**(20 405)**		(170 539)
1 189		1 189	**–**		–	**–**		–	**1 661 952**	15,9	1 434 359
16 492	4,5	15 782	**34 156**	(80,7)	176 768	**(7 685)**	(94,9)	(151 658)	**437 216**	8,4	403 288
228 649		154 257	**6 470**		9 772	**(8 467)**		(17 218)	**1 767 996**		1 374 074
62 360		98 597	**110 962**		17 305	**(8 467)**		(17 218)	**482 272**		303 752
(135 992)		(34 165)	**281 554**		262 288	**–**		–	**–**		–
30 297		21 495	**177 062**		254 755	**–**		–	**1 285 724**		1 070 322
17 681	5,4	16 774	**241**		(6 790)	**(2 396)**		–	**451 910**	9,2	413 710
3 105		(97)	**313**		441	**–**		–	**(173 900)**		(259 992)
20 786	24,6	16 677	**554**		(6 349)	**(2 396)**		–	**278 010**	80,9	153 718
									49,1		51,1
88,2		85,5	**1 175,8**		115,1	**–**		–	**26,4**		28,1
78 804		30 085	**–**		–	**–**		–	**134 700**		35 464
–		–	**–**		–	**–**		–	**26 883**		24 612
–		–	**29 274**		30 457	**(28 989)**		(30 149)	**444**		428
–		–	**(1 545)**		–	**28 989**		30 149	**(1 549)**		–
–		–	**–**		–	**–**		–	**138 808**	15,9	119 789
–		–	**1 858**		147	**–**		–	**173 850**	5,7	164 490
1 189	2,1	1 165	**–**		–	**–**		–	**13 671**	15,9	11 800
1 030	(33,0)	1 537	**(2 348)**	(139,2)	5 996	**(17 500)**	1,3	(17 273)	**108 410**	6,2	102 041
2 219	(17,9)	2 702	**(490)**	(108,0)	6 143	**(17 500)**	1,3	(17 273)	**434 739**	9,2	398 120
–		–	**–**		–	**–**		–	**316 463**	38,9	227 769
2 219	(17,9)	2 702	**(490)**	(108,0)	6 143	**(17 500)**	1,3	(17 273)	**751 202**	20,0	625 889
									437 216	8,4	403 288
									1 626	(26,0)	2 197
									(6 005)	(3,7)	(6 235)
									(1 818)	(13,3)	(2 097)
									431 019	8,5	397 153

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

The group annual financial statements for the year ended 31 December 2013 and these summarised 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 auditors, PricewaterhouseCoopers Inc. Their unqualified audit opinions on both such financial statements are available at the company's registered office for inspection.

These summarised group financial statements have been prepared in accordance with the framework concepts, the measurement and recognition requirements of International Financial Reporting Standards (IFRS), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and also, as a minimum, contain the information required by *IAS 34 Interim Financial Reporting* and the requirements of the Companies Act applicable to summary financial statements. The accounting policies applied in the preparation of the consolidated financial statements from which the summarised group financial statements were derived are in terms of IFRS and are consistent with the accounting policies applied in the preparation of the previous consolidated annual financial statements, unless otherwise indicated. These summarised group financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2013, which have been prepared in accordance with IFRS and the requirements of the Companies Act of 2008. A copy of the full set of consolidated annual financial statements is available for inspection from the company secretary at the registered office of the company.

The group has adopted all the new, revised or amended accounting pronouncements as issued by the IASB which were effective for the group from 1 January 2013.

	2013 R'000	2012 R'000
2. INVENTORIES		
Merchandise for resale	**118 492**	75 670
Provision for inventory obsolescence	**(10 484)**	(9 942)
Goods in transit	**36 956**	44 513
	144 964	110 241

Inventory sold at less than cost during the current year amounted to R12,4 million (2012: R8,4 million).

