Integrated annual report **2016**

HomeChoice International PLC

2016 at a glance

Retail sales up **25.1%** to **R1.5 billion**

Customer base up **10%**

Revenue up **19.3%** to **R2.7 billion**

Loan disbursements up **10.4%** to **R1.3 billion**

40% increase in digital Retail sales

EBITDA up **11.0%** to **R701.4 million**

R846 million digital credit extended, **28%** of total group credit

3% growth in finance income

Our integrated report

The directors of HomeChoice International PLC (HIL) have pleasure in presenting the integrated annual report for the 2016 financial year.

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 our financial services and insurance offering, in southern Africa contributes to value creation in the short, medium and longer term for a broad stakeholder base.

Scope and boundary

This report covers the performance and activities of HIL and its subsidiaries (the group) for the period 1 January 2016 to 31 December 2016.

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 10% of Retail revenue generated from the neighbouring countries of Botswana, Lesotho, Namibia, Swaziland and Zambia. A business in Mauritius manages the insurance operations and recently commenced selling financial services. The report mainly focuses on the group's business operations in South Africa.

There has been no material change in the comparability of reporting from 2015, with no restatements of financial results.

Reporting suite

The group makes the following documents available to stakeholders:

- Integrated annual report
- Annual financial statements report, including Notice of annual general meeting
- Investor presentations

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

IIRC framework

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. While management has chosen not to structure the report around the capitals, the performance and activities relative to these capitals are covered throughout the integrated report.

Materiality has been applied in determining the content and disclosure in this report, ensuring the report is both concise and relevant to our shareholders. Material issues are considered to be those that may impact on the group's ability to satisfy customers' needs, improve financial returns and deliver sustainable growth. The material issues are covered in more detail on pages 16 to 19.

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 2016 integrated annual report for release to shareholders on 31 March 2017.

Stanley Portelli
Independent non-executive chairman

Gregoire Lartigue
Chief executive officer

VISION

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

GROUP overview

Group 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 (mobile phone and internet), 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 and has introduced an insurance business in 2016 managed from Mauritius.

The Mauritius Financial Services business has been established and set up as the base from which the financial services operations outside South Africa will be managed in due course.

Group structure

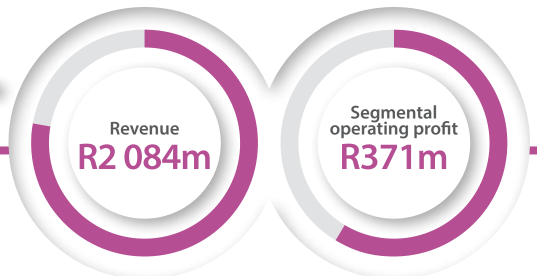
The group's trading operations are conducted through two main operating subsidiaries – Retail and Financial Services. The property company owns the commercial properties which support the trading operations.

RETAIL

Retail is an omni-channel home-shopping retailer offering an extensive range of household textiles and homeware merchandise, and fashion products under the HomeChoice brand. The merchandise offering also includes a selected range of well-known branded home appliances, electronics and footwear. Merchandise is sold using credit through a convenient shopping experience supported by a home delivery service. Personal electronics are offered under the FoneChoice brand.

9.4 million
visits to digital channels

DIGITAL
RETAIL SHOWROOMS
CALL CENTRE
SALES AGENTS



PROPERTY

The group owns the South African head office building and a centralised distribution centre in Cape Town. The call centre facility and Retail showroom was developed on land adjacent to the head office.

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

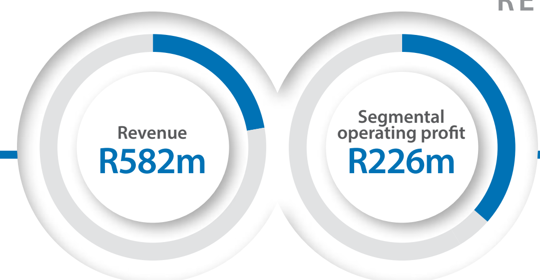
Excellence – we will continuously assess, adapt and improve while being accountable and professional

FINANCIAL SERVICES

Financial Services provides unsecured personal loan and insurance products 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 a more predictable repayment behaviour. The business focuses on short-term and low-value loans, primarily distributed through self-service digital platforms.

64% loan transactions concluded on digital platforms

DIGITAL
CALL CENTRE
RETAIL SHOWROOMS



MAURITIUS

Manages the group's insurance business through a cell captive structure. Pilot of Financial Services loan disbursements to South African and African customers.

Investment case

The group's proven business model, focused strategies for growth and excellence in execution sustain competitive returns to shareholders.

Positioned in a growing mass market

Committed to the fastest growing LSM 4 – 8 target market.

Proven growth strategy

The entrepreneurial spirit that launched the business remains core to our values. Organic growth is the preferred strategy to gain market share.

Omni-channel

Omni-channel operations offer a southern African customer base a convenient experience that suits their lifestyle and time constraints. The model enables targeted marketing through relevant channels. Positioned on heritage catalogue business.

Digital engagement

The group is at the forefront of digital retailing and financial services. Well positioned to capitalise on strong digital growth.

Expertise in credit and analytics

Has extensive experience in mass market credit management. Data on over two million customers enables targeted marketing.

Delivery network

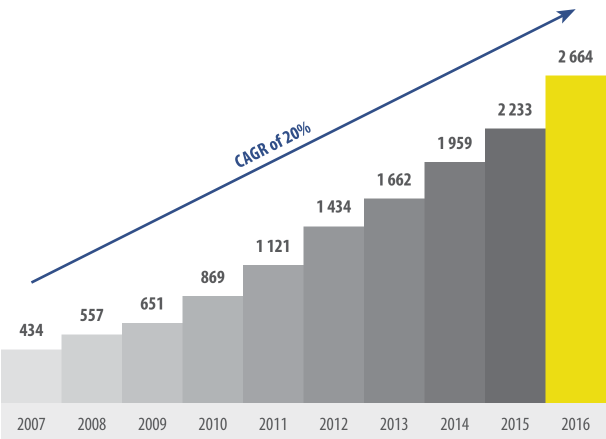
Enables home delivery to mass market. Single pack distribution operations.

Customer focused

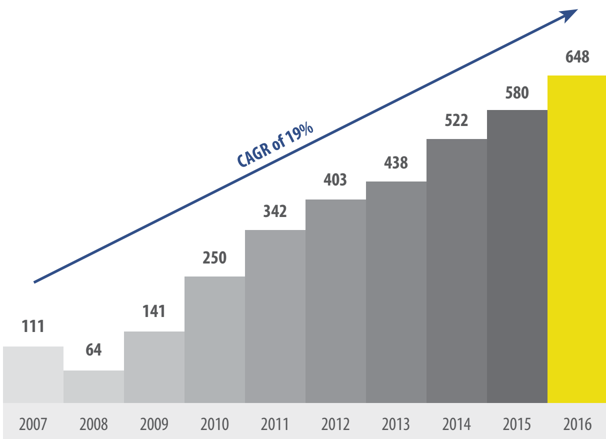
Group leverages its Retail customer base for financial services and insurance offerings.

Talent

Investment in people ensures retention of key skills and attracts leading talent.



