Integrated annual report 2015

HomeChoice International PLC

2015 at a Glance

HiL PLC

REVENUE
up 14,0% to R2,2 billion

GROSS PROFIT MARGIN improved from 49,8% to 50,7%

RETAIL SALES
up 10,6% to R1,2 billion

EBITDA
up 16,7%

OPERATING PROFIT increased by 11,3%

Successful launch of
1 000-SEAT CALL CENTRE

Showroom establishes a "BRICKS AND MORTAR" presence

DEBTOR COSTS as a % of revenue up from 16,8% to 17,8%

DIGITAL CREDIT extended 28% of total group credit to R745 million

RETAIL DIGITAL SALES
up 30%

CASH GENERATED FROM OPERATIONS
up 53,5%

HEADLINE EARNINGS PER SHARE
up 10,3% to 389,1 cents

Our Integrated Report

The directors of HomeChoice International PLC (HIL) have pleasure in presenting the integrated annual report for the 2015 financial year.

As the group was restructured and listed on the JSE Limited (JSE) late in 2014, this integrated report covers the transition from the former holding company, HomeChoice Holdings Limited (based in South Africa), to HIL.

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

This integrated annual report aims to demonstrate how our leading position in home-shopping retailing and financial services in southern Africa contributes to value creation in the short, medium and longer term for our shareholders.

SCOPE AND BOUNDARY

This report covers the performance and activities of HIL and its subsidiaries (the group) for the period 1 January 2015 to 31 December 2015.

While the holding company is based in Malta, the group currently operates principally in South Africa where it derives the majority of its revenue and profit, with 11% of Retail revenue generated from the neighbouring countries of Botswana, Lesotho, Namibia, Swaziland and Zambia. The report focuses on the group's business operations in South Africa.

There has been no material change in the comparability of reporting from 2014, with no restatements of financial results.

REPORTING SUITE

The group makes the following documents available to stakeholders:

- Integrated annual report
- Annual financial statements
- Analyst presentation
- Notice of annual general meeting

These documents are made available on the company's website www.homechoiceinternational.com and printed copies may be obtained on request from the company secretary.

INTEGRATED REPORTING

Management aims to adopt the guidelines outlined in the International Integrated Reporting Council's Framework as appropriate. The Framework includes reporting in terms of the six capitals of value creation, being financial, intellectual, human, manufactured, social and relationship, and natural capital. This report does not address the capitals as specific topics, however, the activities relating to them are addressed throughout the document.

Materiality has been applied in determining the content and disclosure in this report, ensuring the report is both concise and relevant to our shareholders. Material issues are considered to be those that may impact on the group's ability to satisfy customers' needs, improve financial returns and deliver sustainable growth. The material issues are covered in more detail on pages 20 to 23.

ASSURANCE

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

FORWARD-LOOKING STATEMENTS

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

APPROVAL

The audit and risk committee, which has oversight responsibility for integrated reporting, 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 2015 integrated annual report for release to shareholders on 31 March 2016.

Stanley Portelli
Independent non-executive chairman

Gregoire Lartigue
Group chief executive officer

Shirley Maltz
Group chief executive officer – South Africa

Distribution network makes >780 000 deliveries

193 000 new customers

Two main operating subsidiaries:

- Retail
- Financial Services

1 450 employees

GROUP OVERVIEW

Contents

Company Profile

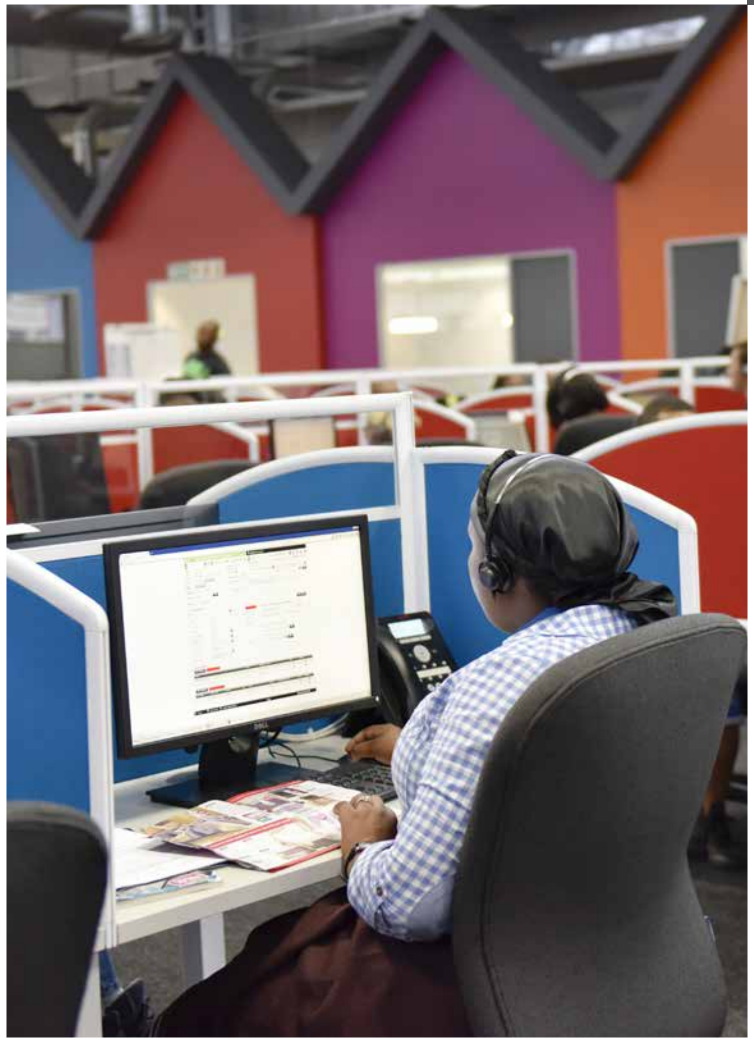
HomeChoice International PLC (HIL) is an investment holding company incorporated in Malta and listed on the JSE Limited. Through its two main operating subsidiaries, HomeChoice (Retail) and FinChoice (Financial Services), the group operates a retail direct marketing business and a financial services business to the LSM 4 – 8 middle-income market in southern Africa.

Established in Cape Town in 1985, the group is the largest home-shopping retailer in southern Africa, offering products through digital channels (internet and mobile phone), call centres and mail order (catalogues). The Financial Services business was launched in 2007 primarily to offer personal loans to Retail customers of good standing through digital platforms.

During the year the group established an office in Mauritius and built the infrastructure and capability from which it launched an insurance business in 2015. This base will be used to further develop and expand the Financial Services business.

GROUP VISION

"to offer innovative retail and financial services products to the growing African middle class through our digital platforms"



VALUES

Customer delight – we will put our customers first in everything we do

Teamwork – we will be united in purpose and action, turning our diversity, skills and experience into a source of strength

Integrity – we will be transparent in our dealings, upholding moral, legal and ethical codes

Innovation – through our courage and initiative we will identify and implement new opportunities and ideas that will successfully shape our future

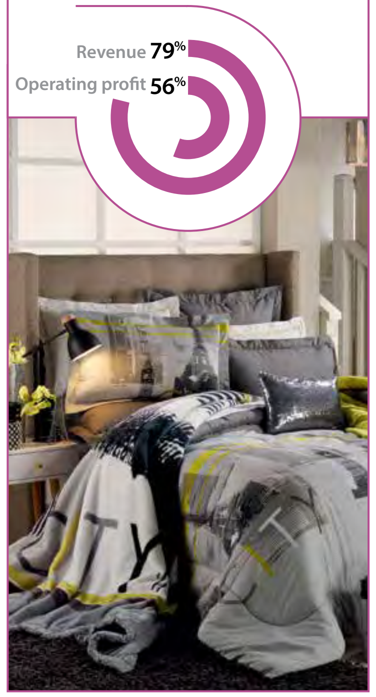
Excellence – we will continuously assess, adapt and improve while being accountable and professional

GROUP STRUCTURE

The group's trading operations are conducted through two main operating subsidiaries – Retail and Financial Services. The property company owns the commercial properties which support the trading operations.

RETAIL

Retail is an omni-channel home-shopping retailer offering an extensive range of household textiles and homeware merchandise, and recently introduced clothing and footwear, under the HomeChoice brand. Merchandise is sold using credit through a convenient shopping experience supported by a home delivery service. Personal electronics are offered under the FoneChoice brand.



FINANCIAL SERVICES

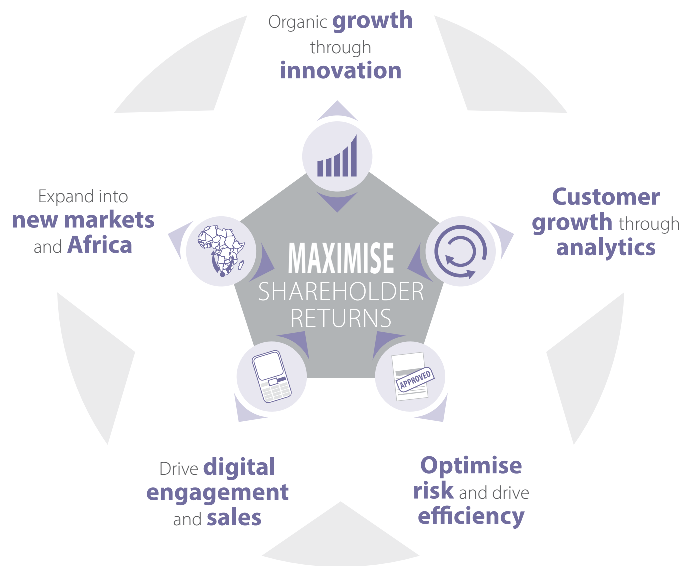
Financial Services is a niche provider of unsecured personal loan and insurance products offered under the FinChoice brand to Retail customers with good credit records. Financial Services leverages the Retail customer database and marketing platforms to acquire customers at low cost and more predictable repayment behaviour. The business focuses on short-term and low-value loans.

PROPERTY

The group owns the head office building and a centralised distribution centre in Cape Town. During 2015 a new call centre facility and a retail showroom was developed on land adjacent to the head office.

Group Strategy

The board drives the allocation of capital and focus for each of the strategic focus areas in order to maximise returns.



THE STRATEGY IN REVIEW

A review of the performance against the strategic objectives for 2015 and the plans for 2016 are depicted below and opposite:

Organic growth through innovation

RETAIL

2015 focus areas

- Existing customer retention ✓
- Range extension and new product categories ✓
- Implement warehouse ERP module ✗
- Launch 1 000-seat call centre ✓
- Supply chain efficiencies ✓

Plans for 2016

- Expand new bedding concepts and leverage textiles expertise
- Develop fashion range and include men's footwear offering
- Trial external brands
- Cost reduction through the supply chain
- Call and collect optimisation and home delivery contribution

FINANCIAL SERVICES

2015 focus areas

- Growth in loan book ✓
- Repeat loan mix target 70% – 75% ✓
- New product features ✗

Plans for 2016

- Steady growth of loan book
- Extend product and drive feature innovation
- Maintain repeat loan mix >70%

Customer growth through analytics

RETAIL

2015 focus areas

- 9% customer growth ✓
- Improve customer retention ✓
- Drive digital customer acquisition ✓
- Adspend efficiencies ✓

Plans for 2016

- Implement customer-centric marketing plans
- Develop further existing customer retention strategies
- Introduce on-boarding programme for new customers
- Drive conversion of media campaigns

FINANCIAL SERVICES

2015 focus areas

- Grow active customer base by 12% – 15% ✓
- Acquire 40 000 to 45 000 loan customers ✓
- Improve telemarketing response ✓
- Drive retention ✓

Plans for 2016

- Deepen penetration of Retail customer base
- Drive repeat loan engagement
- Optimise response models
- Controlled external customer acquisition

Optimise risk and drive efficiency

RETAIL

2015 focus areas

- Implement "affordability processes" ✓
- Optimise in-house scorecards ✓
- Improve fraud detection processes ✓
- Increase collections capacity ✓
- Increase electronic payments ✓

Plans for 2016

- Improvements from investment in credit risk team, enhanced reporting and processes
- Effective collaboration on strategy and execution between credit risk and credit operations
- Vetting process review and enhancements
- Champion challenger strategies and collections

FINANCIAL SERVICES

2015 focus areas

- Implement "affordability processes" ✓
- Refine behavioural scorecards ✓
- Refine collections dialler strategies ✗
- Maintain debtor costs and impairment provisions ✓

Plans for 2016

- Streamline regulatory changes
- Optimise customer journey and call centre processes
- Maintain stable debtor costs and impairment provisions
- Continually refine scorecards and collection strategies

Drive digital engagement and sales

RETAIL

2015 focus areas

- Digital sales at 10% contribution ✓
- Invest in web and mobi ✓
- Enable trade beyond South Africa ✗

Plans for 2016

- Expand digital marketing offers, including social, and focus on organic traffic growth
- Enhance mobi platform and focus on conversion
- Improve online fashion experience
- Improve customer service experience and method of engagement for digital customer

FINANCIAL SERVICES

2015 focus areas

- Support KwikServe® ✓
- Roll out mobi to existing customers ✓
- Include insurance products on mobi ✗
- Increase e-mail marketing ✓

Plans for 2016

- Drive mobi uptake and engagement
- Migrate KwikServe customers to mobi platform
- Launch new customer acquisition on mobi
- Increase self-service features on mobi

Expand into new markets and Africa

RETAIL

2015 focus areas

- Growth in existing countries ✓
- Zambia trial ✓
- Launch showroom ✓
- Expand pop-up strategy ✗

Plans for 2016

- Develop optimal showroom concept and plan future roll-out
- Optimise station concourse sites
- Streamline logistics operations in African markets
- Drive customer growth in existing markets and re-engage sales agents in Botswana and Namibia

FINANCIAL SERVICES

2015 focus areas

- Test loan offering in Botswana ✗
- Launch insurance business ✓
- Pilot funeral product ✓

Plans for 2016

- Grow Mauritius operations hub
- Test financial services products into existing Africa countries with Retail customers
- Expand insurance business

Stakeholders

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

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

CUSTOMERS

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

RETAIL

"to be our customer's most trusted retail partner, helping to achieve her lifestyle aspirations"

FINANCIAL SERVICES

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

The profile of our customers is shown below:

TARGET MARKET

Black middle class growing by over 400 000 per annum, with CAGR of 12% since 1994

	2004	2010	2014
LSM 1 – 3	36%	15%	10%
LSM 4 – 8	53%	70%	74%
LSM 9 – 10	11%	15%	16%

677 000 group customers at end-December 2015

193 000 new customers acquired

340 000 Facebook followers

85%

PREDOMINANTLY FEMALE

15%

Our customers are female, residing in urban areas and aged between 25 and 45

STRONG SOUTH AFRICAN BASE

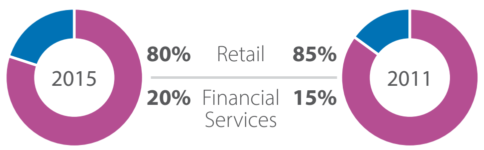
We are building on our experience in South Africa **92%** to acquire new customers in neighbouring countries **8%**

HER PREFERRED WAY TO SHOP

Our customers interact by using a number of different channels, with digital the fastest growing channel

digital	17%	(2010: 7%)
call centre	63%	(2010: 63%)
mail	8%	(2010: 24%)
sales agent	12%	(2010: 6%)

LEVERAGING CUSTOMER BASE



Financial Services relationships are built by accessing loyal Retail customers

HER PREFERRED WAY TO MANAGE HER FINANCES

digital	65%
call centre	35%

Our digital platforms provide a convenient solution to her whenever she wants and wherever she is

Stakeholders – continued

EMPLOYEES

The group has in excess of 1 450 employees based in the head office situated in Cape Town and distribution centres in the Western Cape and Gauteng.