	2013 R'000	% change	2012 R'000
3. TRADE AND OTHER RECEIVABLES			
Trade receivables – retail*	**845 730**	18,1	716 006
Provision for impairment	**(159 355)**	20,3	(132 478)
	686 375	17,6	583 528
Loans receivable – financial services	**525 116**	13,1	464 438
Provision for impairment	**(63 036)**	19,4	(52 792)
	462 080	12,3	411 646
Other receivables	**21 466**	(16,2)	25 603
Total trade and other receivables	**1 169 921**	14,6	1 020 777
Trade and loan receivables	**1 370 846**	16,1	1 180 444
Provision for impairment	**(222 391)**	20,0	(185 270)
Other receivables	**21 466**	(16,2)	25 603

* *The 2012 comparatives include the combined information for trade receivables – HomeChoice and trade receivables – other, which were separately disclosed as R526,1 million and R57,4 million respectively.*

	2013 R'000	% change	2012 R'000
3. TRADE AND OTHER RECEIVABLES (continued)			
Movements in the provision for impairment were as follows:			
Retail			
Opening balance	**(132 478)**	43,2	(92 486)
Movement in provision	**(26 877)**	(32,8)	(39 992)
Debtor costs charged to profit and loss	**(212 002)**	41,3	(149 997)
Debts written off during the year, net of recoveries	**185 125**	68,3	110 005
Closing balance	**(159 355)**	20,3	(132 478)
Financial Services			
Opening balance	**(52 792)**	49,4	(35 334)
Movement in provision	**(10 244)**	(41,3)	(17 458)
Debtor costs charged to profit and loss	**(104 461)**	34,3	(77 772)
Debts written off during the year, net of recoveries	**94 217**	56,2	60 314
Closing balance	**(63 036)**	19,4	(52 792)
Retail			
Debtor costs as a % of revenue	**15,8**		12,7
Debtor costs as a % of gross trade receivables	**25,1**		20,9
Provision for impairment as a % of gross receivables	**18,8**		18,5
Financial Services			
Debtor costs as a % of revenue	**33,1**		30,5
Debtor costs as a % of gross trade receivables	**19,9**		16,7
Provision for impairment as a % of gross receivables	**12,0**		11,4
Group			
Debtor costs as a % of revenue	**19,0**		15,9
Debtor costs as a % of gross trade receivables	**23,1**		19,3
Provision for impairment as a % of gross receivables	**16,2**		15,7

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 summarised financial statements has occurred between the end of the financial year and the date of approval.

	2013 R'000	% change	2012 R'000
6. REVENUE			
Retail sales	**929 730**	10,5	841 480
Finance charges earned	**452 912**	24,6	363 474
Initiation fees earned	**166 936**	24,0	134 647
Fees from ancillary services	**112 374**	18,6	94 758
Administration fees	**94 139**	23,4	76 298
Other fees	**18 235**	(1,2)	18 460
	1 661 952	15,9	1 434 359
7. TOTAL TRADING EXPENSES			
Expenses by nature			
Debtor costs			
Trade receivables – HomeChoice	**212 002**	41,3	149 997
Loans receivable – FinChoice	**104 461**	34,3	77 772
Total debtor costs	**316 463**	38,9	227 769
Auditor's remuneration	**1 817**	(10,4)	2 027
Consultation fees	**3 790**	25,1	3 029
Amortisation of intangible assets	**6 324**	30,5	4 847
Depreciation of property, plant and equipment	**7 347**	5,7	6 953
Operating lease charges for immovable property	**27**	–	–
Total operating lease charges	**12 415**	6,9	11 616
Less: disclosed under cost of retail sales	**(12 388)**	6,6	(11 616)
Marketing costs	**138 809**	15,9	119 789
Staff costs	**173 850**	5,7	164 490
Total staff costs	**192 435**	6,9	180 003
Less: disclosed under cost of retail sales	**(18 585)**	19,8	(15 513)
Other costs	**102 775**	6,0	96 985
Total other trading expenses	**434 739**	9,2	398 120
	751 202	20,0	625 889

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:

	2013		2012	
	Gross R'000	**Net R'000**	Gross R'000	Net R'000
Profit for the year		**309 323**		284 497
Adjusted for the after-tax effect of:				
(Gains)/losses on disposal of property, plant and equipment and intangible assets	**(3)**	**(2)**	34	24
Headline earnings		**309 321**		284 521
Weighted average number of ordinary shares in issue ('000)		**100 779**		100 860
Earnings per share (cents)				
Basic		**306,9**		282,1
Headline		**306,9**		282,1

9. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts reported in the statement of financial position approximate fair values. Discounted cash flow models are used for trade and loan receivables. The discount yields in these models use calculated rates that reflect the return a market participant would expect to receive on instruments with similar remaining maturities, cash flow patterns, credit risk, collateral and interest rates. Fair values of debt instruments issued by the group and other borrowings are estimated using discounted cash flow models based on the group's current incremental borrowing rates for similar types of borrowings, with maturities consistent with those remaining for the debt instruments being valued.