GROUP REVENUE
Rand million



GROUP OPERATING PROFIT
Rand million

Group strategy

The board reviews and approves the strategy on an annual basis. It manages the allocation of capital and focus for each of the strategic focus areas to maximise returns. Two changes were made to the strategy during the year:

- The focus of "Drive digital engagement and sales" has been changed to specifically focus on the "mobile" component, given that the penetration of mobile phones far outweigh the internet usage, particularly in the group's target customer market
- Managing and enhancing a customer's journey is an increasing trend in both local and overseas digital and omni-channel retailing. The board agreed to add another strategic focus "Enhance the customer experience" and to present it at the centre of the focus areas to emphasise the importance of this as a key component in the future strategic direction of the group.

RETAIL

A review of the performance against the strategic objectives for 2016 and the plans for 2017 are depicted below.

Organic growth through innovation

2016 focus areas	Targets met	2016 achievements
Expand new bedding concepts and leverage textiles expertise	✓	Retail sales up 25.1% to R1 497.6 million
Develop fashion range and include men's footwear offering	✓	Lessons learnt from fashion range, footwear performing well
Trial external brands	✓	External brands launched in home appliance, electronics and footwear
Cost reduction through the supply chain	✓	Gross margin decreased from 50.7% to 49.3%, with supply chain productivity gains partially mitigating decrease
Call and collect optimisation and home delivery contribution	✓	Home delivery and customer collections to 69% (2015: 64%)

Plans for 2017
- Drive continued growth in bedding
- Increase range of external brands
- Expand call and collect and maintain home delivery/SAPO mix
- Upskill agents to support the transition to digital expansion

Customer growth through analytics

2016 focus areas	Targets met	2016 achievements
Implement customer-centric marketing plans	✓	9% growth in Retail customer base to 700 000 Existing customer response stable
Develop further existing customer retention strategies	✗	On-boarding for new customers delayed to 2017
Introduce on-boarding for customers	✗	Strong growth of new customers from television campaigns
Drive conversion of media campaigns	✓	Cost of new customer acquisition decreased by 19%

Plans for 2017
- Increase digital focus for new customer acquisition
- Introduce on-boarding for customers
- Drive customer centricity through segmentation

Optimise risk and drive efficiency

2016 focus areas	Targets met	2016 achievements
Improvements in credit metrics	✗	Retail debtors' book growth of 24.7% to R1 507.3 million
Investment in credit risk team to deliver improved processes and metrics	✓	Retail debtor costs as a % of revenue increased to 15.1% (2015: 14.5%)
Effective collaboration on strategy and execution between credit risk and credit operations	✓	Provisions increased to 18.9% (2015: 18.7%)
Vetting process review and enhancements	✓	Investment in new positions in credit management team with specialist collections and fraud focus
Champion challenger strategies and collections	✗	Champion challenger and collections strategies deferred to 2017

Plans for 2017
- Redevelop and build new scorecards
- Develop and implement new credit models
- Drive improvements in cash yield
- Introduce additional credit bureaus
- Collections strategy refocus and drive Naedo penetration

RETAIL

Drive mobile engagement and sales

2016 focus areas	Targets met	2016 achievements
Expand digital marketing offers, including social media and focus on organic growth	✓	Retail sales from digital channels growth of 40.3% Mobi contribution at 56% of digital sales Trialled USSD
Enhance mobi platform and focus on conversion	✓	Digital sales contribution increased to 12% (2015: 11%)
Improve online fashion experience	✓	Strong digital focus internally
Improve customer service experience and method of engagement for digital customer	✓	Introduced digital-only products to good customer response

Plans for 2017
- Digital marketing focus and efficiency improvement
- Expand digital-only product offering
- Evaluate and plan for future e-commerce engine

Expand into new markets and Africa

2016 focus areas	Targets met	2016 achievements
Develop optimal showroom concept and plan future roll-out	✓	Retail showroom in Wynberg traded for full year with good learnings
Optimise station concourse sites	✗	Developed showroom format for future roll-out
Streamline logistics operations in African markets	✗	One trial of station concourse site with review of plans going forward
Drive customer growth in existing African markets	✗	Retail sales from Africa constant at 10% (2015: 10.5%)
Re-engage sales agents in Botswana and Namibia	✓	Refocus on sales agents delivering good growth

Plans for 2017
- Further roll-out of showrooms
- Increase sales contribution in neighbouring African countries with digital focus
- Introduce insurance products to Retail customers

Enhance the customer experience

Plans for 2017
- Develop customer experience strategy and structure to support it
- Define customer service metrics and targets
- Migration from marketing focus to customer experience focus
- Focus on driving digitisation in service

FINANCIAL SERVICES

A review of the performance against the strategic objectives for 2016 and the plans for 2017 are depicted below.

Organic growth through innovation

2016 focus areas	Targets met	2016 achievements
• Steady growth of loan book	✓	Financial Services loan disbursements at 10.4% growth to R1 249.6 million
• Extend product and drive feature innovation	✗	New credit product deferred to launch in 2017
• Maintain repeat loan mix >70%	✓	Repeat loan mix increased to 76% (2015: 72%)

Plans for 2017

- Improve loan disbursement growth
- Introduce new credit product innovation
- Launch additional income stream from arrears collections charges

Customer growth through analytics

2016 focus areas	Targets met	2016 achievements
• Deepen customer penetration of Retail customer base	✗	Penetration of Retail customer base declined due to affordability processes in the first six months, recovering in second six months
• Drive repeat loan engagement	✓	6.5% growth in Financial Services customer base to 142 000
• Optimise response models	✗	
• Controlled external customer acquisition	✓	External loan acquisition 4 600 (2015: 5 100)

Plans for 2017

- Drive growth in new customer acquisition
- Maintain repeat loan mix >70%
- Continue controlled acquisition of external customers
- Review brand positioning and realign marketing

Optimise risk and drive efficiency

2016 focus areas	Targets met	2016 achievements
• Streamline regulatory changes	✓	Financial Services debtors' book growth of 21.1% to R1 147.3 million driven by term extension to best customers in fourth quarter
• Optimise customer journey and call centre processes	✓	Increase in regulatory compliance costs
• Maintain stable debtor costs and impairment provisions	✓	Financial Services debtor costs as a % of revenue decreased to 28.0% (2015: 29.9%)
• Continually refine scorecards and collection strategies	✓	Provisions decreased to 15.5% (2015: 16.6%)

Plans for 2017

- Maintain stable debtor costs and impairment provisions
- Develop new provision and recoveries model
- Drive improvements in collections and legal recoveries
- Automate credit limit strategies
- Drive improvement in cash yield from the book

FINANCIAL SERVICES

Drive mobile engagement and sales

2016 focus areas	Targets met	2016 achievements
• Drive mobi uptake and engagement	✓	35% of active customers registered for mobi (2015: 15%)
• Migrate KwikServe USSD customers to mobi platform	✓	KwikServe USSD penetration 78% (2015: 81%)
• Launch new customer acquisition on mobi	✓	Mobi now 24% of digital disbursements (2015: 7%) New acquisition on mobi piloted with full roll-out in 2017
• Increase self-service features on mobi	✓	Customer self-service features launched: account settlement quotes, document uploader Digital dashboard for agents launched

Plans for 2017

- Increase mobi registration and engagement
- Continue support of KwikServe platform with increased migration to mobi
- Roll out three self-service features and value-added services on mobi
- Full implementation of new customer acquisition on mobi