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

The profile of our employees is shown below:

88% black — 12% white

REPRESENTATIVE OF COUNTRY DEMOGRAPHICS

In excess of 75% of all promotions during 2015 were made to black employees.

STAFF WELLNESS

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

31% — 69%

HIGH CORRELATION WITH CUSTOMER BASE

SUBSTANTIAL CALL CENTRE IN EMPLOYEE BASE 75%

Over **600 employees** and their families attended the annual HC Family Fun day. The fun park and music entertained young and old throughout the afternoon with the traditional HC lucky draw adding to the excitement. For many children the highlight of the afternoon was the fire truck display and the opportunity to sit in the truck. A memorable event filled with FUN and entertainment for the whole family.

ATTRITION RATE

53% in call centre

The group has experienced a difficult year with unusually high levels of labour turnover in the call centre. Interventions have been implemented to reduce the labour turnover to acceptable levels. The move to the new 1 000-seat call centre facility has given renewed vigour to the call centre teams and we have seen an increase in the productivity and a reduction in the attrition rate.

16 bursaries provided

R3,6m in 2015

INVESTMENT IN TRAINING

A significant investment was made in training, in particular the call centre, to ensure that the group would be able to effectively implement the affordability regulatory changes. A new call centre employee typically receives 120 hours of training to become familiar with the group's systems and processes.

9 360
TRAINING INTERVENTIONS

30 years old for call centre staff

35 years old for specialist staff

AVERAGE AGE

EMPLOYEE INVOLVEMENT IN CSI

Sponsored 29 entries in Cape Town Cycle Tour in support of Centre for Early Childhood Development.

186 Buckets of Love donated by the group, providing meals to families at Christmas time.

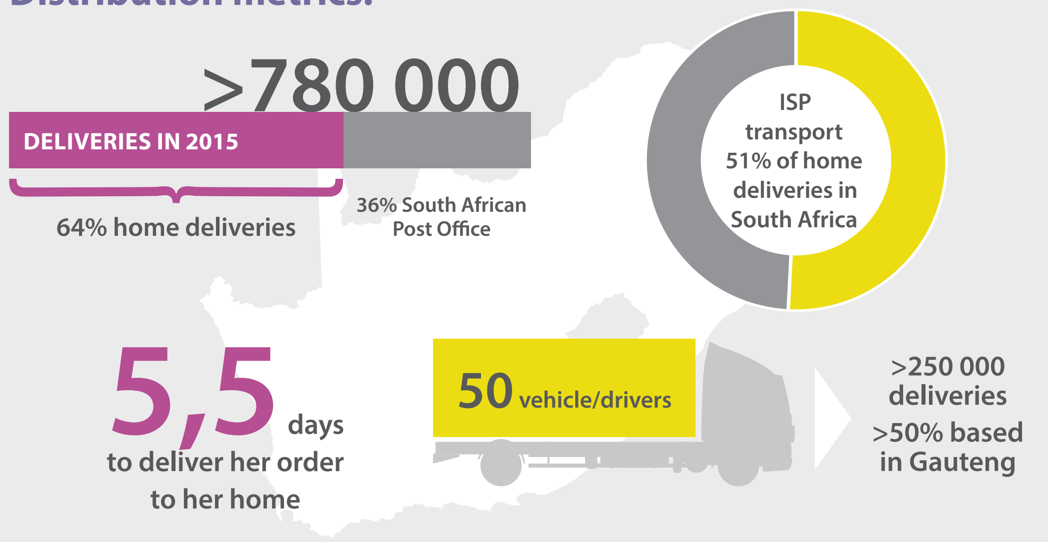
Annual Movember calendar produced and sold in-house to raise funds for Red Cross Children's Hospital.

Stakeholders – continued

DISTRIBUTION NETWORK PARTNERS

The Retail business has developed a distribution network capability to ensure that customers receive their orders timeously and in good condition. The network is facilitated through three categories of business partners – South African Post Office (SAPO), third-party courier companies and "owner-drivers" or independent service providers (ISPs). The ISPs form an integral part of the group's enterprise development initiatives and also reduces reliance on SAPO which has seen a deterioration in service delivery (see Material issues).

Distribution metrics:



The ISP relationship provides a more cost-effective distribution network and provides flexibility to quickly adapt to new product requirements, ensuring a more personalised delivery service. The level of unclaimed returned product decreases with ISP, indicating more successful deliveries. Training is provided for all ISPs and a comprehensive delivery manual ensures that delivery standards are maintained. As the need arises to extend the delivery network reach to increase the number of collection points for our customers, the ISP model will continue to play a key role in the group's distribution capabilities.

Owner-driver feedback

We asked some of our owner-drivers to tell us how they felt about working for the group.

"I started doing work for HomeChoice in 2010, delivering furniture for them. They were very professional in every aspect and made me feel part of the group. My team and I received the proper training we required and it is still ongoing." – Neil

"When we started with HomeChoice the volumes were low and we only needed one vehicle. With the growth in the business one vehicle became four, we moved to larger premises and were able to provide job opportunities for more people." – Marius

"I started working with HomeChoice in 2003, with an admin assistant who also helped with deliveries – we had one van. In 2014 I was asked to deliver furniture and white goods and now I employ 13 staff and own a fleet of six vans." – Zakele

COMMUNITIES

As the group is based in Cape Town much of the community focus is targeted at the stakeholder community situated in the Western Cape.

Much of the work which the group does within its communities is driven through the HomeChoice Development Trust (HCDT or Trust).

Since 2011 the main focus of the Trust has been to direct funding into the field of early childhood development (ECD) in disadvantaged communities within the Western Cape. Over the past four years the Trust has refined its strategic focus to partner with organisations that have long-term and sustainable strategies within these communities. In partnership with these organisations the Trust funds and facilitates the upgrading of infrastructure and equipment, teacher training and nutritional support of unregistered educare centres.

The objective of the Trust is to make a deep-rooted systemic change in these communities. This is done by creating a hub (resource centre) where the projects can conduct training and workshops with teachers and parents. Toy and book libraries are also made available to support the work done in the centres. Strong ECD forums are built, gaining the commitment of the teachers, the parents and the communities. One resource centre will support a number of key ECD satellite centres and only once these centres are fully operational, and registered with the Department of Social Development, does the Trust expand its focus and funding to other centres.

Early childhood development programmes are a powerful means of overcoming the effects of poverty. Experience has shown that through participation at an educare facility 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.

KEY HIGHLIGHTS

Since 2011 the Trust has:

- Supported **189 educare centres**
- Trained **742 ECD practitioners**
- Provided quality start to education of more than **10 000 children** under the age of 6
- Donated more than **R11 million** to support early childhood development
- Spent **R2,4 million** in 2015
- Total donations made by the Trust **R17 million**

The Trust has developed strong partnerships with key NPOs who deal with ECD. It is through these partnerships that support is provided to early childhood development with more than 10 000 children benefiting from these programmes.

Stakeholders – continued

COMMUNITIES – continued

TIMELINE

During the year the Trust celebrated ten years since its inception in 2005.

Some milestones and achievements in the ten years are:

homechoice development Trust

2005 Trust established

2011 **Donations totalling** R8 million **made by group since inception**

Focus on early childhood development in disadvantaged communities within the Western Cape

2013 **Strategic partnerships developed with key non-profit organisations**

2014 **Group donates 600 000 treasury shares**

Pilot project using tablet technology to assist developmental needs of Grade R children

2015 **Donations from the group reach** R23 million

OUR PARTNERS

Starting Chance | True North – Every child can shine | 45 CWD | Grassroots Educare Trust | Sikhula Sonke Early Childhood Development | Community Chest

AN EDUCARE STORY

The story of Blooming Stars – Nceubeko is one of many success stories supported by the Trust.

The Blooming Stars Journey

Philiswa Gedesi, the principal at Blooming Stars, was born in the rural areas of Kentane in the Eastern Cape. After leaving school and unable to find a job, Philiswa realised that her passion was to take care of children and her dream was to open a crèche.

She spent time with the community and could see many challenges that they faced. Together they devised a plan to help children and in 2014 "Blooming Stars" was born. It started with just 20 children and quite quickly it began to grow. Philiswa decided to further her education in the field of early childhood development so that she could offer the children the best. She obtained her Level 5 in ECD and is currently finishing her National Diploma in ECD.

Philiswa joined the Starting Chance programme in 2013. Despite their difficult shack learning environment, Philiswa and her staff were committed to providing the highest quality childcare. They continually strove to help nurture, challenge and foster independence for all the children in their care. It was important to provide a safe, warm, stimulating age-appropriate environment, where all the children could be encouraged to learn, grow and actively explore.

In 2015 Philiswa's dream became reality when the Trust funded the building of a new school. The journey was a long one with major challenges. During October 2015 approval was received from the City to proceed with the build and on 8 December 2015 the Blooming Stars Educare was completed.

In January 2016, 180 children and their 15 teachers began their "Starting Chance" educational journey in a brand new school. The Blooming Stars Educare will also benefit from the tablet technology which the Trust supports to assist developmental needs of Grade R children.

The Trust has supported a number of projects during the year and more details on these can be found on the website www.homechoiceinternational.com

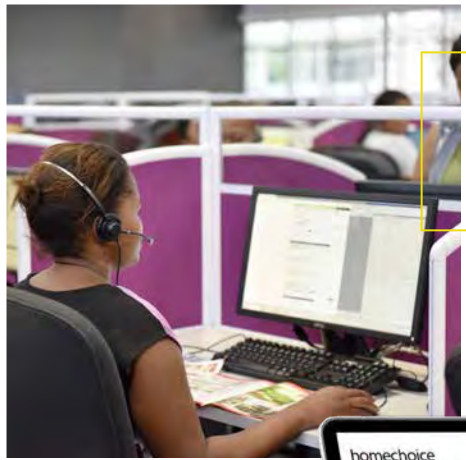
Business Model

The business model of the HIL group can be split into two business segments:

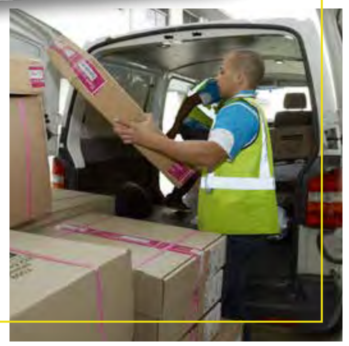
- Retail
- Financial Services

Some business activities are unique to each segment and others are shared and/or common across both of them.

The diagram on the opposite page depicts the business model which drives value creation by the group.



Omni-channel operations representing our business model



CUSTOMER ENGAGEMENT

Omni-channel operations

- Aggressive growth in digital – mobi and web-based
- Telemarketing through inbound and outbound call centres
- Strong base in catalogue selling
- Sales agents for remote reach
- Developing showrooms

Content management

- Leverage expertise in catalogue production to digital enablement
- Call centre script management for personalised long-distance customer relationship
- Dedicated in-house photographic and video studio

Customer analytics

- Strong brand loyalty with Retail customer
- Customer data enables targeted direct marketing
- Selection process based on purchasing and payment behaviour and expected response rates

Credit risk management

- Responsible credit
- Group view
- Bespoke scorecards, aligned to Retail and Financial Services business requirements
- Terms weighted towards shorter periods and low value
- Drive both credit and marketing strategy, including customer base segmentation

RETAIL ACTIVITIES

Sourcing

- Direct relationships with long-standing suppliers
- >90% sourced from Asia
- Strong focus on optimising supply chain

Merchandise

- Heritage in bedding and textiles
- Primarily own-brand, continuity product
- Expanded furniture range over past three years
- Introduced footwear and clothing in past 12 months

Fulfilment

- Investment in 200 000 m^3 warehouse operations
- Sophisticated e-commerce fulfilment capability

Distribution

- Own distribution network to all major urban centres
- Owner-driver network, third-party couriers and South African Post Office
- Over 60% of merchandise in South Africa directly to customers' homes
- Reliance on the South African Post Office reduced

SHARED ACTIVITIES

Technology

- Established web and mobi sites with investment to support growth
- Implementation of new regulatory compliance effectively
- Investment in technology and hardware enabling call centre and driving efficiencies
- World-leading telephony and dialler technology in call centre

People

- Call centre driving sales, customer service, collections
- Highly skilled and motivated management team
- Technology team structured to deliver digital platform and new systems

Collections

- Payments via multiple channels – supermarkets, banks and SAPO
- Collections of loan repayments directly from the customer's bank account – Naedos
- Digital collections for Retail
- Dedicated collections call centre

FINANCIAL SERVICES ACTIVITIES

Products

- From one-month KwikAdvance loan to 36-month term loan
- Insurance products
- Loans available in South Africa only

Partnerships

- Underwriting relationships to facilitate insurance products

Fulfilment

- Digital self-service channels using mobi or USSD for KwikServe® platforms
- Call centre support
- Existing customer loans disbursed in 24 hours

Material Issues

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

The board considers the material issues on an annual basis during the annual strategy review process.

In 2014 the group considered six significant risks facing it which have been further refined to be those issues which are critical to the group in the current and foreseeable trading environment. The material issues may have a negative impact on the group and may also present opportunities for the group to create value for its stakeholders.

The six material issues identified are:

TRADING ENVIRONMENT

The trading environment in South Africa has become increasingly challenging with the consumer coming under severe pressure. The Rand has depreciated by 34% and has a negative impact on all retailers who source their merchandise offshore. Food prices are expected to increase dramatically as the consequence of the drought is felt across the country. Commodity prices have fallen sharply and unemployment remains high.

The Retail HomeChoice brand has a very loyal customer base in South Africa. She expects us to provide quality products at affordable prices. Through innovation and re-engineering our product offering we have been able to provide her with quality value product for her home.

Our long-standing relationships with key offshore suppliers help us to provide value in our product offering and still deliver the innovation that our customers expect us to provide her.