	2013 R'000	% change	2012 R'000
10. RECONCILIATION OF CASH GENERATED FROM OPERATIONS			
Profit before taxation	**431 019**	8,5	397 153
Share of loss of associates	**1 818**	(13,3)	2 097
(Gains)/losses on disposal of property, plant and equipment and intangible assets	**(3)**	(108,8)	34
Loans to employees – amortised cost adjustment	**(260)**	(51,7)	(538)
Notional interest on loans to employees	**(637)**	(35,5)	(987)
Depreciation and amortisation	**13 671**	15,9	11 800
Share-based employee service expense	**818**	51,8	539
Interest paid	**7 554**	21,1	6 236
Interest received	**(2 070)**	(21,1)	(2 624)
Operating cash flows before working capital changes	**451 910**	9,2	413 710
Movements in working capital	**(173 900)**	(33,1)	(259 992)
Increase in inventories	**(34 723)**	91,9	(18 092)
Increase in trade receivables – Retail	**(102 847)**	(27,2)	(141 251)
Increase in loans receivable – Financial Services	**(50 434)**	(56,2)	(115 066)
Increase in other receivables	**4 129**	(128,0)	(14 747)
Increase in trade and other payables	**19 909**	(27,1)	27 294
(Decrease)/increase in provisions	**(9 934)**	(631,2)	1 870
	278 010	80,9	153 718

11. 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 decision-maker, 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 and FoneChoice 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.

The chief operating decision-maker monitors the results of the business segments separately for the purposes of making decisions about resources to be allocated and of assessing performance. They assess the performance of the Retail and Property segments based upon a measure of operating profit and Financial Services and Other segments based on a measure of operating profit after interest received and interest paid.

12. RECLASSIFICATIONS AND RESTATEMENTS

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

Disclosure of revenue

The group has effected amendments to its revenue disclosures. These amendments are considered to enhance the transparency of information provided to the user and to better reflect the nature of the group's retail operations, being that of a home shopping retailer.

At 30 June 2013 the revenue recognition accounting policy was reviewed and amended as follows:

Initiation fee income has been reclassified from "Fees from ancillary services" and has now been disclosed as part of "Finance charges and initiation fees earned".

The impact of the disclosure changes on the results reported as at 31 December 2012 is as follows:

	Now disclosed R'000	Previously disclosed R'000	Difference R'000
Finance charges and initiation fees earned	498 121	363 474	134 647
Finance charges earned	363 474	363 474	–
Initiation fees earned	134 647	–	134 647
Fees from ancillary services	94 758	229 405	(134 647)

Segmental results:

The group has effected amendments to the disclosure of divisional results in the segmental report and now reports "Segmental results" for each division rather than "Segmental operating profit". The amendments have been made to improve the comparability of the group's Financial Services operations with that of other credit providers.

The impact of the disclosure changes on the results reported as at 31 December 2012 is as follows:

	Retail R'000	Financial Services R'000	Property R'000	Other R'000	Eliminations R'000	Total R'000
Previously disclosed						
Segmental operating profit	262 960	129 465	15 782	146 313	(151 658)	402 862
Adjusted for:						
Interest received	–	120	–	30 455	(30 149)	426
Interest paid	–	(30 149)	–	–	30 149	–
Now disclosed						
Segmental results	262 960	99 436	15 782	176 768	(151 658)	403 288

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.
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.
Debt:equity ratio	Borrowings expressed as a percentage of total equity.
Net debt:equity ratio	Borrowings, less any cash on hand, 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.
EBITDA	Earnings before interest received, interest paid, tax, depreciation and amortisation.
Existing customer base	Currently active customers plus recently inactive customers.
Finance charge cover	Operating profit before finance charges divided by interest paid.
Headline earnings	Earnings attributable to ordinary shareholders adjusted for the effect, after tax, of exceptional items.
Headline earnings per ordinary share	Headline earnings divided by the weighted average number of shares in issue for the year.
Health of stock	Stock with an ageing of nine months or less as a percentage of all stock on hand.
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 despatched 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 gross profit margin	Retail gross profit divided by retail sales.
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.
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 Monday, 12 May 2014, at 15:00 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, No. 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 Monday, 24 March 2014.