Expand into new markets and Africa

2016 focus areas	Targets met	2016 achievements
• Grow Mauritius operations hub	✓	FinChoice Africa business launched in Mauritius with pilot of loans to South African customers
• Test financial services products into existing African countries with Retail customers	✗	Capability to sell loans into Botswana and Namibia deferred to 2017
• Expand insurance business	✓	Insurance managed by cell captive contract from Mauritius base Personal and family funeral products scaled and credit life included on all loan products

Plans for 2017

- Grow FinChoice Africa loans business
- Pilot lending to Retail customers in Botswana and Namibia
- Launch additional new insurance products
- Implement insurance management system
- Expand Financial Services' presence in Retail showrooms

Enhance the customer experience

Plans for 2017

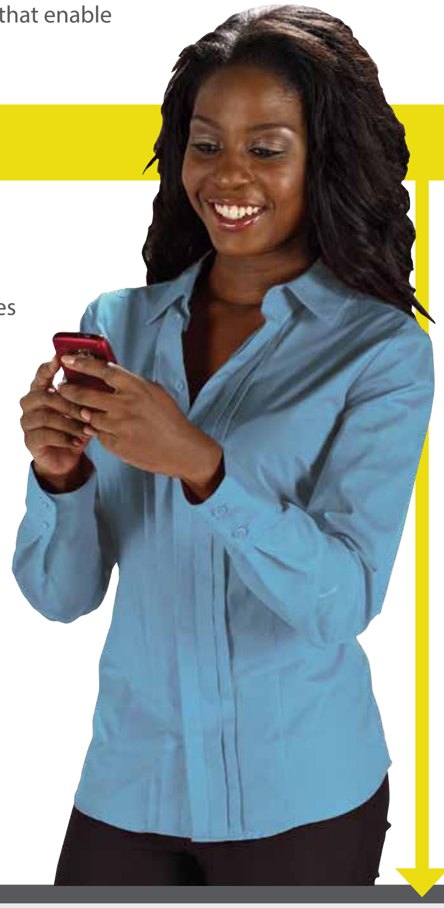
- Develop customer experience strategy
- Define and optimise the key customer service journeys
- Improve internal call centre and back-office processes
- Shift more customer interactions to digital platforms to enhance 24/7 self-service experience

Business model

The business model of the HIL group can be split into two business segments: Retail and Financial Services.

Some business activities are unique to each segment and others are supported by group services that enable common policies and processes to be applied throughout the group.

The diagram below depicts the high-level business activities which result in the value creation by the group.



CUSTOMER

Omni-channel customer engagement
- 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

Customer experience
- Convenient and easily accessible
- Simple engagement touchpoints
- Automation and digitisation where appropriate
- Quick response

RETAIL

Products
- Heritage in bedding and textiles
- Primarily own-brand, continuity product
- Expanded furniture range over past three years
- Selected range of women's and men's apparel
- Introduced well-known home appliance, electronic and footwear brands

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

Fulfilment
- Investment in 200 000 m³ warehouse operations in Cape
- Sizeable warehouse operations in Gauteng
- Sophisticated e-commerce fulfilment capability

Distribution
- Owner-driver network, third-party couriers and South African Post Office (SAPO)
- Over 60% of merchandise in South Africa directly to customers' homes
- Call and collect

GROUP SERVICES

Technology
- Investment in technology and hardware
- Best practice operating systems
- World-leading telephony and dialler technology in call centre
- Technology team structured to deliver digital platform and new systems
- Established web and mobi sites with investment to support growth
- Agile development methodology
- Driving group synergies
- Implementation of new credit system

People
- Highly skilled and motivated management team
- 1 000-seat call centre driving sales, customer service, collections
- Defined employee value proposition

Credit
- Responsible credit
- Retail credit facility account and loan agreements
- 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
- Payments via multiple channels – supermarkets, banks and SAPO
- Collections of loan repayments directly from the customer's bank account – Naedos
- Dedicated collections call centre, use of external debt collectors

FINANCIAL SERVICES

Products
- From 1-month KwikAdvance loan to 36-month term loan
- Credit life and funeral insurance products

Partnerships
- Relationships to facilitate insurance products

Fulfilment
- Digital self-service channel using mobi or KwikServe USSD application
- 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 when the annual strategy process is undertaken and the key business risks are confirmed.

The group considered the key business risks and refined them to the six material issues 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.

Risks and opportunities

Certain of the risks included in the material issues are extracted from the key business risk report. These are the key risks facing the business and could negatively impact the achievement of the challenges in the material issues section if not effectively managed.

Opportunities have been identified for each material issue to highlight some of the strategic intents that the group is pursuing. More detail on the strategic plans for 2017 can be found on pages 10 to 13.

Trading environment

Strategic context and stakeholder needs

The trading environment in South Africa has been challenging for consumers in the group's primary target market. Living costs have generally exceeded wage increases, with high food inflation and transport costs persisting for much of 2016. Volatility in the Rand was subject to the vagaries of political uncertainty and potential sovereign credit rating downgrades.

The Retail HomeChoice brand has a very loyal customer base in South Africa. They expect us to provide quality products at affordable prices. Through innovation and re-engineering our product offering we are able to provide a quality value product and manage margin impact.

Our long-standing relationships with key offshore suppliers help us to achieve that.

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 whom we understand and who in turn trust us to deliver their requirements.

Risks and mitigations

Inability to deliver targeted financial performance	Revenue growth driven through targeted direct marketing model, supported by investment in customer acquisition
	Proactively manage product mix and componentry to limit impact of exchange rate movements
	Range extensions and introduction of external branded home appliances and footwear

Opportunities

- Product innovation in key categories
- Expand range of well-known external branded products
- Development of competitive and appealing credit offerings

Credit risk management and regulatory compliance

Strategic context and stakeholder needs

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. The use of credit bureaus assist us to validate customer data in the credit-vetting process. We make use of external service providers to review the scorecards and credit risk models.

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. Credit providers are required to carry out prescribed affordability tests to manage how much credit can be granted to a customer and require physical documentation to substantiate proof of income and assess the ability of a customer to service that debt.

The affordability changes resulted in extensive changes to systems and processes in both Retail and Financial Services operations. Customers have experienced administrative challenges in providing the necessary documentation when applying for a loan or entering a new instalment credit agreement to purchase merchandise.

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.

Further details on credit risk management can be found on pages 66 and 67.

Risks and mitigations

Inability to manage credit within acceptable risk levels and support targeted revenue growth	Retail sales growth primarily driven through targeted direct marketing model to reduce potential bad debts
	Financial Services customer built up from the good loyal Retail customers – to manage the potential bad debt
	Use of credit bureaus and scorecards in vetting process
	Effective collections strategies – internal and external
Affordability assessment regulations have a negative impact on granting of credit	Instalment credit product replaced with credit facility product for Retail customers
	Introduced new channels to enable customers to submit documentation
	Implemented tools and processes to streamline in-house processes

Opportunities

- In-house scorecards and intellectual capital allows us to build up significant history and understanding of the LSM 4 – 8 customer market
- Drive credit facility product in Retail
- Leverage group opportunities to streamline and optimise credit-granting processes
- Collections strategy to optimise collections and improve book yield

Changing business model

Strategic context and stakeholder needs

The group has undergone structural changes in 2016 in response to customers' needs for products at more affordable prices. The reduction in the capping of maximum interest rates has reduced the level of finance income earned by the group.

The introduction of a credit facility product, at a lower interest rate than the previous instalment credit, while positive for a customer, requires the group to find alternative streams of income and manage costs to deliver acceptable shareholder returns.