We are building our capability to trade in the neighbouring countries to South Africa and will leverage our digital – website and mobi – capabilities to drive this.

Most of our Financial Services offerings are conducted with repeat customers. This enables us to build up a strong relationship with those customers who we understand and in turn they trust us to deliver their requirements. By leveraging the group customer base, we are able to expand Financial Services with a reduced cost of new customer acquisition.

MANAGING CREDIT

In excess of 90% of Retail sales are transacted through the use of credit. The Financial Services business is based on unsecured lending – consequently the management of group credit metrics is a material issue for the group. In-house bespoke scorecards determine and monitor the level of credit granted.

We aim to find that balance between maintaining an optimal quality of the debtors' book and the granting of credit at levels to support the growth strategy. The credit risk board sub-committee has oversight of the credit risk policy and monitors this balance.

Our in-house scorecards allow the business to manage the granting of credit, and by determining which Retail customers should be marketed to and receive the catalogues, the group is able to reduce potential bad debts.

The Financial Services' main customer base has been built up from the good Retail customers – this allows us to manage the potential bad debt and also significantly reduces the cost of acquiring new customers.

The intellectual capital used to develop the in-house credit scorecards has allowed us to build up significant history of the LSM 4 – 8 customer base.

Further details on credit risk management can be found on page 62.

REGULATORY COMPLIANCE

The financial services industry is highly regulated in South Africa. During the year the National Credit Regulator (NCR) introduced significant changes to the regulations, some of which were effective in 2015 and others come into effect in 2016.

The credit industry has undergone significant change with new regulations introduced to the way in which credit is sold and priced in the South African market. Most significantly has been the introduction of affordability testing that serves to manage how much credit can be granted to a customer by way of conducting a means test. Physical documentation is required to substantiate proof of income and the credit provider is required to assess the ability of a customer to service that debt. The Department of Trade and Industry (DTI) has also imposed new "caps" to the level of interest rates that may be charged on both unsecured and short-term credit. These caps will be effective May 2016. Further changes are expected to credit life caps and the debit order payment system – both expected in the second half of 2016.

The affordability changes resulted in extensive changes to systems and processes in both Retail and Financial Services operations.

The changes have required us to engage with our customers to explain the new regulations when applying for a loan or entering into a new credit agreement to purchase merchandise. Changes were implemented through process flows communicated to customers via specific mailers and new customer scripts in the call centre.

Further changes are required to be implemented in 2016 and the impact on the group is dealt with in the Q&A with the Retail and Financial Services CEOs.

Material Issues – continued

DIGITAL STRATEGY

One of the strategic initiatives of the group is the optimisation of a digital platform for customers. A large portion of the Financial Services business is carried out on a digital platform and an increasing percentage of the Retail business is transacted digitally. Our customers have embraced digital technology by using their mobile phones, either using simple USSD technology or mobi platforms that deliver content-rich functionality.

A significant amount of investment in systems and people has been made in information technology both in core infrastructure to deliver operational efficiencies and in "customer-facing" platforms to support the growth strategies of the group.

There is a risk that poor implementation of critical technology systems does not support the business requirements and/or could result in the disruption of the day-to-day operations of the group. The technology strategy is approved by the board and all changes are managed through a change control committee. The management structure of the technology area has been reorganised to enable and support the business requirements to deliver the digital strategy.

The expansion of Retail and Financial Services into neighbouring South African countries can be achieved more quickly through the enablement of the digital strategy. It will also support the pan-African expansion of the group.

PEOPLE

South Africa, and Cape Town in particular, is increasingly being seen as a hub for call centre operations for local and international companies. As a direct marketer, engaging with and selling to customers over the phone through an efficient and productive call centre is considered a material issue for the group.

74% of the group's employees are involved in managing the complexity of a "distant relationship" with customers from the selling process and support for her digital transaction through to the debt collection process (see Business model for more details).

Market norms show a relatively high labour turnover in a call centre operation with attrition in the range of 35% – 45%. During 2015 we experienced high levels of attrition of 53% as a result of the high level of disruption during the development of the new call centre. The high attrition had a negative impact on call centre morale and productivity, resulting in lower sales.

In 2015, R100 million was invested in a 1 000-seat call centre facility above the retail showroom in Cape Town. The move to the new facility was welcomed by employees and together with training and values-based leadership interventions we have seen signs of a reduction in the labour turnover levels. This has presented an opportunity for the group to review and develop training programmes and reconsider the remuneration structure for the call centre employees.

Further details on employees can be found on page 12.

DISTRIBUTION NETWORK

The South African Post Office (SAPO) is a key business partner and stakeholder of the Retail business in that it delivers monthly catalogues and statements, and customers' products. The industrial action which occurred in October – December 2014 had a negative impact on the Retail sales and credit metrics. Whilst the large scale unrest appears to have reduced, the management of an efficient delivery network capability is a material issue for the group.

In order to mitigate this risk, we have aggressively pursued alternative business partners to deliver products to our customers. We have also carried out some initial trials for the delivery of catalogues and statements using other service providers. We continue to use our owner-driver service providers, an enterprise development initiative, which has provided us with the opportunity to reach more customers and provide employment for small black-owned driver operations (see the Stakeholders section for more detail).

As our digital strategy matures and develops we will be able to reduce the reliance on SAPO further and deliver catalogues and statements to customers electronically.

We will continue to pursue converting customers receiving SAPO deliveries to that of a more direct home delivery.

Further details on distribution network partners can be found on page 14.

Established operations in Mauritius to facilitate pan-African expansion

Significant regulatory changes in the credit industry

9,4% increase in customer base

Strong product innovation

Digital is fastest growing channel

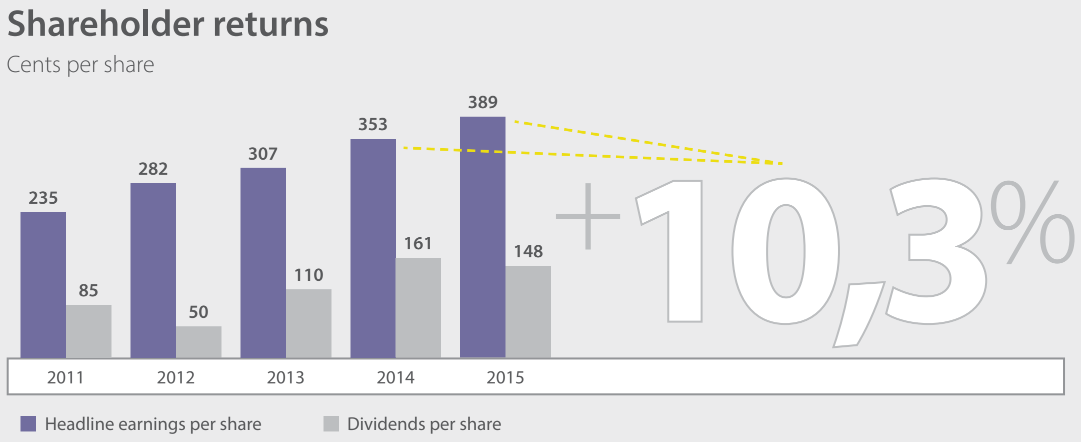
THE YEAR UNDER REVIEW

Contents

Chairman's Review

STANLEY PORTELLI

"In a year of weakening consumer sentiment, fundamental changes to the way in which credit is sold in South Africa, and a number of country and company infrastructure challenges the group has delivered a strong set of results."



Revenue increased by 14,0% to R2,2 billion while Retail sales grew by 10,6% at R1,2 billion. Pleasingly, we achieved a 11,3% increase in operating profit to R580,4 million.

Headline earnings per share for 2015 grew by 10,3% to 389,1 cents per share (2014: 352,8 cents per share) and the directors are proposing to declare a final dividend of 84,0 cents per share, based on a dividend cover of 2,6 times headline earnings. The group has increased its dividend cover from 2,2 to 2,6 times to provide additional funding for the strategic growth of the group.

BOARD OF DIRECTORS

The composition of the board has remained unchanged in 2015. In the 2014 report I noted that Greg Lartigue (group chief executive officer) had accepted the position on an interim basis. We are pleased that Greg has agreed to continue to perform this role and his contribution to the board has been invaluable. Shirley Maltz continues to head up the South African operations.

As I reflect on the year I am pleased with the way in which the board has embraced its role. Feedback from the board self-evaluation conducted at the end of the year will provide direction on areas of focus for 2016. During 2015 we spent time gaining a better understanding of the South African operations and have commenced with the development of the pan-African operations which will be managed through a Mauritius hub.

Prior to the listing in 2014 we welcomed African Development Partners II, a pan-African private equity fund advised by DPI, as a strategic minority shareholder. The DPI's in-depth knowledge and extensive network in Africa has added great value to the board's deliberations and the strategic direction of the group.

GOVERNANCE

Governance processes have been further developed and matured as the group has been operating for a full year. The board has reviewed the governance requirements to manage the pan-African strategy and these structures will be fully implemented and operational in 2016.

The directors confirm that the group has in all material aspects applied the principles of the King III governance code. Further detail is available in the corporate governance report on page 56. It is expected that the King IV governance code will be introduced in South Africa in 2016 and the board will look to review and adapt the current governance framework in light of any new developments.

ACKNOWLEDGEMENTS

I would like to thank my board colleagues for their contribution during the year and the executive directors and their teams for a good set of results.

Economic conditions will remain challenging; the board has confidence in the leadership to execute the group's strategies and to provide the guidance and direction to trade through the next year.

Stanley Portelli
Independent non-executive chairman

Group Chief Executive Officers' Review

GREGOIRE LARTIGUE

SHIRLEY MALTZ

OPERATING IN A CHALLENGING ECONOMIC ENVIRONMENT

The South African economy has experienced low GDP growth with multiple downward revisions during the year. While the GDP growth rate has been declining inflation has trended upwards, breaching the 6% level at the end of 2015 and is expected to increase further in 2016.

Commodity prices have dropped sharply and government spending has been maintained, but is coming under increasing pressure to curtail and reduce excessive expenditure.

Unemployment continues at high levels and could be exacerbated through a reduction in government expenditure and the loss of jobs in the mining industry.

While the management of the electricity supply appears to have stabilised in 2015, the country has been hit by a severe drought which will negatively impact food production and prices are expected to increase significantly.

The South African Rand has been under pressure for most of 2015 with a depreciation of 34% against the US Dollar during the year, including a sharp drop in mid-December. The depreciation in the Rand has a negative impact on the importation of merchandise and has kept petrol prices at high levels despite a drop in the oil price.

The South African Post Office (SAPO), a key stakeholder of the group, is still operating at reduced levels of productivity and efficiency and remains a material issue for the Retail business operations which uses SAPO as a means to deliver merchandise and marketing material to customers.

The credit industry has undergone significant change with a number of changes impacting the way in which credit is sold and priced. Most significantly has been the introduction of prescriptive requirements for the affordability test prior to a new credit agreement being entered into. (Refer to the Material issues section for more detail.)

The SA consumer has remained fairly resilient in the face of regulatory and cost challenges for 2015. The overall credit health of consumers, as measured by credit bureau TransUnion, shows improvements in the ability to manage credit, albeit it at a slower pace than in the past. The rate of credit accounts lapsing into arrears fell 5,1% in the fourth quarter of 2015, with new loans relatively healthy compared to older vintages.

FINANCIAL PERFORMANCE

The group has achieved a good set of results in a tough consumer environment both from a retail trade and credit management perspective.

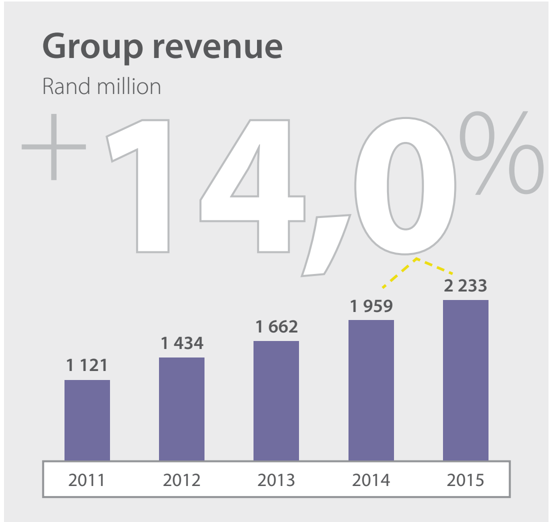
We are pleased to report that both the Retail and Financial Services businesses performed well. Group revenue increased by 14,0% to R2,2 billion, driven by product innovation and newness and strong growth in the digital channel of both businesses. Retail revenue increased by 11,7% to R1,8 billion while Financial Services increased revenue by 23,8% to R478 million.

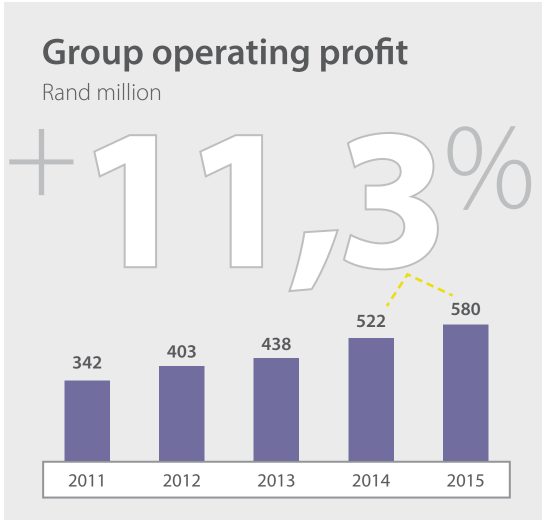
Gross profit margin improved by 90 basis points to 50,7%, despite the Rand deterioration. Good buying disciplines and supply chain efficiencies contributed to the improved gross profit margin.

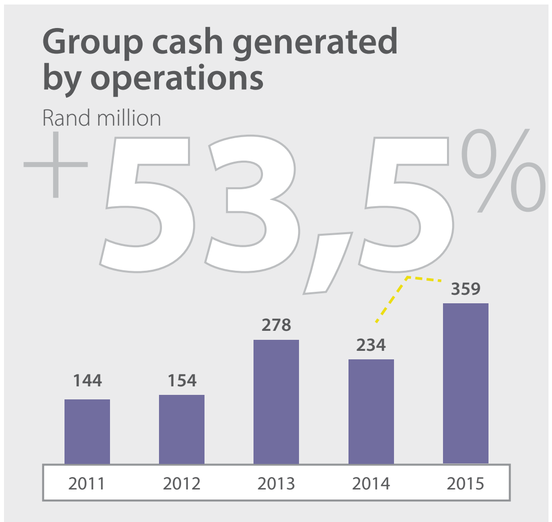
Operating profit increased by 11,3% to R580 million with higher debtor costs and an increase in amortisation expenses arising from the continued investment in systems and our digital channel. Group EBITDA has increased 16,7% to R632,2 million, Retail EBITDA was up 11,8% to R377,7 million and Financial Services up 23,4% to R233,4 million.