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

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 Friday, 9 May 2014.

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 2013.
2. To confirm the declaration of a final dividend of 66 cents (sixty-six cents) per ordinary share.
3. To elect two directors in the place of J Bester and W Jungschläger, who retire in terms of the Company's memorandum of incorporation. J Bester and W Jungschläger, being eligible, offer themselves for re-election.
4. To elect the members of the audit and risk committee. J Bester, P Joubert and W Jungschläger offer themselves for re-election.
5. To consider the reappointment of PricewaterhouseCoopers Inc. as the external auditors.
6. To authorise the payment of the 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 78 and 79 in the group's integrated annual report for the period ending 31 December 2014.
8. To authorise the provision of financial assistance by the Company to a related or interrelated (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 interrelated to them.
9. To place the authorised unissued shares in the Company under the control of the board of directors (the "Board").
10. 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 2013, 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 2013, 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 66 cents (sixty-six 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 66 cents (sixty-six cents) per ordinary share to be paid by the end of May 2014 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 12 May 2014.

ELECTION OF DIRECTORS

Ordinary resolution number 3.1

"It is hereby resolved that J Bester is elected as a director of the Company."

Ordinary resolution number 3.2

"It is hereby resolved that W Jungschläger 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 election are set out on page 41 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 P Joubert is elected as a member of the audit and risk committee."

Ordinary resolution number 4.3

"It is hereby resolved that W Jungschläger 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 election are set out on page 41 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 Inc. 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 2014 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 2015, up to an amount not exceeding R650 000,00 (six hundred and fifty 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 per cent), 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 78 and 79 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 interrelated company (as defined in the Companies Act) or for the purchase of any securities of the Company or a related or interrelated 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 interrelated to the Company or to a person related to such company or corporation;
   ii. any present or future member of a corporation related or interrelated 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 interrelated 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 interrelated to the Company or to a person related to such company or corporation;
   ii. any present or future member of a corporation related or interrelated 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 interrelated company, or a person related to any 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 R1 billion (one billion 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 interrelated company, or for the purchase of any securities of the Company, or a related or interrelated 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 interrelated to the Company and any director or prescribed officer, or a person related or interrelated 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 interrelated 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:

i. 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;

ii. be satisfied that the terms under which the Financial Assistance is proposed to be given are fair and reasonable to the Company; and

iii. 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:

i. a director, future director, prescribed officer, or future prescribed officer of the Company, or to a person related or interrelated to such directors and prescribed officers;

ii. to persons related or interrelated to the Company; and

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

Explanatory information in respect of special resolution number 3

The resolution authorises the Board to issue, or grant rights exercisable for, the unissued authorised shares of the Company. 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. 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.

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 2014 after deduction of the applicable withholding tax governed by section 64G of the Income Tax Act, (No. 58 of 1952).

Exchange control regulations and rulings

The following guideline is a summary of South African Exchange Control Regulations issued in terms of the Currency and Exchanges Act, No. 9 of 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 12 May 2014, 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 12 May 2014 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 at the back of this report;
- a proxy need not also be a Shareholder of the Company;
- the proxy may delegate the authority granted to him/her/it 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, 5 May 2014 and provide their e-mail and cell phone contact details;
- each participant will be contacted between 09:00 and 11:00 on the day of the meeting via e-mail 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:
  - cancelling it in writing, or making a later inconsistent appointment of a proxy; and
  - 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

Cape Town
13 March 2014

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 Monday, 12 May 2014, at 15:00 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 66 cents (sixty-six cents) per ordinary share			
Ordinary resolution number 3.1: To elect J Bester as a director of the Company			
Ordinary resolution number 3.2: To elect W Jungschläger 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 P Joubert as a member of the audit and risk committee			
Ordinary resolution number 4.3: To elect W Jungschläger 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			

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 ______________________ 2014.

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:
    a. all joint holders must sign the form of proxy; and
    b. 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 2014
Annual general meeting	12 May 2014
Distributions to shareholders	May and November

Reports and profit statements:	
Publication of annual report	Approximately 28 March 2014
Interim report	Approximately 22 August 2014

HomeChoice
HOLDINGS LIMITED