The costs of compliance to the National Credit Regulator (NCR) regulations have increased significantly during 2016. The group must find ways to reduce the cost impact and maintain compliance to these regulations.

The introduction of external branded home appliances has a negative impact on margin as they generally operate at a lower margin when compared to private label products.

Risks and mitigations

Unable to maintain and enhance EBITDA margin	Develop additional streams of revenue
	Group services to identify and reduce duplication in costs
	Reduce conventional direct marketing costs with more cost-effective digital engagement
	Tight expense management

Opportunities

- Introduction of additional insurance products
- Drive customer re-engagement
- Focus communication with customer using digital engagement

Delivery network and delivery experience

Strategic context and stakeholder needs

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 management of an efficient delivery network capability is a material issue for the group.

During the year we have engaged with SAPO to ensure that their services are aligned with the strategic direction of the group. As we have expanded our home delivery services the reliance on SAPO has been reduced. We continue to use our owner-driver service providers, an enterprise development initiative, which has provided us with the opportunity to expand home deliveries to more customers and provide employment for small black-owned driver operations (see Stakeholder section for more detail). Call and collect and additional product collection points have increased delivery options for customers. Managing multiple delivery options to deliver a consistent customer experience will be a focus going forward.

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.

Further details on distribution network partners can be found on page 24.

Risks and mitigations

Reliance on South African Post Office as key distribution network partner	Engagement with senior members of SAPO
	Independent owner-driver home delivery service and future investment in call and collect strategy
	Conversion of customers still receiving post office deliveries in home-serviced areas to home delivery
	Partnering with specialised courier networks in established metropolitan areas

Opportunities

- Expand call and collect delivery strategy
- Relocate and expand distribution centre in Gauteng
- Reposition ISPs to enhance delivery experience

Digital strategy and technology roadmap

Strategic context and stakeholder needs

One of the strategic initiatives of the group is to drive mobile engagement and sales. 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 (IT) both in core infrastructure to deliver operational efficiencies and in "customer-facing" platforms to support the growth strategies of the group.

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 African expansion of the group.

Risks and mitigations

Unable to implement critical information systems to support digital strategy	Redefining architecture for easier and quicker implementation of application services
	Capital expenditure investment focused on technology with balance on new developments and replatforming legacy systems
	Dedicated product management team utilising specialist internal and external resources
	Regular engagement with business to prioritise systems delivery and optimise resource utilisation

Opportunities

- Drive digital engagement strategy
- Develop new e-commerce engine
- Focus capital expenditure for technological development
- Roll out additional customer self-service options on digital platforms
- Digital platform to facilitate customer self-service

Talent management

Strategic context and stakeholder needs

The group's growth strategies require skilled, competent employees with expertise in digital engagement, information technology development, retail and financial services. Attracting and recruiting the right talent to execute the strategies is a key issue for the group. The implementation of the employee value proposition (EVP) will assist the group to retain talent in a highly competitive market.

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.

Market norms show a relatively high labour turnover in a call centre operation with attrition in the range of 35% – 45%. We are pleased to see that the call centre attrition has decreased from 53% in 2016 to 42% in 2016. The EVP for call centre staff has been refined with a focus on training, mentoring and key performance indicator measurement. Market-related adjustments were made to the remuneration. Retail sales growth from the call centre increased by 27% for 2016 with an increase in the average sales performance of agents.

Further details on employees can be found on pages 22 and 23 and the remuneration policy can be found on pages 68 to 72.

Risk and mitigations

Inability to attract, retain and develop employees with necessary skills required by the group	Targeted retention strategy formalised with a focus on leadership development in the call centres, recruitment processes and coaching interventions
	Combined guaranteed and performance-related remuneration structure with market benchmarking to ensure competitiveness
	Adoption of best practice people policies and procedures

Opportunities

- Further roll-out of e-learning training programmes
- Define career paths for critical roles with supporting development plans
- Robust EVP implementation

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.

The group customer base stands at 1.6 million people at end-December 2016, with a 10% increase in the number of active customers for the year to in excess of 740 000.

New customers are generally acquired by the group through the Retail business. The broader product offering appeals to a larger consumer audience, and the higher Retail margin allows the group to more easily absorb the costs of acquiring new customers and the potential credit risk.

The Financial Services business markets to good-paying Retail customers with a strong credit payment history. The cost of acquiring those customers is reduced and will generally have a lower credit risk. Financial Services acquires a limited number of "external" customers using strict credit-vetting criteria.

Customers may therefore be a Retail customer, a Financial Services customer or both. Group customers are classified as those customers who are unique to each business and those who may have two accounts are counted as one customer.

PREDOMINANTLY FEMALE

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

15% male customers

STRONG SOUTH AFRICAN BASE

We are building on our experience in South Africa to acquire new customers in neighbouring countries.

8% from other countries neighbouring SA

TARGET MARKET

	LSM 1 – 3	LSM 4 – 8	LSM 9 – 10
2015	10%	74%	16%

RETAIL

Vision

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

Our customer base

2016	2015
700 000	641 000

Her preferred way to shop

Digital is the fastest growing channel.

	2016	2015
digital	19%	17%
call centre	64%	63%
sales agent	13%	12%
mail	3%	8%
showroom	1%	–

Mobi orders on digital

	2016	2015
orders	56%	45%

FINANCIAL SERVICES

Vision

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

Our customer base

2016	2015
142 000	133 000

Her preferred way to manage her finances

Our customers remain loyal to the digital platforms.

	2016	2015
digital	64%	65%
call centre	36%	35%

Mobi customers increasing

	2016	2015
registered	35%	15%

Employees

The group has in excess of 1 600 employees, based in the South African head office situated in the Western Cape, distribution centres in the Western Cape and Gauteng and Mauritius.

Engagement with our employees is informed by our employee value proposition (EVP).

90% black

10% white

More than 60% of all promotions during 2016 were made to black employees.

REPRESENTATIVE OF COUNTRY DEMOGRAPHICS

EMPLOYEE COMPOSITION

18% Specialists

1% Executives

81% Operations

HIGH CORRELATION WITH CUSTOMER BASE

72% female

28% male

EMPLOYEE VALUE PROPOSITION

- REWARD FAIRLY
- RECOGNISE
- MANAGE FAIRLY
- GROW
- CARE
- LEAD

42% (2016)

53% (2015)

CALL CENTRE ATTRITION RATE

EVP driving reduction in attrition.

TRAINING

Investment in training	2016	R3.9 million
	2015	R3.6 million
Number of interventions	2016	12 045
	2015	9 360
Hours trained	2016	72 331
	2015	74 596
Bursaries provided	2016	23
	2015	16

E-learning launched to specialist staff. In-house training videos make sure that we extend our digital strategy internally.

STAFF WELLNESS

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

EMPLOYEE ENGAGEMENT SCORE

78% 2016

82% 2015

Our employees told us they wanted more focus on training and development, communications and culture and values.

RECOGNISING OUR ACHIEVEMENTS

- Peer-to-peer recognition
- Quarterly incentives received
- Year-end awards

Recognising and rewarding employees for living the values.

REWARD FAIRLY

For more details on the remuneration policy, see pages 68 to 72.

Distribution network partners

The distribution network capability of the Retail business is a key element in ensuring that customers receive their orders timeously and in good condition. The network is facilitated through three categories of business partners – 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 a key enabler that supports home deliveries.

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

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. More ISPs were brought on board during the year to satisfy the delivery requirements for branded appliances and furniture.