The group continues to generate strong operating cash flows, with cash generated from operations of R358,5 million, an increase of 53,5%. This increase was mainly due to the lower growth in the Retail debtors' book and better management of working capital.

More details on the financial performance can be found in the group financial commentary on pages 32 to 39.







Group Chief Executive Officers' Review – continued

DELIVERING ON OUR STRATEGY

The board has reviewed the strategy that was presented in last year's integrated report and has expanded specific strategies to provide clearer direction to the Retail and Financial Services businesses to articulate their operating plans to support them. The group strategies are:

- **Organic growth through innovation**
- **Customer growth through analytics**
- **Optimise risk and drive efficiency**
- **Drive digital engagement and sales**
- **Expand into new markets and Africa**

One of the key reasons for the formation of the HIL group was to position the Retail and Financial Services businesses for growth, particularly by leveraging the South African operations and extending the footprint into Africa.

The significant changes to the credit industry in South Africa have resulted in a reprioritisation of resources to ensure that both businesses were in a position to implement new processes and systems for the affordability changes. As a result our Africa expansion plans have been slowed down.

Organic growth through innovation

Product innovation is at the core of our organic growth strategy.

The Retail merchandise team continues to deliver innovation to our customer particularly in the home bedding areas where product innovation has driven newness for the customer and maintained value despite the deterioration in the Rand. We are pleased to have launched clothing in October 2015 and the learnings will provide direction for the future ranges in 2016.

The group has implemented a substantial capital expenditure programme over the past three years, investing in infrastructure to support and drive organic growth. The Cape Town-based distribution centre was brought on-stream in January 2014 and has delivered productivity and cost efficiencies during the year which has improved the gross profit margin. This distribution centre is the backbone of our distribution and delivery network, a key enabler to growth plans.

A new 1 000-seat call centre was opened in December 2015 adjacent to the head office in Wynberg. In addition to the state-of-the-art physical workspace a world-class telephony and dialler system was also implemented. The call centre is integral to our digital strategy. As digital grows the call centre will migrate from primarily one of telemarketing to support to those customers who may need guidance in completing their transactions using mobi and internet.

Customer growth through analytics

We have seen a 9,4% increase in our customer base during the year, with 677 000 customers at year-end.

The Retail business customer base has increased by 8,4% – 178 000 new customers in South Africa and 15 000 in neighbouring countries. It is pleasing to see this growth has been achieved whilst maintaining strict credit-granting criteria.

Financial Services customers increased by 15,6%, with a high level of repeat business as our customers continue to embrace the digital aspect of this business. More than 70% of Financial Services customers use digital platforms to apply for credit. This is indicative of the trust that she has in the FinChoice brand in a market that typically has a high level of mistrust in using digital technology to manage financial transactions.

Optimise risk and drive efficiency

At a group level credit performance has been relatively stable, with debtor costs up 16% on a comparable basis relative to the revenue growth of 14,0%.

This has been achieved during a year in which significant time and effort has been invested in managing changes to the credit management systems and processes to implement the affordability requirements.

Retail credit metrics were negatively impacted by the SAPO strike in 2014 and a higher level of fraud. The teams took corrective action to address the fraud detection processes in the second half of the year. The Retail credit policy was also tightened in response to the challenging retail trading environment.

Financial Services has had a stable credit performance with a reduction in the provision for impairment from 17,0% in 2014 to 16,6% in 2015.

Drive digital engagement and sales

The digital channel of the group continues to grow in both businesses and is the fastest growing channel in the group.

Retail growth on the relaunched mobi platform was strong with 11% of sales now transacted using the digital channel as evidenced by the 30% increase on 2014.

The Financial Services business continues to be primarily a digital business, with the KwikServe® USSD application a simple and easy way in which our customer is able to manage her credit transactions. Financial Services launched their mobi platform to existing customers during the year to good customer response.

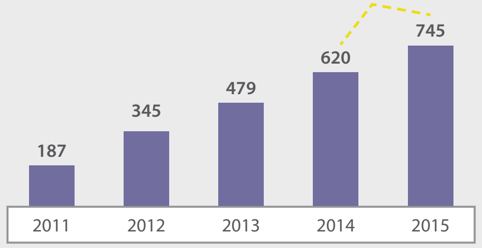
Group digital credit extended, a measure of how far we are on the digital journey, has increased to R745 million, 28,0% of total credit extended.

Group credit extended through digital channels

Rand million

28,0%

of total credit extended



Expand into new markets and Africa

During the year we commenced developing the infrastructure for pan-African growth with the establishment of offices and a hub in Mauritius.

We expect to implement some of the Financial Services products during 2016 from this infrastructure.

OUTLOOK

Although the credit health of South African consumers appears to be showing early signs of improvement, customers in the group's target market remain financially constrained and this will continue to impact on demand for the group's products and services. The economic conditions will remain challenging.

Management continues to focus on cost control, cash generation and on sustaining the quality of the debtors' books. We will maintain a cautious approach to credit.

THANKS AND APPRECIATION

HomeChoice celebrated its 30th birthday on 1 April 2015. It was wonderful to celebrate this milestone and be reminded of how the business has grown from the early years with a team of four staff members.

It is the passion, energy and drive of more than 1 400 employees that make the business what it is today and we would like to thank you all for the hard work during the year. The leadership shown by Leanne and Sean, the CEOs of Retail and Financial Services and their teams, have allowed us to successfully navigate through some challenging times in 2015.

We would also like to thank the board for their counsel and support during this first year of the newly formed HIL group and look forward to your continued guidance in the future.

Gregoire Lartigue
Group chief executive officer

Shirley Maltz
Group chief executive officer – South Africa

Finance Director's Commentary

PAUL BURNETT

PERFORMANCE REVIEW AND TARGETS

		2015	2014	2013	2012	2011
Revenue	(Rm)	**2 233,0**	1 958,6	1 662,0	1 434,4	1 121,1
Growth in revenue	(%)	**14,0**	17,8	15,9	27,9	28,9
Retail sales	(Rm)	**1 197,1**	1 082,5	929,7	841,5	670,5
Growth in retail sales	(%)	**10,6**	16,4	10,5	25,5	27,1
Gross profit margin	(%)	**50,7**	49,8	49,1	51,1	53,4
Operating profit	(Rm)	**580,4**	521,5	438,3	402,9	341,6
Growth in operating profit	(%)	**11,3**	19,0	8,8	17,9	36,8
Operating profit margin	(%)	**26,0**	26,6	26,4	28,1	30,5
EBITDA	(Rm)	**632,2**	541,7	450,1	412,7	352,5
Growth in EBITDA	(%)	**16,7**	20,3	9,1	17,0	36,8
Cash generated by operations	(Rm)	**358,5**	233,6	278,0	153,7	143,5
HEPS	(cents)	**389,1**	352,8	306,9	282,1	234,8
Growth in HEPS	(%)	**10,3**	15,0	8,8	20,1	22,9
Dividend cover	(times)	**2,6**	2,2	2,8	5,6	2,8
Net debt to equity	(%)	**26,2**	14,8	14,8	8,6	4,3
Return on equity	(%)	**23,7**	24,8	26,3	29,8	31,9

FINANCIAL COMMENTARY

The financial commentary on the performance for the twelve months ended 31 December 2015 should be read in conjunction with the annual financial statements on the group's website.

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

A condensed five-year review is shown on page 40.

2015 PERFORMANCE

In a difficult trading market for the year the group delivered a strong trading performance with EBITDA of R632,2 million, up 16,7% on 2014 and operating profit increased by 11,3% to R580,4 million.

Group revenue increased by 14,0% to R2,2 billion, with strong performance from both Retail and Financial Services. Gross profit margin improved from 49,8% to 50,7% with good volume growth from Retail and supply chain efficiencies. Credit metrics showed some deterioration reflecting the tough consumer economy, higher levels of fraud and the impact of the SAPO strike. The group continues to generate good cash levels with cash generated from operations up 53,5% to R358,5 million.

Headline earnings per share (HEPS) grew by 10,3% to 389,1 cents. The dividend cover has been increased from 2,2 times to 2,6 times, within our target range of 2,2 – 2,8.

STATEMENT OF COMPREHENSIVE INCOME

	2015 R'000	% change	2014 R'000
Revenue	**2 232 967**	14,0	1 958 575
Retail sales	**1 197 131**	10,6	1 082 473
Finance charges and initiation fees earned	**893 722**		745 179
Finance charges earned	**652 083**	21,2	537 807
Initiation fees earned	**241 639**	16,5	207 372
Fees from ancillary services	**142 114**	8,5	130 923
Cost of retail sales	**(590 010)**	8,6	(543 108)
Gross profit	**607 121**	12,6	539 365
Retail gross profit margin (%)	**50,7**		49,8

Revenue

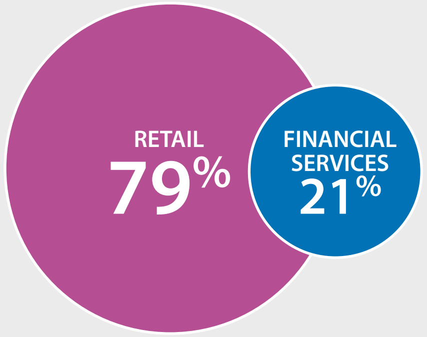
Revenue for the group increased by 14,0%, with a five-year compound annual growth rate (CAGR) of 20,8%. Financial Services' contribution to revenue represents 21,4% compared with 19,7% achieved in 2014.

Retail sales

Retail sales grew 10,6%, with pleasing volume growth driven by continued product innovation in the bedding categories and the introduction of clothing and footwear.

Revenue contribution

R2 233 million



RETAIL – **R1 755 million** (2014: R1 572 million)
FINANCIAL SERVICES – **R478 million** (2014: R386 million)

Finance Director's commentary – continued

STATEMENT OF COMPREHENSIVE INCOME – continued

Finance charges and initiation fees earned

Group finance charges earned increased by 21,2% to R652,1 million (2014: R537,8 million). The average Financial Services book term has increased to 20,2 months from 19,2 months. The Retail book term has remained constant at 17,4 months.

Loan disbursements in Financial Services increased by 19,7% to R1,1 billion, resulting in higher finance charges earned, with the average loan size of R8 792 up 7,1% on 2014.

The increase in the bank repo rate of 25 basis points in September 2015 has had a marginal impact on the finance charges earned. This increase, together with the 25 basis points increase in November 2015, will annualise into 2016.

Initiation fees earned increased by 16,5% to R241,6 million (2014: R207,4 million) due to the increase in the number of customer transactions in Retail and the high proportion of reloans in Financial Services.

Gross profit

Gross profit margin at 50,7% for the twelve months ended December 2015, showed an improvement from the first half of 49,1% and the 2014 margin of 49,8%. This was despite the Rand weakening by 34% against the US Dollar during 2015.

Gains in the margin were due to selected price increases and operating efficiencies across the fulfilment and warehousing costs of the supply chain. The group is starting to realise benefits from the distribution centre built in 2013.

Debtor costs

		31 Dec 2015	31 Dec 2014	% change
Group				
Gross trade and loans receivable	(Rm)	**2 156**	1 813	19
Debtor costs as a % of revenue	(%)	**17,8**	16,8	
Retail				
Gross trade receivables	(Rm)	**1 209**	1 064	14
Debtor costs as a % of revenue	(%)	**14,5**	14,0	
Provision for impairment as % of gross receivables	(%)	**18,7**	18,6	
Financial Services				
Gross loans receivable	(Rm)	**948**	749	27
Debtor costs as a % of revenue	(%)	**29,9**	28,3	
Provision for impairment as % of gross receivables	(%)	**16,6**	17,0	

Group debtor costs increased by 20,5% to R397,5 million (2014: R329,9 million) compared to a revenue growth of 14,0%. Consequently, debtor costs as a percentage of revenue has deteriorated from 16,8% to 17,8%. The comparison of debtor costs to 2014 has been impacted by the treatment of the Financial Services debt review book – now included in the loan book with a conservative provision of 80,0%. Based on a comparable methodology group debtor costs have increased by 16,1%.

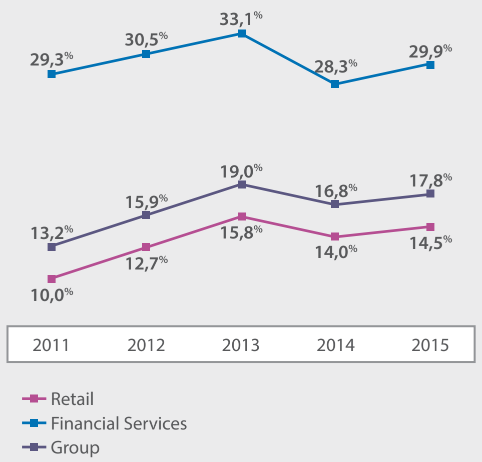
The SAPO strike in the last quarter of 2014 negatively impacted bad debt write-offs in the first quarter and higher fraud levels caused bad debts to increase. The Retail credit policy was tightened in response to managing the tough consumer credit environment and fraud detection systems were improved.

Non-performing loans (loans in arrears after 120 days) for the group have increased from 6,8% in 2014 to 7,3% in 2015.

At a group level the provision for impairment is maintained at 17,8%.

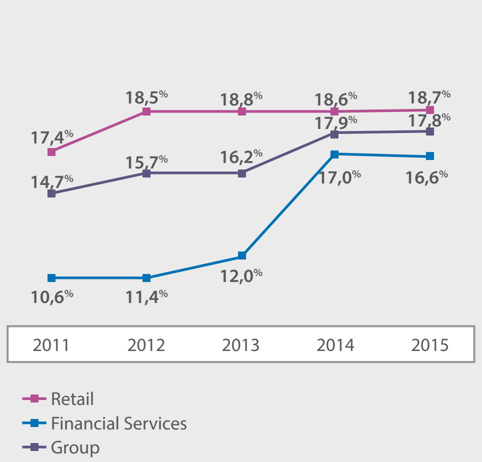
Debtors costs as a percentage of revenue

Percentage



Provision for impairment as a percentage of gross receivables

Percentage



Other trading expenses

	2015 R'000	2014 R'000	% change	2015 % of revenue	2014 % of revenue
Marketing costs	**180 855**	166 244	8,8	**8,1**	8,5
Staff costs	**264 115**	231 600	14,0	**11,8**	11,8
Amortisation and depreciation	**52 930**	22 774	132,4	**2,4**	1,2
Other	**169 013**	142 261	18,8	**7,6**	7,3
Other trading expenses	**666 913**	562 879	18,5	**29,9**	28,7

The increase in trading expenses of 18,5% represents the continued investment in strategic growth drivers of digital, operational excellence and the pan-African business. Marketing costs have been well controlled with more efficient methods of marketing employed during the year.