Call and collect was introduced in 2016, allowing customers to pick up her parcels at the Retail showroom in Wynberg, Cape Town. Customers have responded positively to this delivery method and we expect this to grow as we roll out more showrooms and sites as collection points.

DELIVERIES IN 2016

>860 000

69% home deliveries and customer collections

31% SAPO

5.7 DAYS TO DELIVER TO HER HOME

INDEPENDENT SERVICE PROVIDERS

Transport **51%** of home deliveries in South Africa

63 vehicles/drivers

>70% based in Gauteng

more than **300 000** deliveries

Why you'll ♥ our click&collect

Shop anywhere **24/7**

Pick up when it's **convenient** for you

It's **quicker**

Collect from **our showroom**

Direct sales agents

Direct sales agents are one of the sales channels in the group's omni-channel model.

During 2016 there was a renewed focus and energy on this channel as part of the drive to expand the Retail business into more outlying areas of South Africa and the neighbouring countries. There were a number of agents who were no longer committed to the brand and were not generating any sales. As part of the re-energisation process, more structure and ownership was introduced with a review of the remuneration model and clearer competencies identified. As a result we experienced a 10% decline in the number of agents to 8 248.

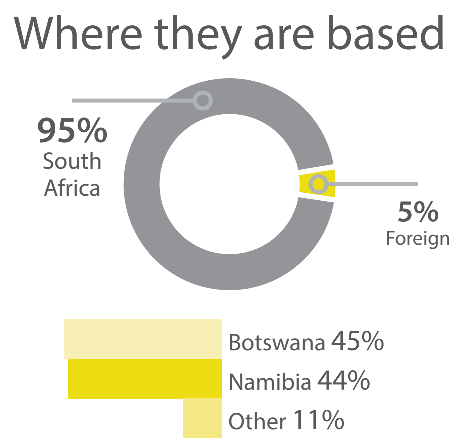
Regular rallies are held with the sales agents where they receive training and development to assist them in establishing their own network of clients to whom they can sell products. We saw good success from the renewed focus, with sales generated from this channel experiencing a 25% growth on 2015. Sales agents are more productive and engaged with the business.

We asked some of the sales agents to tell us how they felt about working for the group.

"I love interacting with my customers. Selling is my passion."
THANDI

"The best part about being a sales agent is writing your own cheque. There is no limit. The only limit is yourself."
EUGENE

"I am my own boss. No one is pushing me from behind and there is no pressure."
PINKY




Botswana sales agents' team

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.

IMPACT IN THE COMMUNITY

202 (2015: 189)
educare centres supported

860 (2015: 742)
ECD practitioners trained

11 075
(2015: 10 000)
children under 6 received quality start to education

FINANCIAL INVESTMENT

Spent more than R15 million to support ECD

R3.9 million financial commitments from HCDT in 2016

R21 million donations made by Trust since inception

Vision: to achieve consistent long-term real growth and financial return on equity while making a significant contribution to our community

How: through effective utilisation of the 1% group net profit after tax donated on an annual basis and the dividends received on the shares held in HIL

Mission: the upliftment of underprivileged communities in the Western Cape through focusing on early childhood development

How: by building schools, improving standards and improving educator skills

ECD projects with partners

Over the past five years the Trust has developed strong partnerships with key non-profit organisations who have long-term and sustainable plans within the ECD sector. It is through these partnerships that support is provided to early childhood development with more than 11 000 children benefiting from these programmes.

in partnership with since 2013

AREA: MFULENI

Project: Trust's flagship programme, developing best practice footprint in the Mfuleni ECD community. Positive impact to over 150 teachers, 2 000 children and the local community. Financial commitment to support the development and build of four new schools over the next three years.

"HCDT has been instrumental in helping us create a best-practice footprint in the Mfuleni ECD community. With their financial support we have impacted over 150 teachers, 2 000 children and the Mfuleni community through practical skills transfer workshops, introduction of technology and physical makeovers of "shack-to-chic" schools.

It's great to work with a partner who shares our vision and is committed to reaching deep into a community to give children a Starting Chance – the HCDT team doesn't just administer funds, they actively encourage and support us in the field and share their knowledge and expertise to help us improve what we do.

Our principals really appreciate the opportunity that HomeChoice is helping us to create for them, and so does the greater community and the parents of the children we are helping to get ready for school."

Ali Corbett – Starting Chance, Founder and board member

Ikusasalethu – "Our Future"

The HCDT funded the remodelling and infrastructure upgrade of Ikusasalethu EduCare centre. This was done as part of the "shack-to-chic" programme in partnership with Starting Chance.

Ikusasalethu – meaning "Our Future" in isiXhosa – first opened its doors to a small group of children in 2013. Princess, the principal of the school, started her journey by taking a child "whose parents were nowhere to be seen" into her home and becoming a foster mother. Soon she had five foster children and she decided to sacrifice a part of her own home to start a little educare centre. The number of children grew and before she knew it, her own family were living in a dilapidated shack at the back of the property and the family home had become a school.

Since linking with Starting Chance, Princess has received the support she desperately needed to develop her skills as a teacher and principal, as well as the resources her school required to care for the children coming to her daily. The HCDT has been the final link in the growing story as they ensured that not only the school itself was upgraded to appropriate standards, but that Princess and her family now have a safe, warm, and inviting home to live in.

"The funding from HomeChoice opened the door for me to register the school as an ECD centre. The kids now have enough space to move freely and the teachers are able to plan age-appropriate activities. My centre now has enough resources to make children ready for primary school. I feel so honoured, cared for and respected and my school, Ikusasalethu, is now noticeable. Sometimes when I think about the great work HomeChoice does, I want to cry but it is tears of joy!!"

Princess – Ikusasalethu principal

For more on this story go to http://www.startingchance.org.za/ikusasalethu-our-future/

in partnership with since 2012

AREA: VRYGROND AND OVERCOME HEIGHTS

Project: Development and build of a new ECD centre in the informal settlement area of Overcome Heights. The first ECD centre to receive a 10-year lease agreement from the City of Cape Town in an informal settlement area, opening opportunities for future centres.

"True North has had the privilege of working with The HomeChoice Development Trust for the past four years. During this time, not only has HCDT given us financial support but they have always been interested in all our projects and our team. HCDT has been flexible and willing to listen to suggestions and redirection from us and reliable in their payment to us. True North values the relationship with HCDT and we appreciate their ongoing support."

Vicky Kumm – True North, Managing director

Overcome Educare

Overcome ECD Centre is located on city-owned land in Overcome Heights informal settlement. The principal and owner, Christine Beukes, had been running the pre-school for almost a decade in a dilapidated informal structure.

To register the pre-school as a registered partial-care facility, it had to meet the required standard of ECD services and facilities administered by the Department of Social Development (DSD). Once registered as a partial-care facility, Overcome would be able to apply for a subsidy from the DSD.

The HCDT in partnership with True North, funded the rebuild of Overcome Educare. The build was a pioneering innovative strategy in many aspects. As a registered facility, Overcome Educare would be the first ECD centre in an informal settlement to receive a 10-year lease agreement from the City of Cape Town. This was a major breakthrough. True North documented the key learnings of this process so that City of Cape Town officials, other non-profit organisations and other ECD centres within informal settlements could use this for future ECD developments.

Throughout this build and over the last couple of years, the Trust has been instrumental in providing True North not only with financial funding, but also with donations in-kind. Donations of homeware and linen are used in the running of the community support programmes and enabled the opening of True North's very first community shop. A "community currency programme" was established, which beneficiaries of True North "earn" by attending training and implementing lessons. The beneficiaries can use the currency they have earned to select items from the shop which will benefit their ECD. Some items may also be sold to the local community to raise funds to cover operational costs of the shop and support the community currency programme.

Mandela Day – "Boxes for Building Challenge"

During the 2016 Mandela Day campaign, the group's employees participated in a "Boxes for Building Challenge" which saw employees donate 469 boxes of non-perishable food items and the HCDT match R100 for every box, delivered to beneficiaries of True North.

"I do not have the words to express how blown away we are how you and the entire HomeChoice staff supported us this Mandela Day. On behalf of all the staff at True North we would like you to know you have touched our lives with your kindness, support and generosity, and for that we are very thankful."

Theresa McGarry – True North

The YEAR under review

Chairman's review

In a year of difficult economic conditions in South Africa, and fundamental changes to credit regulations, it has been a transformative year enabling delivery of a strong set of results.

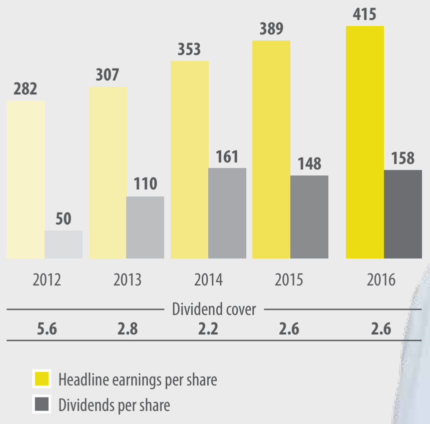
Revenue increased by 19.3% to R2.7 billion, Retail sales grew by 25.1% at R1.5 billion and Financial Services loans disbursed grew by 10.4% to R1.3 billion. Operating profit grew by 11.7% to R648.2 million impacted by the reduction in the NCR regulation changes and prescribed interest rates.

Headline earnings per share for 2016 grew by 6.6% to 414.6 cents per share (2015: 389.1 cents per share) and the directors approved a final dividend of 87.0 cents per share, based on a dividend cover of 2.6 times headline earnings. The full-year dividend of 158.0 cents was up 6.7% on 2015.

Board of directors

There were no changes to the composition of the board during the year.

We are pleased that African Development Partners II, a pan-African private equity fund advised by DPI, have increased their shareholding from 16.4% to 21.0%. DPI's in-depth knowledge and extensive network in Africa continues to add value to the board's deliberations and the strategic direction of the group.



SHAREHOLDER RETURNS
Cents per share

Governance

Governance processes have been further developed and matured.

We have made some adjustments to the HIL board committee structure. Oversight for social and ethics matters has been delegated to the South African operations board as much of the operations take place in South Africa. Eduardo Gutierrez-Garcia remains a member of that committee and can bring matters of concern into the HIL board discussions. The board is pleased with the progress made by this committee during the year. The social and ethics committee will be chaired by an independent non-executive director from 2017 onwards.

The governance structures for the Mauritius business operations, which will drive the African strategy, have been implemented and operationalised.

More detail on the governance structure and framework can be found on pages 60 to 64.

The directors confirm that the group has in all material aspects applied the principles of the King III governance code. The board will be considering the King IV governance code during 2017, with an intent to implement the new requirements and report back to shareholders with our 2017 integrated report.

Acknowledgements

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

STANLEY PORTELLI

Group chief executive officers' review

The South African economy in 2016 has been characterised as a year of little to no GDP growth, political uncertainties before and after the local elections, a severe drought which has impacted most of the country and increasing inflation.

The South African Rand was under extreme pressure at the beginning of 2016, with any volatility subject to the vagaries of the political uncertainty and potential credit downgrades during the year. However, quarter four has seen a relatively stable and appreciating currency providing some benefit for the importation of merchandise.

The overall credit health of consumers, as measured by credit bureau TransUnion, shows a stable credit environment – no material improvement or deterioration. Household cash flow declined further in the fourth quarter of 2016. The rate of new credit accounts lapsing into arrears fell 1.4% in the fourth quarter of 2016, showing default rates remaining stable.

The affordability assessment regulations introduced in September 2015 by the National Credit Regulator (NCR) have constrained the unsecured credit environment. The regulations have been complex to implement and required customer education as well as significant changes to business systems and processes, resulting in higher operating and compliance costs. The NCR reduced the maximum interest rates for credit agreements in May 2016, with a 5% reduction providing some relief to customers and increasing pressure on business to mitigate the negative impact on the bottom line.

The group's middle-income customers have been under pressure from high food inflation and transport costs, a weak job market and constrained access to credit.

GREGOIRE LARTIGUE | SHIRLEY MALTZ

Financial performance

We are pleased to report that both the Retail and Financial Services businesses performed well.

Group revenue increased by 19.3% to R2.7 billion, driven by product innovation and newness, and strong growth in the digital channel of both businesses. Retail revenue increased by 18.7% to R2.1 billion while Financial Services increased revenue by 21.6% to R581.5 million, impacted by the reduction in the interest rates.

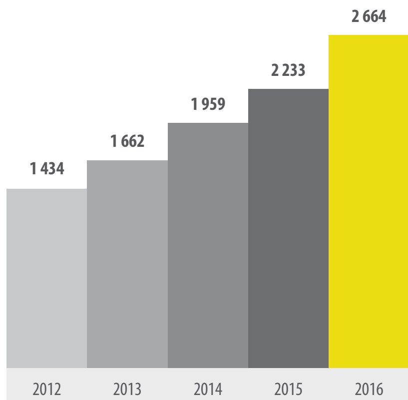
Full-year debtor costs were 20.3% up on the previous year, with a slight deterioration in the second half reflecting the challenging collections environment.

A strong focus on cost management across the group managed the increase in other trading expenses below revenue growth. The group had an increase in compliance costs due to affordability regulations and continued its investment in technology and people to support its growth.

Group EBITDA has increased 11.0% to R701.4 million as finance charges earned only increased by 3.1% due to lower interest rates charged. Retail EBITDA was up 11.3% to R420.2 million and Financial Services up 11.7% to R260.7 million. Operating profit increased by 11.7% to R648.2 million, reflecting a more normalised depreciation and amortisation charge for the year.

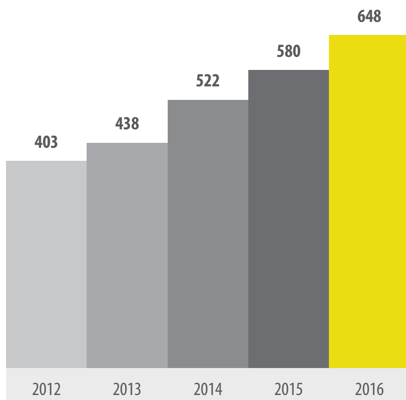
Cash generated from operations at R277.0 million was 22.7% down on 2015 primarily impacted by a 51.5% increase in working capital movements. The additional requirement from debtors and stock was due to the strong growth in the last quarter in both Retail sales and Financial Services loan disbursements.

More details on the financial performance can be found in the group financial commentary on pages 41 to 45.



GROUP REVENUE
Rand million

+19.3%



GROUP OPERATING PROFIT
Rand million

+11.7%

Customer journey

As a part of the annual strategy review we recognised that, as an omni-channel group, it was becoming increasingly important to define a strategy to guide the management of the customer experience and journey in the group.