Staff costs increased by 14,0% due to an investment in merchandise teams to support clothing, the digital team and changes actioned in credit risk to provide more effective monitoring of fraud. Higher attrition rates in the call centre has resulted in higher-than-expected recruitment and training costs that are likely to return to more normalised levels in 2016.

Depreciation and amortisation at R52,9 million were more than double the 2014 figure of R22,8 million. This is due to the high level of investment made in the ERP system in previous years, a portion of which was brought on-stream in 2015. In addition the change in the estimated useful life of software has had the impact of a high charge for the year. It is expected that 2016 amortisation levels will remain at higher levels.

Other expenses increased by 18,8% mainly due to higher technology development and maintenance costs.

Finance Director's commentary – continued

STATEMENT OF COMPREHENSIVE INCOME – continued

	2015 R'000	% change	2014 R'000
Operating profit	**580 394**	11,3	521 532
Interest received	**3 375**	73,3	1 948
Interest paid	**(32 809)**	49,9	(21 883)
Share of loss of associates	**(1 137)**		(2 556)
Profit before taxation	**549 823**	10,2	499 041
Taxation	**(155 264)**	8,0	(143 721)
Profit and total comprehensive income for the year	**394 559**	11,0	355 320

Interest paid

Interest paid of R32,8 million is attributable to the funding requirements for the year. Further details of the funding are explained below.

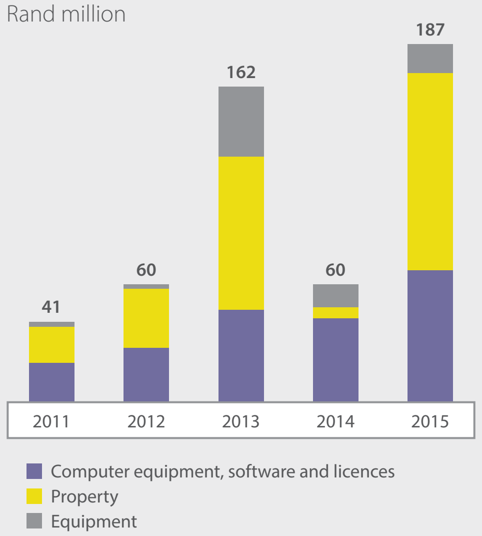
Profit for the year

Group profit before taxation for the year is R549,8 million, 10,2% up on 2014, whilst group EBITDA increased by 16,7% to R632,2 million.

Group operating profit margin at 26,0% (2014: 26,6%) remains within the medium-term target range of 25% to 30%.

Capex expenditure

Rand million



>R500 million in the last five years

STATEMENT OF FINANCIAL POSITION

	2015 R'000	% change	2014 R'000
Non-current assets			
Property, plant and equipment	**422 243**	41,0	299 387
Intangible assets	**101 928**	11,9	91 125
Loans to employees	**207**		1 302
Investment in associates	**13 248**		7 676
Deferred taxation	**25 708**		18 819
	563 334	34,7	418 309

Property, plant and equipment and intangible assets

Capital expenditure of R105 million was invested in the new call centre and the retail showroom.

Costs attributable to the development of software and technology are capitalised as intangible assets. A significant portion relates to the ERP system programme implemented in finance and procurement in 2013. During 2015 the merchandise management component was brought into production and merchandise procurement has gone live in January 2016.

The group has reviewed the estimated useful life of the ERP system and believes that it is more appropriate to amortise these assets over a period of five years from the previous ten-year period. The net effect of this change was an increase in the amortisation expenses of R9,8 million.

	2015 R'000	% change	2014 R'000
Current assets			
Inventories	**170 391**	2,4	166 363
Taxation receivable	**4 271**		12 232
Trade and other receivables	**1 787 273**	18,8	1 504 773
Trade receivables – Retail	**982 061**	13,5	865 466
Loans receivable – Financial Services	**790 575**	27,1	621 804
Other receivables	**14 637**	(16,4)	17 503
Cash and cash equivalents	**88 300**		63 005
	2 050 235	17,4	1 746 373

Inventories

Stock has been well managed during the period, an increase of 2,4% to R170,4 million. The provision for stock obsolescence is maintained at 2014 levels. The implementation of the merchandise management component of the ERP system has resulted in improved stock management capabilities.

Trade receivables

Group trade receivables increased by 19,2% to R1 772,6 million (2014: R1 487,3 million). Both books grew in excess of their respective revenue growth rates. The growth in the gross debtors' books has been driven by an increase in customers of 9,4% and a marginal increase in the Financial Services terms and loan balance.

Finance Director's commentary – continued

STATEMENT OF FINANCIAL POSITION – continued

	2015 R'000	% change	2014 R'000
Non-current liabilities			
Interest-bearing liabilities	**164 324**	(38,3)	266 234
Deferred taxation	**112 282**		92 721
Other payables	**5 070**		4 340
	281 676	(22,5)	363 295
Current liabilities			
Interest-bearing liabilities	**221 102**	632,1	30 203
Taxation payable	**18**		2 882
Trade and other payables	**184 550**	16,5	158 465
Provisions	**12 357**		31 078
Bank overdraft	**1 780**		433
Shareholder loan	**160 658**		–
	580 465	160,2	223 061
Total liabilities	**862 141**	47,0	586 356

Interest-bearing liabilities

Interest-bearing liabilities increased by 84,2% to R546,1 million (2014: R296,4 million). A loan of R160,0 million was received from the major shareholder, GFM, and is due to be repaid in May 2016. A JSE-listed bond of R101,3 million is due for payment in October 2016. The call centre building finance was converted into a ten-year mortgage bond subsequent to year-end.

The net debt to equity ratio of 26,2% is well within the target range of <40,0%.

CASH FLOW

Cash management and collections of the debtors' books remain a key focus of the group.

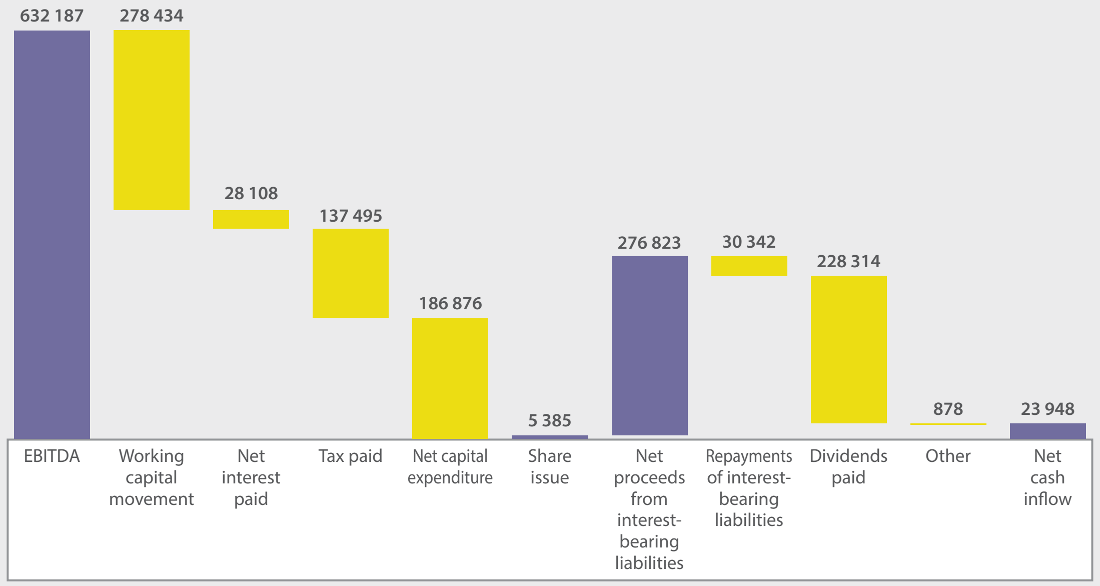
Cash and cash equivalents increased to R86,5 million (2014: R62,6 million) as the group generated cash from operations of R358,5 million, a 53,5% increase over 2014. The improvement in the cash generated was primarily influenced by lower growth in the Retail debtors' book, net of an increase in the Financial Services loan book and better management of working capital.

Cash conversion (cash generated from operations expressed as a percentage of EBITDA) increased from 43,1% in 2014 to 56,7% in 2015.

An analysis of the cash utilisation is shown in the graph opposite.

Cash utilisation

Rand '000



DIVIDENDS

During 2015 dividends of R228,3 million were paid, representing the final dividend of 2014 of 161,0 cents per share and the half-year dividend for 2015 of 64,0 cents per share. The dividend cover has been increased from 2,2 times to 2,6 times, within our target of 2,2 – 2,8.

FINANCIAL TARGETS

The medium-term targets for the group remain unchanged. Performance in 2015 was well within the target ranges, with the exception of return on equity as a result of the higher dividend cover and the increased interest expense for the group funding requirements. The targets will be reviewed at the next strategy cycle.

		Medium-term target	2015	2014	2013	2012	2011
Retail gross profit margin	(%)	48 – 52	**50,7**	49,8	49,1	51,1	53,4
Operating profit margin	(%)	25 – 30	**26,0**	26,6	26,4	28,1	30,5
Return on equity	(%)	25 – 30	**23,7**	24,8	26,3	29,8	31,9
Net debt to equity	(%)	<40	**26,2**	14,8	14,8	8,6	4,3
Dividend cover	(times)	2,2 – 2,8	**2,6**	2,2	2,8	5,6	2,8

Summarised Five-year Review

		2015	2014	2013	2012	2011
Statements of comprehensive income						
Revenue	(R'000)	**2 232 967**	1 958 575	1 661 952	1 434 359	1 121 060
Retail sales	(R'000)	**1 197 131**	1 082 473	929 730	841 480	670 466
Gross profit	(R'000)	**607 121**	539 365	456 959	430 077	357 918
Other operating costs	(R'000)	**(1 064 382)**	(892 781)	(751 202)	(625 889)	(471 044)
Operating profit	(R'000)	**580 394**	521 532	438 321	402 862	341 591
Profit before taxation	(R'000)	**549 823**	499 041	431 019	397 153	338 044
Statements of financial position						
Non-current assets	(R'000)	**563 334**	418 309	385 053	232 853	184 093
Trade and other receivables	(R'000)	**1 787 273**	1 504 773	1 169 921	1 020 777	749 713
Inventories	(R'000)	**170 391**	166 363	144 964	110 241	92 419
Cash and cash equivalents	(R'000)	**88 300**	63 005	67 981	10 192	46 069
Other current assets	(R'000)	**4 271**	12 232	77	11	1 175
Total assets	(R'000)	**2 613 569**	2 164 682	1 767 996	1 374 074	1 073 199
Total equity	(R'000)	**1 751 428**	1 578 326	1 285 724	1 070 322	837 335
Non-current liabilities	(R'000)	**281 676**	363 295	259 733	154 554	123 504
Current liabilities	(R'000)	**580 465**	223 061	222 539	149 198	112 360
Total equity and liabilities	(R'000)	**2 613 569**	2 164 682	1 767 996	1 374 074	1 073 199
Statements of cash flows						
Cash generated from operations	(R'000)	**358 489**	233 565	278 010	153 713	143 508
Capital expenditure	(R'000)	**187 253**	56 910	161 583	60 076	40 869
Dividends paid/(received)	(R'000)	**228 314**	66 514	94 733	50 450	(394)
Returns and margin performance						
Gross profit margin	(%)	**50,7**	49,8	49,1	51,1	53,4
Operating profit margin	(%)	**26,0**	26,6	26,4	28,1	30,5
Return on equity	(%)	**23,7**	24,8	26,3	29,8	31,9
Net debt:equity ratio	(%)	**26,2**	14,8	14,8	8,6	4,3
Net asset value per share	(cents)	**1 719,3**	1 559,8	1 275,8	1 062,0	829,9
Share performance						
Headline earnings per share	(cents)	**389,1**	352,8	306,9	282,1	237,4
Dividends proposed/paid	(cents)	**148,0**	161,0	110,0	50,0	85,0
Dividend cover	(times)	**2,6**	2,2	2,8	5,6	2,8
Weighted shares in issue, net of treasury shares	('000)	**101 468**	100 795	100 779	100 860	101 083

Q&A with the Retail Chief Executive Officer

LEANNE BUCKHAM

"We are excited about the growth from our digital channel. Customers are shifting from web to mobi, with mobi growth up 51,9%."

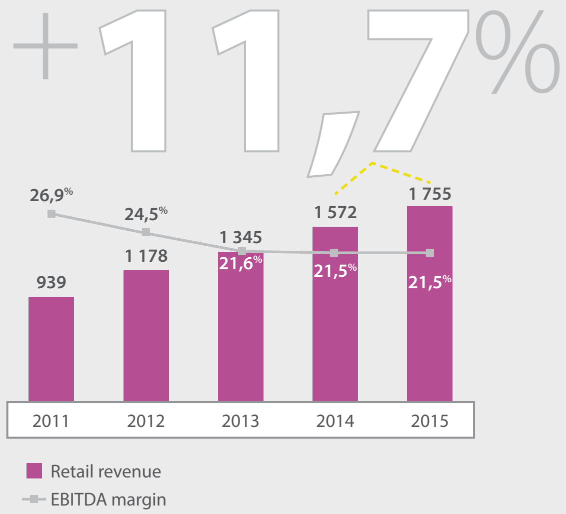
Q: 2015 has been a challenging year. How has the Retail business performed?

A: Overall we achieved most of our operating metrics. We have achieved notable firsts for the business: the opening of our retail showroom adjacent to our head office in Wynberg, the completion of a 1 000-seat call centre and the introduction of a clothing range. The expansion into more neighbouring countries was deprioritised for 2015 as resources were focused on the management of the capital investment projects, driving product innovation and the implementation of affordability regulations.

The achievement of the operating plans translated into a good financial performance, with revenue growing 11,7% to R1 754,9 million, an improvement in the gross profit margin of 90 basis points and EBITDA of R377,7 million, up 11,8% on 2014.

Retail revenue

Rand million



Q: What are the key drivers of the growth in sales of 10,6% and 193 000 additional customers?

A: Pleasingly, volume growth has been strong, with changes in product mix and the introduction and extension of product ranges. We continue to drive innovation and our customers have responded well to the continued innovation in printed bedding and other textile items. Volumes in the hard goods category declined and we will review our product and pricing strategy in the new financial year.

We have focused on product segmentation by using separate booklets which support the main catalogue and this has created real focus for our customers and call centre agents. Solo material – highlighting one hero product – creates excitement and is used to sell large volumes.

We have seen growth in new customers through our digital channels following investment in technology platforms and bringing all Retail products on the web and mobi site. She can browse our entire product range using her phone and thereafter place an order.