We have now incorporated "Enhance the customer experience" as an additional strategy at the centre of our strategic objectives. A customer experience in the group may start with shopping for bedding through the call centre, making a purchase directly on the web and concludes with a home delivery by one of our independent service providers. The customer may also take a Financial Services loan using USSD . It is vital that the overall experience is a consistent one across all channels. We will further develop and define this strategy and operational plans during 2017.

Delivering on our strategy

As we reflect on the year, it has been characterised by four main trends:

The impact of the **NCR regulations** on both our customers and business processes has been marked.

The substantial drop in the maximum interest rates in May 2016 negatively impacted group finance charges earned, which increased by only 3.1% for the year.

Further, compliance to these regulations has added R15 million to the group's expenditure base. Costs include the introduction of new systems and tools, developing and streamlining processes, and the engagement of additional resources in credit risk management and operational teams to manage the additional complexity and documentation that the regulations require.

The business experienced an increase in customer walkaways, chiefly in the first six months of the year. Walkaways declined in the second six months as customers became more familiar with the regulatory requirements and the business processes were optimised and streamlined. New customer acquisition in Financial Services was 12% down on 2015, with a full-year growth in the customer base of 6.5% to 142 000. The group uses the Retail business to acquire new customers for the group which had a better new customer acquisition rate resulting in an increase in the group customer base of 10% to 744 000.

Innovation as a key enabler of growth. As one of our values, innovation is the core driver of our growth strategies. The drive of innovation in our dominant home textiles ranges as well as the introduction of new product ranges generated good sales growth.

The innovation mindset and thinking was extended to the credit offer. Previously, the Retail business only offered an instalment credit agreement. The new NCR regulations require documentation for every instalment sale, creating a huge administrative burden on each customer purchase.

In response to this the Retail team introduced a credit facility agreement which significantly reduced the requirement for existing customers to submit documentation for a new purchase, thus streamlining their shopping experience. On the introduction of the credit facility agreement, the applicable maximum interest rate was also reduced – from 33% to 21%. This sizeable decrease reduced the overall cost of each product, having the effect of reducing selling prices and making the product more affordable to customers.

Customer response to the new credit product has transformed the Retail business and was a key driver in the Retail sales growth of 25.1%.

The growth of **digital engagement** across the group and the switch to mobi has been very encouraging. Group credit extended through digital channels was up 13.6% to R846 million.

Digital retail sales, at 12% contribution, grew at 40.3% and continues to be the fastest-growing sales channel. All Retail products displayed in the catalogues are available on digital platforms and we have seen good customer response to the introduction of "digital-only" products. Significant savings have been made in marketing costs as we allocate more of this spend onto digital platforms away from the more traditional print channels that we have used in the past.

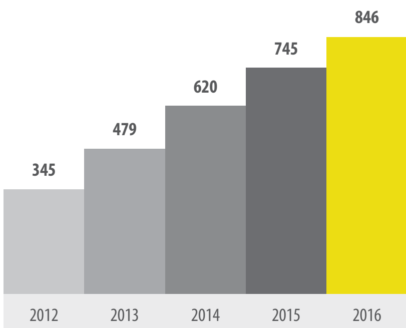
The Financial Services business is primarily a digital business with more than two-thirds of loan transactions concluded on a digital platform.

DIGITAL RETAIL SALES

+40.3%

Loan transactions on mobi channels grew to 65%. However the value of the loans disbursed reduced from 40% to 39% due to the complexity of affordability regulations.

An increasing number of customers have now registered for the more data-rich mobi platform, with 35% of active customers now registered on the mobi site. We expect this to increase further as we roll out our "new customer acquisition" on mobi in 2017.



GROUP CREDIT EXTENDED THROUGH DIGITAL CHANNELS

Rand million

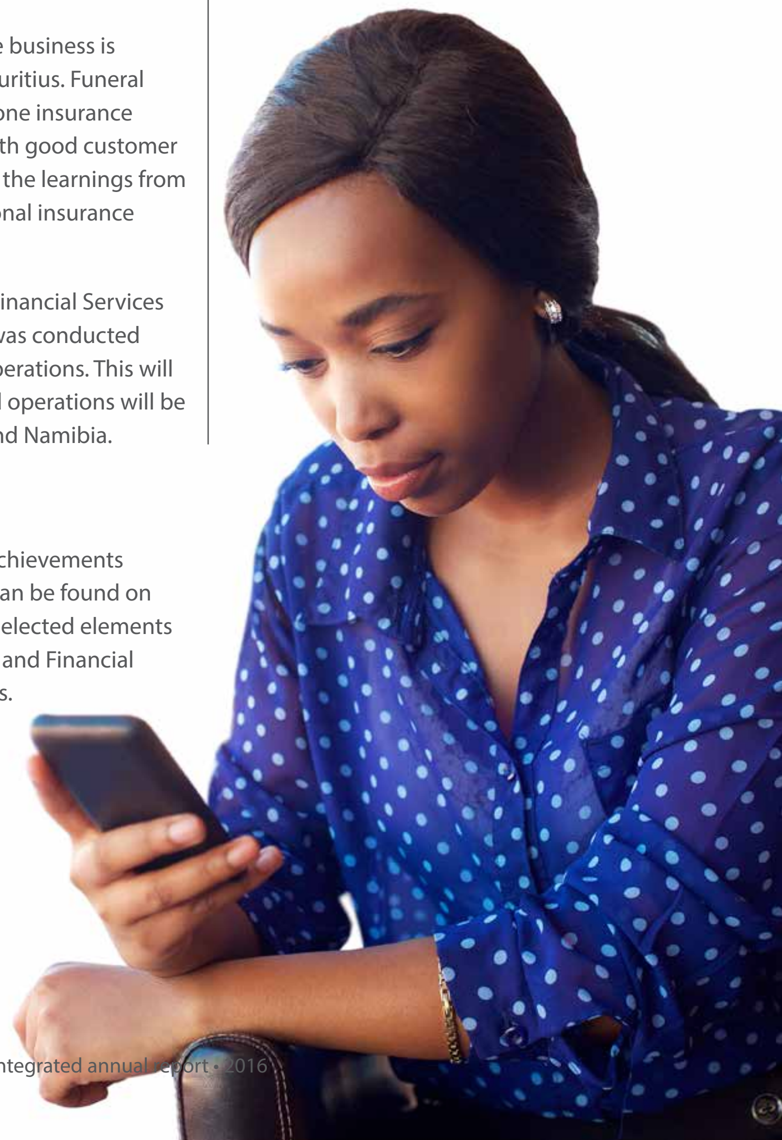
+13.6%

The commencement of business operations in Mauritius drives the group's **African expansion**. The leverage of the South African operations to drive an African expansion was a key driver when the group listed in 2014. Good progress has been made in 2016 in establishing the infrastructure, procedures, operations and setting up the team to manage the Financial Services operations from Mauritius.

The group's insurance business is now managed by Mauritius. Funeral was the first stand-alone insurance product launched, with good customer response. We will use the learnings from this to roll out additional insurance products in 2017.

A successful pilot of Financial Services loan disbursements was conducted from the Mauritius operations. This will be scaled in 2017 and operations will be set up in Botswana and Namibia.

LAUNCHED STAND-ALONE INSURANCE PRODUCTS WITH GOOD CUSTOMER RESPONSE



More details on the achievements against the strategy can be found on pages 10 to 13, with selected elements included in the Retail and Financial Services CEOs' reviews.