During the year we flighted three adverts on local television – another first for Retail. Use of this media strategy brought in new customers and there was a high level of engagement in the call centre responding to the excitement and opportunity generated for the products advertised.

Q: Can you tell us about the improvement in the gross profit margin from 49,8% to 50,7%, in an environment of Rand depreciation?

A: The improvement in margin was achieved through a number of factors. The new merchandise management systems implemented during the year have delivered improved buying and stock management disciplines. There was a strong focus on margin management by the merchandise teams and selective price increases, together with product reconfiguration in our bedding offering, allowed us to soften the full impact of the Rand depreciation.

Operating efficiency gains from the distribution centre and a drive on supply chain costs were also contributing factors to the 90 basis points gain in gross profit.

Q: Your vision has changed "to be our customers' most trusted retail partner helping to achieve her lifestyle aspirations". What does this mean?

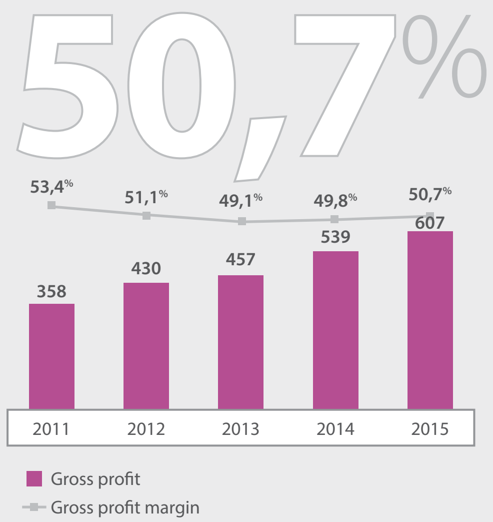
A: We changed it to reflect our broader product offering. The reintroduction of clothing during the year was a natural extension to our product ranges. Our loyal customers understand the HomeChoice brand extremely well and trust us to deliver innovative, quality and value products. Introducing clothing increases frequency of shop and will attract new customers.

The change in our vision certainly does not mean that we will lose focus on our heritage – our bedding categories which make up approximately half of our Retail sales. What it does mean is that we have broadened her shopping repertoire to include elements of her fashion needs as well.

We trialled footwear in 2014 and launched in first quarter 2015. We also launched clothing in October 2015. There are some great learnings coming out of the recent sales and we will make certain refinements to our winter ranges.

Gross profit

Rand million



Q&A with the Retail Chief Executive Officer – continued

Q: Retail credit metrics have deteriorated from 14,0% of revenue in 2014 to 14,5% in 2015. What has driven this?

A: Disappointingly, the debtor costs of R254,4 million have increased by 15,2%, which is higher than our revenue increase.

The 2014 SAPO strike resulted in a high level of returns and non-delivery of product which translated into customers either not making any payments or delaying payments. It was also extremely challenging to collect her debt without clear tracking and visibility of her delivery. Higher fraud levels were experienced in the first half of 2015, requiring a review of the fraud detection systems and processes.

In order to manage the credit risk, credit-granting criteria were tightened and fraud detection systems enhanced. We continued to drive acquisition activity, however the stricter credit criteria resulted in new customer acceptance rates reducing from 48,8% in 2014 to 45,1% in 2015, and customer exclusions remain at high levels. As depicted in the graph below, our most recent early new and existing customer vintages are showing improvements.

Higher debtor costs were also due to the lower recoveries from external debt collection (EDC) agencies. The decline in recoveries is mainly as a result of the high volume of debt collecting activities in the market causing a lower recovery factor. Action has been taken to more closely manage the EDC relationships and we should see improved recoveries for 2016.

The impairment provision was increased marginally from 18,6% to 18,7% and we are confident that provisioning remains prudent and appropriately covers the risk in the book.

Q: How have you managed the impact of changes to the credit regulations?

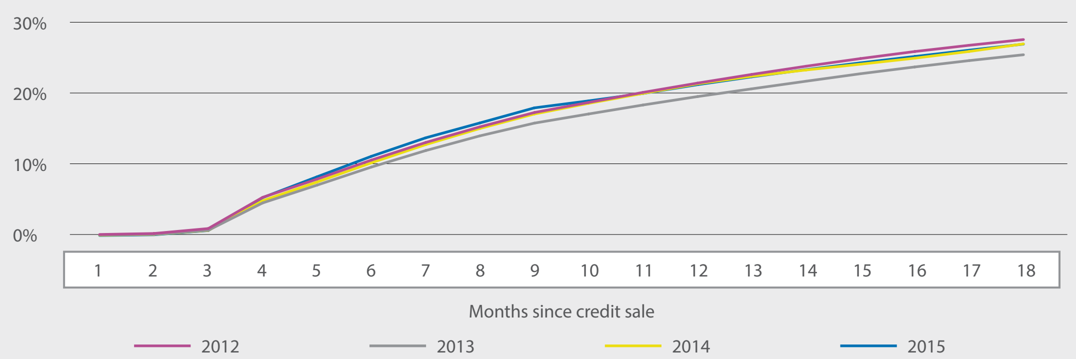
A: The details of the changes are covered in the Material issues section. Suffice to say, that all credit retailers have been impacted by the affordability changes – both internally in the redesign of processes and systems and externally in that our customers now have to provide more onerous documentation to prove that she is able to afford the credit to enable her to purchase.

These changes required significant technology development time, revisions to the credit management processes and implementing new rules to the scorecards. There was extensive training in the call centre to enable our agents to ask customers all the required affordability questions and also to explain why the new requirements and documents are now needed.

As a result of the credit changes we have seen a decline in the pass rates for new customers and are monitoring the situation closely.

Retail 120 days+ vintages

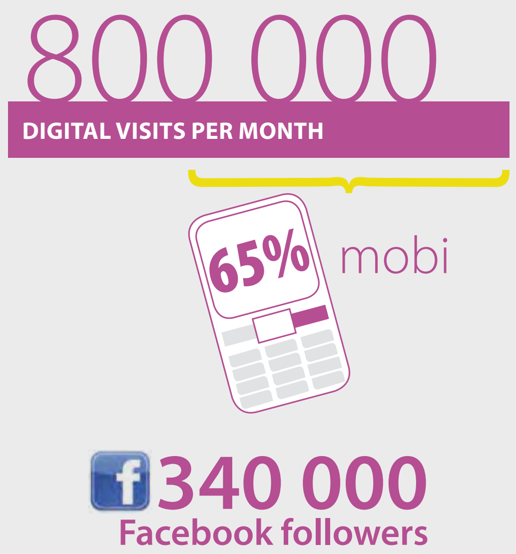
Cumulative % of original accounts reaching arrear status



Q: Digital sales are up 30% on 2014 and this is your fastest growing channel.

A: We are excited about the growth from this channel which now represents 11% of sales, up from 9% achieved in 2014. Customers are shifting from web-based transactions to mobi-based, with mobi growth up 51,9%. All our products are now available on our mobi site, a platform developed by our in-house technology development team.

Customers are rapidly moving to digital channels, so it is important that we support her in this transition. Going forward we see the call centre gradually migrating from primarily being an out-bound telemarketing sales team to one of support and enablement to our digital strategy – being available to support and guide customers in completing their orders digitally.



Q: How have you dealt with the challenges currently facing the South African Post Office (SAPO)?

A: As highlighted in the Material issues section, SAPO is a key logistics partner for delivery of our marketing catalogues, customer merchandise and monthly customer statements.

We are working to mitigate the reliance on SAPO and are now less reliant on them. We have extended the use of third-party couriers and, something that I am very proud of, continue to use owner-drivers, which provide a great opportunity for local enterprise development. You can read more about our owner-drivers in the Stakeholders section.

As our digital strategy matures it reduces the need for customers to have their monthly catalogue delivered by SAPO. By encouraging her to make use of e-statements she is also able to view her account balance online.

Q&A with the Retail Chief Executive Officer – continued

Q: Africa contribution of 10,5% has declined from 11,3% in 2014. Can you expand on this.

A: Yes, a disappointment for the year, but one very much of our own making as we deprioritised our expansion plans for 2015 to manage other priorities.

We achieved marginal growth in Namibia and Botswana, impacted by a poor first quarter of the year, but this improved in the latter part. Pleasingly we gained another 15 000 new Africa customers and we will certainly build on this for 2016.

Africa represents strong growth opportunities over the medium term and we have a number of web enquiries for our HomeChoice product throughout Africa.

Q: What benefits do you expect to achieve from your capital expenditure programme?

A: Capital expenditure at R187 million was at the highest level in the business over the past five years. In the last three years we have invested more than R300 million and expect the level to reduce from 2016. The 2015 programme was mainly all about two property investments – the 1 000-seat call centre and Retail showroom – and the continued investment in technology. We continue to invest in technology to support our ability to provide innovative digital shopping solutions to our customers.

The call centre investment was more than physical infrastructure improvements. The telephony and dialler systems were upgraded to drive productivity and a more effective way of supporting customer relationships. The benefits of the showroom and the call centre will be seen in future years. The upgrades to the call centre enable improved productivity, and a more sophisticated way in which to manage our "long-distance" relationships with our customers.

Q: Whilst other retailers may be slowing down their real estate growth and moving to digital you've opened an exciting new "bricks" space – your showroom. Why?

A: As a direct marketing company our customer relationship has always been managed "long distance" through our more than six million catalogues sent out each year. Using a combination of call centre operators, or by her engaging with us digitally through the web and mobi, we felt that it was important for our customers to engage with the Retail business in a retail shop environment. It puts our products in one place where she can touch and feel them and then move across to sales assistants who talk her through the purchase and credit granting.

The showroom also serves as a one-stop-shop to highlight the well-loved HomeChoice brand.

We do see ourselves opening up a few more showrooms in key regional centres, but for now we want to get the learnings from this one before we roll out others. Our strategy is to drive more revenue from our digital platform – having a few effective "mortar and bricks" showrooms rounds off the offer.

Q: And what are the Retail plans 2016?

A: All the indications are that the SA economic climate isn't going to make it easy for any retailer – a volatile Rand, increasing inflation, the drought impacting food prices and consuming more of our customers' hard-earned money, and the changes to credit regulations still to come.

Against this background our strategy remains unchanged. We have changed our focus to one of consolidation and driving through the benefits from our recent investments. We will focus our marketing efforts to ensure that we continue to increase our customer base and deliver her great product. Managing the impact of the higher Rand on product pricing whilst still providing her with innovation will be a key focus.

Q&A with the Financial Services Chief Executive Officer

SEAN WIBBERLEY

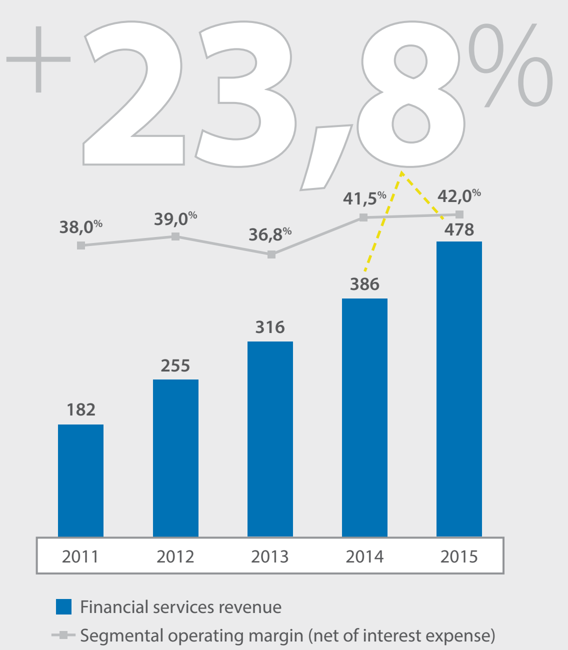
"It is pleasing to see that 72% of repeat loan transactions originate on our digital self-service platforms. This represents more than 55% of loan disbursements made."

Q: How has Financial Services performed this year?

A: We achieved a solid set of results despite the distraction of implementing new systems and processes to accommodate the changes to the affordability regulations of the National Credit Act (NCA).

Revenue for the year was R478 million, an increase of 23,8% on 2014; debtor costs as a percentage of revenue were up to 29,9% from 28,3% in the prior year and higher expenses were incurred due to investments made for the affordability project which resulted in EBITDA increasing by 23,4%.

Reviewing the performance against our strategy we increased revenue both organically through growth in the loan book of 26,5% and expanded our customer base by 15,5%, maintained consistent debtor costs, continued to enhance and develop our digital strategy, and set up the framework for our new insurance operations. Where we didn't do as well as hoped was in our product innovation initiatives and Africa expansion plans, largely due to the focus on the affordability project which pulled in the resources allocated to these initiatives.



Q: The NCA announced a number of regulatory changes this year and further changes in 2016. How are they impacting business operations?

A: The affordability changes have had a significant impact on the business – requiring implementation of new systems and processes and customer education. Customers are overwhelmed by the changes, so we are continually reviewing our processes, looking at talk times and channel workflow to make it easier for her and to hold her hand through these changes. In addition to the technical training, we have also provided soft skills training in our call centres to help them reassure customers.

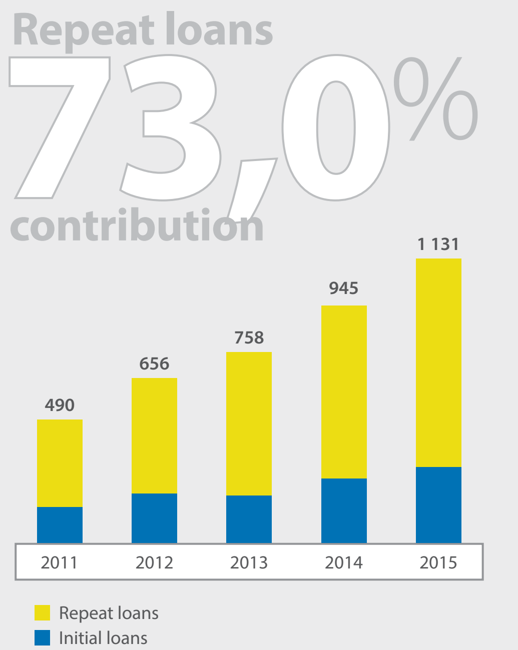
Financial Services has joined the Document Exchange Association (DEA), which allows us, with the customer's permission, to obtain electronic copies of customer bank statements from participating banks. This assists with affordability documentation requirements. Technology development has included additional functionality to our digital solutions to enable our customers to electronically upload documentation.

Overall, we expected a drop-off in business as a result of the affordability process changes and we are experiencing lower pass rates as anticipated. With continual guidance and education we expect our customer to become more familiar with and accepting of the process and the pass rates to improve.

Looking ahead, effective May 2016, the DTI has imposed new maximums on interest rates. The new caps will not affect existing loan agreements, but will reduce the revenue earned on future loans.

The current debit order regime is expected to change in the latter part of 2016, with the introduction of authenticated collections (AC).

The other legislation change relates to proposed caps on the charges that can be levied for credit life insurance. We are not expecting this to have an impact on our business as we charge within the proposed caps.



Q: What drove the 26,5% growth in the gross loan book of R947,6 million?

A: This has been driven by a 19,7% increase to R1,1 billion of loans disbursements. New loans are up 18% and repeat loans up by 20% to R830 million.

We operate in the low-value, short-term unsecured credit market. Our average loan balance in our core portfolio is R8 792 and average product term is 20,2 months. When you compare this to the industry, the South African unsecured credit market average term is 39 months with a balance of R20 784.

The maximum term available to our best customers is 36 months and this represents 10,1% of our total debtors' book.

Q&A with the Financial Services Chief Executive Officer – continued

Q: You continue to grow your customer base, with 42 000 new customers and an active customer base in excess of 130 000.

A: Our new customers are primarily loyal Retail customers who have a good credit record and history with the Retail business who are then eligible for a loan offer from Financial Services. This strategy continues to be effective in delivering new customers to our base, which at the end of December stood at 133 000, 15,5% up on 2014.

This strategy also reduces the acquisition costs and we benefit from reduced bad debt performance. We also benefit from low attrition rates as we find that the FinChoice brand has a high "stickiness" factor. Of the R1 130,6 million loan disbursements during the year 73% were to repeat customers.

During the year we ran some external customer acquisition campaigns and were pleased with the results. We will continue to use this mechanism prudently to add to the internal customer acquisition strategy.

Q: The quality of the debtors' book is reflected in debtor costs as percentage to revenue being 29,9% for the year.

A: The debtor costs metric is reflective of a stable credit performance. It is important to note that in 2014 we changed our treatment of debt review customers and brought them back onto the group's balance sheet with a conservative provision of 80,0%. On a comparable basis, the 29,9% achieved for 2015 shows an improvement from 30,3% in 2014. We believe that this is a good result achieved in a challenging market.

The tightened credit policy in 2014 rolled over into 2015, bringing through the good performance on the quality of the book. While debtor costs have increased by 31,1% to R143,1 million, this is mainly due to the growth in the longer-term debt review book with its highly conservative provisioning.

As can be seen in the graph below, the Financial Services vintages show consistent performance from the 2013 financial year.

We have marginally reduced our debtors provision from 17,0% to 16,6% and expect this to hold for 2016.

Q: Your vision is to be "our customer's favourite digital financial services provider". What does this really mean?

A: Simply, we want to enable and empower our customers to do all her financial services transactions digitally, either using our in-house developed channel accessible on all mobile phones called KwikServe® or our newly launched mobi site, finchoice.mobi. It is pleasing to see that 72% of repeat loan transactions are originated through our digital channels.

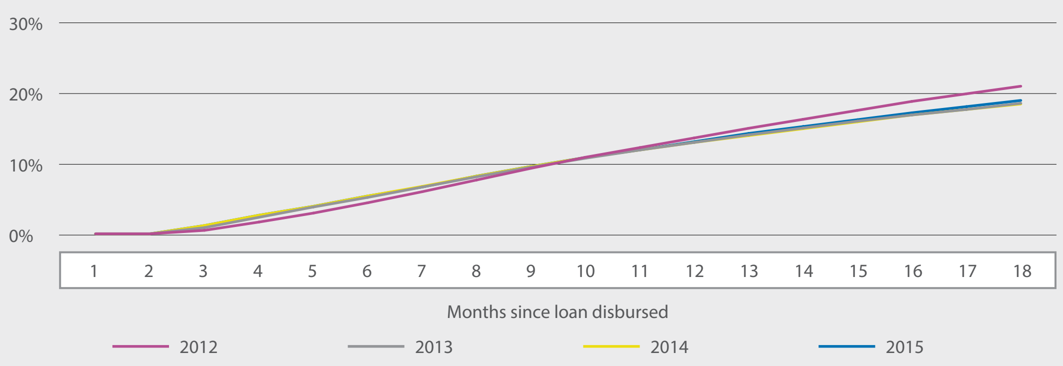
A new customer's first interaction with Financial Services takes place through the call centre. Thereafter she is encouraged to use our simple self-service digital platform to manage all her transactions – check balances, apply for a repeat loan, request an instalment skip in difficult months and to purchase airtime.

Our mobi site was launched in the second half of 2015, with 16% of our customers registering to use the site by end-December. Early results show that the mobi site is being used in combination with KwikServe® and we believe that as she gets more comfortable with the mobi site it will become her preferred option. The mobi site has been enriched with features to deal with the affordability changes and has built-in functionality to upload any documentation and access electronic bank statements from the DEA.

The planned mobi functionality for a first-time customer to apply for a new loan was deprioritised for 2015 and will now launch in 2016.

Financial Services 120 days+ vintages

Cumulative % of original accounts reaching arrear status



Q: Can you give us an update on your expansion into new markets and Africa?

A: As I mentioned earlier, we had hoped to be further along our Africa expansion strategy.

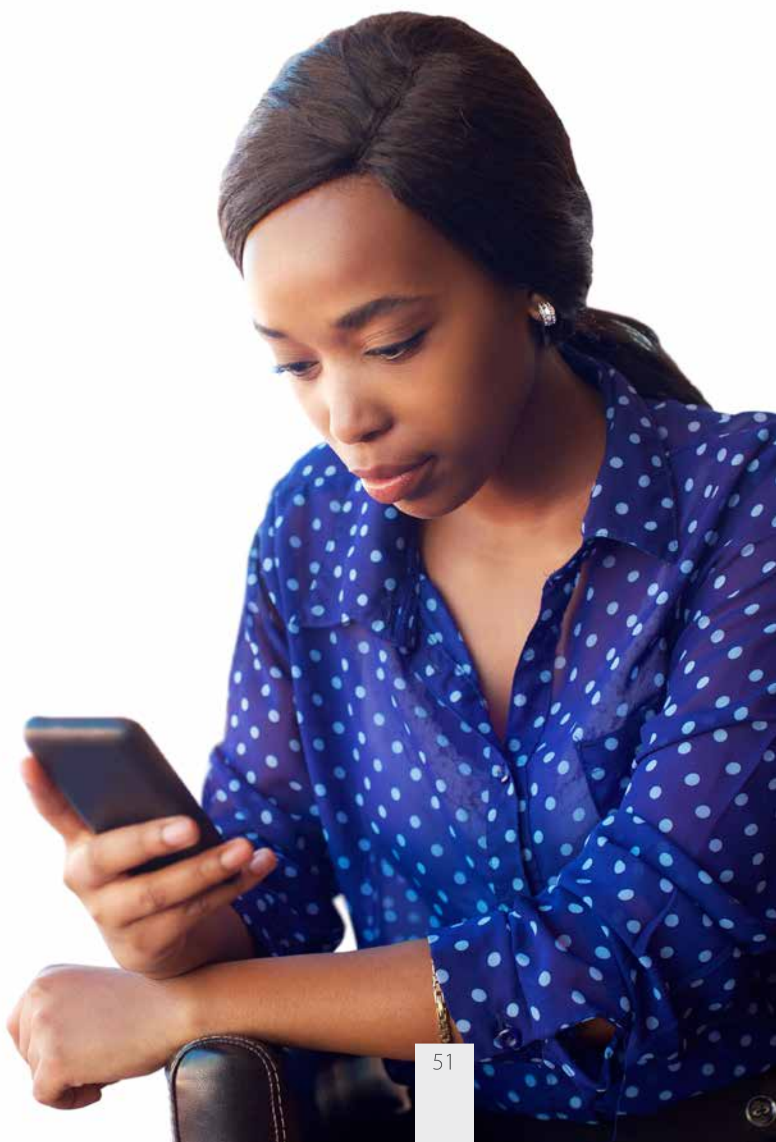
In August 2015 we launched our insurance business based out of Mauritius. A successful pilot for funeral insurance was trialled with a small group of existing customers and, based on that success, will be rolled out to all customers in 2016.

The insurance business is an exciting opportunity for the group and one that we believe will support the growth of the Financial Services business.

Q: What is your strategy for 2016?

A: Our strategy is unchanged so we will continue with our current initiatives into 2016. Implementation of the regulatory changes highlighted earlier will be integrated into the business operations. We will also begin to scale our insurance business and support the back-end structure and processes to enable the pan-African financial services strategy.

We are passionate about our digital strategy and so this will continue to receive a lot of focus with a goal to increasingly grow mobi as our customers' preferred digital platform. By providing her with more self-service features we aim to migrate more of the call centre transactional servicing requests to digital platforms to free up our consultants for higher-order service and retention activities.



Six non-executive directors, the majority being independent

Governance structure relevant for pan-African operations

Board evaluation conducted annually

King III applied in all material aspects

GOVERNANCE

Contents

Board of Directors

Stanley Portelli
Independent non-executive director – Chairman

Chairman of nominations committee, member of remuneration, audit and risk, and social and ethics committees

Amanda Chorn
Independent non-executive director

Member of audit and risk committee

Rick Garratt
Non-executive director

Eduardo Gutierrez-Garcia
Non-executive director

Chairman of social and ethics, member of remuneration and nominations committees

Robert Hain
Independent non-executive director

Charles Rapa
Independent non-executive director

Chairman of remuneration and audit and risk, member of nominations and social and ethics committees

Gregoire Lartigue
Executive director – Group chief executive officer

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

Paul Burnett
Executive director – Finance director

Team Driving the South Africa operations

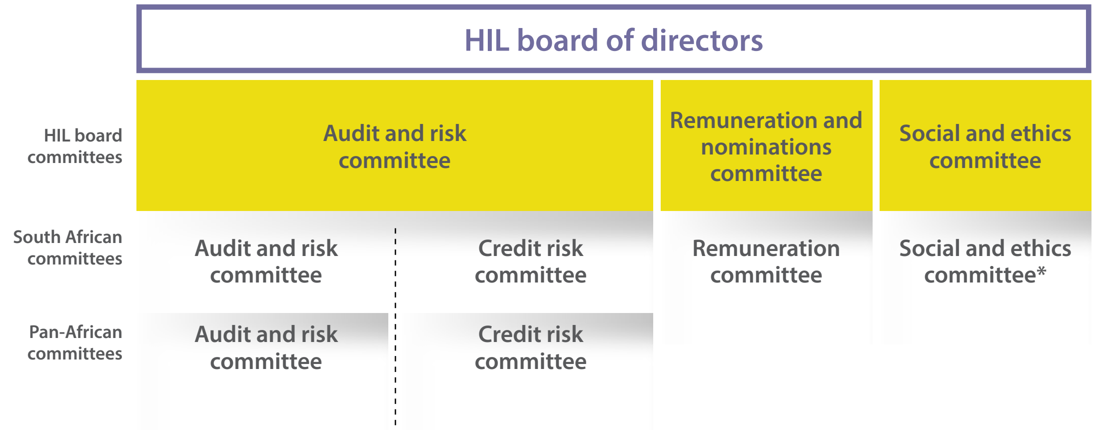
Shirley Maltz – Group chief executive officer – South Africa
Leanne Buckham – Retail chief executive officer
Sean Wibberley – Financial Services chief executive officer
Anthea Abrahams – Marketing and digital
Elmori Bester – Human resources
Cathy MacKenzie – Merchandise
Dirk Oberholzer – Technology
Mike Roux – Credit risk
Guy Wills – Logistics and operations

From left to right:
Cathy MacKenzie, Dirk Oberholzer, Leanne Buckham, Anthea Abrahams, Mike Roux, Shirley Maltz, Elmori Bester, Guy Wills, Sean Wibberley

Governance Report

The governance structures of the group have evolved following the formation and listing of HomeChoice International PLC on the JSE Limited in December 2014. The group continues to operate the board and committee structures that were in operation for the South African companies and has included the newly formed Mauritian companies in the group governance framework.

The governance structure is shown below:



* The HomeChoice Development Trust has oversight for the CSI component.

APPLICATION OF KING III PRINCIPLES

The directors endorse and accept responsibility for the application of legislation, regulation and governance principles necessary to ensure that effective corporate governance is practised consistently throughout the group.

As a JSE-listed group, the board is committed to applying the recommendations of the King Code of Governance Principles 2009 (King III) and confirms that the group has in all material respects applied the principles of King III during the 2015 financial year. Detail on the group's application of the principles of King III is available on the website at www.homechoiceinternational.com

King III recommends that the chairman of the board of directors should not serve as a member of the audit committee. The group's chairman, Stanley Portelli, is a member of the audit and risk committee. Stanley is an experienced director with extensive legal, financial services and corporate experience in Malta. The board believes he can make a valuable contribution to the deliberations of the audit committee which will not be compromised by his role as chairman of the board. This departure from King III is permitted under the listing rules of the JSE.

King III recommends that sustainability reporting and disclosure should be independently assured. The annual financial statements are independently assured but at this stage the audit and risk committee does not believe that independent assurance on sustainability will provide significant benefit to stakeholders.

BOARD STRUCTURE

The company has adopted a board charter setting out roles, functions, obligations, rights, responsibilities and powers of the board. The board is ultimately accountable and responsible for the performance and affairs of the group and its primary responsibility is setting the strategic direction of the group, monitoring investment decisions and reviewing the performance of management.

Board and committee attendance

The meeting attendance for the group board and committees is shown alongside.

	Board	Audit and risk	Remuneration and nominations	Social and ethics
Stanley Portelli	4/4	4/4	1/1	1/1
Amanda Chorn	3/4	1/4		
Paul Burnett	4/4			
Rick Garratt	3/4			
Eduardo Gutierrez-Garcia	4/4		1/1	1/1
Robert Hain	4/4			
Gregoire Lartigue	4/4			
Shirley Maltz	4/4			
Charles Rapa	4/4	4/4	1/1	1/1

Board of directors

The group has a unitary board structure with nine directors. Four of the directors are independent non-executive directors, two non-independent non-executive directors and three executive directors. Rick Garratt is classified as a non-independent non-executive director by virtue of being a potential discretionary beneficiary of the Maynard Trust, the indirect holder of GFM Limited. Eduardo Gutierrez-Garcia is also classified a non-independent non-executive director as he has been appointed to the board by ADP II Holdings 3 Limited, which is a 16,4% shareholder.

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. Newly appointed directors participate in an induction programme.

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.

The board meets at least quarterly and all meetings are convened by formal notice.

The roles of the independent non-executive chairman and the group chief executive officer are separate and clearly defined. This division of responsibility ensures a balance of power with no individual having unrestricted decision-making authority.

Board performance appraisal and independence assessment

An annual evaluation process was conducted during the year to assess the contributions of individual directors and the effectiveness of the board and each sub-committee. This was undertaken by means of a questionnaire completed by all directors. An assessment of the independence of the non-executive directors was also conducted. The board is of the opinion that it is operating effectively.

Company secretary

The primary role of the company secretary is to ensure that the group's memorandum and articles of association 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. The company secretary is not a director within the group. The board is satisfied that the company secretary has an arm's length relationship with the board and has the requisite competence, qualifications and experience to carry out the required responsibilities.

Governance Report – continued

COMMITTEE STRUCTURE

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. All board committees, including those in South Africa, are chaired by independent non-executive directors, with the exception of the social and ethics committee. Non-executive directors may attend all committee meetings by invitation.

The key activities of the board committees are as follows:

HIL audit and risk committee

Composition	Activities
Charles Rapa (c) Amanda Chorn Stanley Portelli	• Reviews the annual financial statements and any other financial information presented to shareholders, ensuring compliance with International Financial Reporting Standards
	• Oversees integrated reporting and considers factors and risks that could impact on the integrity of the integrated report
	• Nominates the external auditors for appointment, monitors and reports on their independence, approves the terms of engagement and scope of the audit, and fees paid
	• Oversees the group's risk management processes, identifying and reviewing the group's exposure to significant risks and its risk mitigation strategy
	• Provides assurance on the adequacy and effectiveness of the group's systems of internal financial and operational control and compliance with laws and procedures
	• Monitors and supervises the effective functioning and performance of internal audit, ensuring that it operates independently of management and approves the annual audit plan
(c) Chairman	• Considers the appropriateness of the expertise and experience of the finance director and group's finance function

The finance director, head of internal audit and external audit attend by invitation.

For additional information refer to the audit and risk committee report included in the annual financial statements on the website www.homechoiceinternational.com

HIL remuneration and nominations committee

Composition	Activities
Charles Rapa (c) Eduardo Gutierrez-Garcia Stanley Portelli	• Assists the board in setting and administering effective group remuneration policies that are in the group's long-term interests
	• Ensures the directors are fairly rewarded based on both their individual and team contributions to overall group performance
	• Ensures the disclosure of remuneration is accurate, complete and transparent
(c) Chairman	• Reviews the group's board structures, and identifies and nominates potential new directors for approval by the board

Stanley Portelli chairs all matters relating to nominations.

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

For additional information refer to the remuneration report on pages 64 and 65.

HIL social and ethics committee

Composition	Activities
Eduardo Gutierrez-Garcia (c) Stanley Portelli Charles Rapa	• Reviews diversity plan and metrics, and employment equity plans
	• Reviews skills development, training plans and metrics
	• Monitors activities of the HomeChoice Development Trust, CSI projects and employee wellness
	• Reviews feedback on customer research and customer complaints
	• Monitors labour dispute trends and successful management thereof
	• Reviews the group's occupational health and safety practices and impact on the environment
(c) Chairman	• Monitors the Tip-Offs Anonymous facility

Executive directors and members of operational boards attend by invitation.

South Africa and pan-African committees

Governance oversight is managed through a board and committee structure for the South African operations.

Committees relevant are: audit and risk, credit risk, remuneration, and social and ethics. The credit risk committee has oversight for the credit risk policy and application thereof for the Retail and Financial Services business operations. It ensures that the credit metrics are in line with the risk tolerance levels and that there is effective management of the financial capital.

The operations in Mauritius have recently been established during 2015. It is anticipated that an appropriate committee structure will be fully operational in 2016 – specifically an audit and risk committee and a credit risk committee.

Governance Report – continued

CONFLICTS OF INTEREST AND PERSONAL SHARE DEALINGS

In addition to a formal annual disclosure process, all board members are required to make ongoing disclosures of their shareholdings in HIL, 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.

Directors and employees are prohibited from dealing in the group's shares during two formal closed periods. 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 chairman of the board.

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 and 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 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.

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 and other advisors 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 did not receive any requests for information in terms of the Promotion of Access to Information Act of South Africa 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.

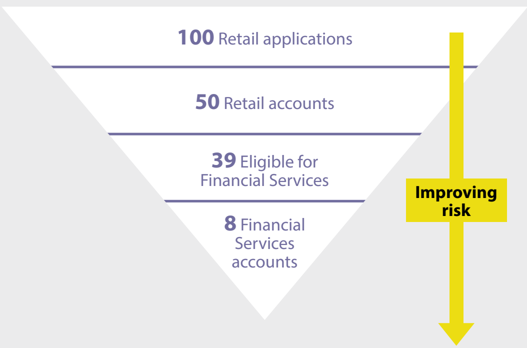
Credit Risk Management

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

Credit risk is managed through a process of continued multiple-level risk filtering. New customers are acquired through Retail as the group has found that the predominantly female customer, particularly those buying homeware products, have proven to have better credit risk than their male counterparts. Whilst the primary source of Financial Services customers is through the Retail customer base it may acquire new customers by using external customer databases.

This risk-filtering process is shown below.

The risk-filtering process



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.

Financial Services' initial loans are granted to Retail customers who have demonstrated good payment behaviour. This ensures that Financial Services' 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 Retail or Financial Services.

The Retail credit policy and debtors' book is managed independently of the 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.

The group has an in-house collections team and also makes use of external debt collection agencies. Collections in the Financial Services business are executed by way of regular debit order payments, which benefit payment performance. A Retail customer has more than 6 000 payment points throughout South Africa – these payment points include selected retailers, SAPO, banks and electronic options.

During 2015 significant changes were implemented to the credit risk processes and systems to cater for the affordability regulatory changes. These changes will continue into 2016 as the group looks to drive improved processes. Changes from the debit order collection process to "authenticated collections" in 2016 will bring new system changes required to be implemented.

The continued expansion of Retail sales into other African countries will require a greater focus on credit management in less data-rich environments.

A credit risk policy for the pan-African Financial Services business, aligned to the group's credit risk policy, will be fully implemented in 2016.

Remuneration Report

REMUNERATION POLICY

The group recognises that employees are critical in meeting business objectives and contributing to the sustainability of the business. The group's remuneration policy is therefore 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 focuses energy on attaining short-term goals which are not at the expense of long-term objectives and sustainability.

The group's remuneration policy is proposed to shareholders for a non-binding advisory vote at the annual general meeting.

COMPONENTS OF REMUNERATION

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

Guaranteed remuneration	Variable performance-related remuneration	
Basic salary	*Short-term performance*	*Long-term performance and retention*
• 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.	• Call-centre employees are incentivised monthly against targets. • All other employees are eligible for an annual bonus subject to individual and company performance.	• Senior employees are eligible for participation in the group's share option incentive scheme.
Salary is based on competitive market value and adjusted in accordance with performance and contribution.	Incentives are based on individual performance subject to achieving group financial targets.	Share-based incentives are aimed at retention and to encourage sustainable growth.

Monetary remuneration comprises the following components:

Guaranteed remuneration

The basic remuneration comprises fixed guaranteed salaries for all permanent employees on a total cost-to-company (CTC) basis. Basic remuneration is reviewed annually, benchmarked against the market and assessed against prevailing economic metrics. Annual increases are granted on 1 March.

Membership of the group's defined contribution provident fund is compulsory for all South African employees and is funded out of an employee's CTC. 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, and an insured disability benefit equating to 75% of pensionable salary. Membership of a medical scheme is encouraged, but is not compulsory, and is also funded from an employee's CTC.

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 EBITDA financial targets.

These targets are defined at the start of each financial year and approved by the remuneration committee and board. The remuneration committee retains discretion on whether to award a bonus, and the quantum. A bonus is not payable where the EBITDA target is missed by more than 5%, however the group has in the past made a significantly reduced ex-gratia payment. The annual bonus is calculated on each employee's base pay and their performance against key performance metrics.

Discretionary year-end cash awards are made to recognise employees for outstanding achievements in areas such as excellence, innovation and teamwork.

Long-term share incentive scheme

The group adopted a long-term share option incentive scheme in 2014 aimed at aligning employee remuneration with shareholder interests by rewarding senior employees for the creation of shareholder value over the medium term. In terms of the scheme a comparable offer was made to all employees holding options under the previous share option incentive scheme launched by HomeChoice Holdings Limited in 2010. The 2010 share option incentive scheme was a broad-based share scheme and enabled a number of employees to participate in the group's listing on the JSE in 2014. Participation in the current scheme is limited to senior employees.

In terms of the rules of the scheme options are issued at the current market value of shares and vest after a period of four years.

Alternative Employee Share Option Scheme

The group intends to request shareholders to approve an Alternative Employee Share Option Scheme and will table the necessary resolutions at the annual general meeting to be held on 12 May 2016. It is intended that the share scheme will be used to attract and retain senior executives and may also be used for once-off awards for the recruitment of key executives which invariably requires compensation to address value forfeited on resignation from a previous employer.

Share options outstanding as at 31 December 2015 are as follows:

Vesting date	**2015**	**2016**	**2017**	**2018**	**2019**	**Total**
Exercise price	R8,76	R8,76 – R13,29	R10,00 – R13,88	R11,00 – R15,28	R33,11 – R33,70	
Options granted	942 100	2 175 750	669 500	858 500	407 000	5 589 850
Options vested	(679 800)	(4 000)	–	–	–	(1 086 750)
Options forfeited	(212 300)	(747 650)	(100 500)	(136 500)	(31 750)	(1 362 750)
Closing balance	50 000	1 424 100	569 000	722 000	375 250	3 140 350

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 any 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 directors' performance is evaluated through an annual peer review process. Rick Garratt performs additional consulting services to the group, the fees for which have been categorised as director's fees on page 66.

Executive directors are employed on the same terms and conditions as all group employees and receive salaries, benefits and performance bonuses. Performance bonuses are based on the achievement of EBITDA financial targets as well as non-financial targets that are targeted to manage the risk of buying, increase sales revenue from existing customers, expand the customer base, optimise supply chain efficiencies, manage talent and drive transformation, implement leading information systems, enhance the customer experience and manage credit risk.

Remuneration is reviewed annually by the remuneration committee, is calibrated for consistency and is proposed to the board for approval.

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.

Remuneration Report – continued

DIRECTORS' REMUNERATION AND SHAREHOLDING

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

	Short-term benefits				Post-retirement benefits			
	Directors' fees R'000	Salary R'000	Other benefits R'000	Performance bonus R'000	Provident fund contributions R'000	Total remuneration R'000	Value of equity-settled share options granted* R'000	Gains realised on share options vesting R'000
2015								
Executive directors								
Shirley Maltz	–	2 683	–	3 064	322	6 069	259	763
Greg Lartigue	141	–	–	–	–	141	–	–
Paul Burnett	–	1 267	487	585	34	2 373	40	–
	141	3 950	487	3 649	356	8 583	299	763
Non-executive directors								
Rick Garratt	3 966	–	2 214	3 000**	–	9 180	–	–
Amanda Chorn	291	–	–	–	–	291	–	–
Robert Hain	102	–	–	–	–	102	–	–
Stanley Portelli	127	–	–	–	–	127	–	–
Charles Rapa	100	–	–	–	–	100	–	–
	4 586	–	2 214	3 000	–	9 800	–	–
Total remuneration	4 727	3 950	2 701	6 649	356	18 383	299	763
2014								
Executive directors								
Shirley Maltz	–	2 531	–	900	304	3 735	205	–
Greg Lartigue	100	–	–	–	–	100	–	–
Paul Burnett	–	1 100	–	–	132	1 232	25	–
	100	3 631	–	900	436	5 067	230	–
Non-executive directors								
Rick Garratt	–	3 738	1 108	280	–	5 126	–	–
Amanda Chorn	278	–	–	–	–	278	–	–
Stanley Portelli	100	–	–	–	–	100	–	–
Charles Rapa	100	–	–	–	–	100	–	–
	478	3 738	1 108	280	–	5 604	–	–
Total remuneration	578	7 369	1 108	1 180	436	10 671	230	–

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

** *Bonus relates to the 2014 financial year during which Rick Garratt was an executive director.*

Share options outstanding at the end of the year have the following vesting date and exercise prices:

Director	Vesting date	Number of share options '000	Exercise price per share Rand
Shirley Maltz	31 March 2016	25	10,64
	23 June 2016	450	10,64
	27 August 2017	50	11,00
	31 March 2018	100	14,44
	20 March 2019	41	33,70
		666	
Paul Burnett	27 August 2017	40	11,00
	20 March 2019	12	33,70
		52	
		718	

DIRECTORS' INTEREST IN THE SHARE CAPITAL OF HIL

Shirley Maltz has a direct beneficial interest in 51 044 (2014: 51 044) HIL shares.

Amanda Chorn has an indirect beneficial interest in 50 000 (2014: 50 000) HIL shares.

GFM Limited, which has a direct beneficial interest in 73 449 531 (2014: 73 449 531) HIL shares, is an associate (as contemplated in the JSE Listings Requirements) of Shirley Maltz and Rick Garratt because each of them is a potential discretionary beneficiary of a trust indirectly holding 100% of the shares in GFM Limited.

There has not been any change in the above interests since the end of the financial year and the approval of this report.

Definitions

Active customers	All customers with a balance outstanding of > R0 that have not been transferred to legal
Adspend efficiency	Marketing material and telemarketing costs as a percentage of net sales value
Customer base	Currently active customers plus recently inactive customers
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
DEA	Document Exchange Association
Dividend cover	Basic earnings per share divided by dividend declared per share
DPI	Development Partners International, a private equity firm
Earnings per share	Profit for the period divided by the weighted average number of shares in issue for the year
EBITDA	Earnings before interest received, interest paid, tax, depreciation and amortisation
EDC	External debt collectors
HCDT	HomeChoice Development Trust
Headline earnings	Earnings 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
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)
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
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
Recently inactive customers	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
Retail gross profit margin	Retail gross profit divided by retail sales
Retail sales	Sale of merchandise and associated delivery fees
Return on equity	Profit for the period divided by the average of the current and prior period's total equity
USSD	Unstructured Supplementary Services Data
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

Administration

Country of incorporation
Republic of Malta

Date of incorporation
22 July 2014

Company registration number
C66099

Company secretary
George Said

Registered office
93 Mill Street
Qormi
QRM3012
Republic of Malta

Auditors
PricewaterhouseCoopers
Republic of Malta

Corporate bank
Deutsche Bank International Limited
Channel Islands

JSE listing details
Share code: HIL
ISIN: MT0000850108

Sponsor
Rand Merchant Bank, a division of FirstRand Bank Limited

Transfer secretaries
Computershare Investor Services (Proprietary) Limited

Shareholders' diary

Financial year-end
31 December

Annual general meeting
12 May 2016

Distributions to shareholders
June and November

Reports and profit statements
Publication of integrated report: March
Interim report: August

GROUNDPEPPER

HomeChoice International PLC

HiL PLC