Driving group synergies

During 2016 we have strengthened the management team responsible for managing the South African operations.

Francois Grobler and Duane Birkholtz have been appointed to manage the credit risk and finance teams respectively. Hylton Bannon was appointed to manage the Financial Services operations. These new appointments, together with investments in technology, will be instrumental in driving out group synergies between the Retail and Financial Services businesses as we look to streamline the group's operations and rebalance our cost structure.

Good corporate citizenship

As mentioned in the Chairman's report, the social and ethics committee for the group has been delegated to the South African operating board. The activities of this committee are key to ensuring that we play a good corporate citizenship role in South Africa and we are very pleased with the progress that has been made by the operational teams in support of this.

Three areas warrant mention:

- the ISO certification of the Western Cape distribution centre;
- the progress made in people transformation; and
- the continued work in driving early childhood education which is managed by the HomeChoice Development Trust (HCDT).

homechoice development Trust

FUNDING EARLY CHILDHOOD DEVELOPMENT

The inbound, warehousing and fulfilment operations in the distribution centre have been certified as ISO compliant. This means that we have appropriate processes in place for the management of health and safety (OSHAS 18001), our consideration for the environment (ISO 14001), as well as the quality of our product and the remediation of non-compliance (ISO 9001). This is a significant milestone for the group and we intend to roll out aspects of this to our South African head office in Wynberg.

Transformation continues to be a focus for the group. The annual employment equity report submitted to the department of labour shows an improvement in our diversity by 2.5% to 90%. We have made good progress at junior management levels, with more than 60% of all promotions during 2016 made to black employees.

HCDT is the main vehicle for the group to make a difference in the communities, directed primarily to those in the Western Cape. The key focus is on early childhood development by building schools, improving standards and improving educator skills by partnering with non-governmental organisations. R3.9 million in financial commitments have been provided by the HCDT during 2016. Through that support we can positively impact the lives of more than 10 000 children under the age of six.

Outlook

The trading environment is expected to remain difficult and the unsecured credit markets constrained.

The group's credit strategy remains unchanged with the focus on driving improvements in cash collections while maintaining current lending criteria. As we rebalance our business model we will look to mitigate the impact of the annualisation of reduced interest rates by growing other streams of income, including developing the insurance business and driving cost-efficiencies.

Driving digital engagement will be a key focus for both the Retail and Financial Services businesses as we look to expand the penetration of the group, particularly via the mobile phone.

Appreciation

It is the passion, energy and commitment of our more than 1 600 employees in the group to ensure that our customers get a great experience. We would like to thank you all for the hard work during 2016. The leadership from Leanne and Sean, the CEOs of Retail and Financial Services and their teams, have enabled us to produce good results in a challenging economic environment.

We would also like to thank the board for their counsel and support during the year and look forward to their continued guidance in the future.

Summarised five-year review

		2016	2015	2014	2013	2012
Statements of comprehensive income						
Revenue	(R'000)	**2 664 230**	2 232 967	1 958 575	1 661 952	1 434 359
Retail sales	(R'000)	**1 497 610**	1 197 131	1 082 473	929 730	841 480
Gross profit	(R'000)	**738 322**	607 121	539 365	456 959	430 077
Other operating costs	(R'000)	**(1 267 819)**	(1 064 382)	(892 781)	(751 202)	(625 889)
Operating profit	(R'000)	**648 160**	580 394	521 532	438 321	402 862
Profit before taxation	(R'000)	**585 135**	549 823	499 041	431 019	397 153
Statements of financial position						
Non-current assets	(R'000)	**578 056**	563 334	418 309	385 053	232 853
Trade and other receivables	(R'000)	**2 214 754**	1 787 273	1 504 773	1 169 921	1 020 777
Inventories	(R'000)	**213 750**	170 391	166 363	144 964	110 241
Cash and cash equivalents	(R'000)	**187 277**	88 300	63 005	67 981	10 192
Other current assets	(R'000)	**4 756**	4 271	12 232	77	11
Total assets	(R'000)	**3 198 593**	2 613 569	2 164 682	1 767 996	1 374 074
Total equity	(R'000)	**2 030 184**	1 751 428	1 578 326	1 285 724	1 070 322
Non-current liabilities	(R'000)	**718 884**	281 676	363 295	259 733	154 554
Current liabilities	(R'000)	**449 525**	580 465	223 061	222 539	149 198
Total equity and liabilities	(R'000)	**3 198 593**	2 613 569	2 164 682	1 767 996	1 374 074
Statements of cash flows						
Cash generated from operations	(R'000)	**277 044**	358 489	233 565	278 010	153 718
Capital expenditure	(R'000)	**46 406**	187 253	56 910	161 583	60 076
Dividends paid	(R'000)	**158 832**	228 314	66 514	94 733	50 450
Returns and margin performance						
Gross profit margin	(%)	**49.3**	50.7	49.8	49.1	51.1
Operating profit margin	(%)	**24.3**	26.0	26.6	26.4	28.1
Return on equity	(%)	**22.5**	23.7	24.8	26.3	29.8
Net debt:equity ratio	(%)	**26.2**	26.2	14.8	14.8	8.6
Net asset value per share	(cents)	**1 972.7**	1 719.3	1 559.8	1 275.8	1 062.0
Share performance						
Headline earnings per share	(cents)	**414.6**	389.1	352.8	306.9	282.1
Dividends declared/paid	(cents)	**158.0**	148.0	161.0	110.0	50.0
Dividend cover	(times)	**2.6**	2.6	2.2	2.8	5.6
Weighted shares in issue, net of treasury shares	('000)	**102 419**	101 468	100 795	100 779	100 860

Finance director's commentary on financial results

Performance review and targets

		Medium-term targets	2016	2015	2014	2013	2012
Revenue	(Rm)		**2 664.2**	2 232.9	1 958.6	1 662.0	1 434.4
Growth in revenue	(%)		**19.3**	14.0	17.8	15.9	27.9
Retail sales	(Rm)		**1 497.6**	1 197.1	1 082.5	929.7	841.5
Growth in retail sales	(%)		**25.1**	10.6	16.4	10.5	25.5
Gross profit margin	(%)	48 – 52	**49.3**	50.7	49.8	49.1	51.1
Operating profit	(Rm)		**648.2**	580.4	521.5	438.3	402.9
Growth in operating profit	(%)		**11.7**	11.3	19.0	8.8	17.9
Operating profit margin	(%)	25 – 30	**24.3**	26.0	26.6	26.4	28.1
EBITDA	(Rm)		**701.4**	632.2	541.8	450.1	412.7
Growth in EBITDA	(%)		**11.0**	17.0	20.3	9.1	28.8
Cash generated from operations	(Rm)		**277.1**	358.5	233.6	278.0	153.7
HEPS	(cents)		**414.6**	389.1	352.8	306.9	282.1
Growth in HEPS	(%)		**6.6**	10.3	15.0	8.8	20.1
Dividend cover	(times)	2.2 – 2.8	**2.6**	2.6	2.2	2.8	5.6
Net debt to equity	(%)	<40	**28.7**	26.2	14.8	14.8	8.6
Return on equity	(%)	25 – 30	**22.5**	23.7	24.8	26.3	29.8

2016 performance

In a challenging retail and credit market, the group delivered a good financial performance for 2016.

Group revenue increased by 19.3% to R2.7 billion, with stronger growth in the second half driven by good Retail sales and improved performance in Financial Services loan disbursements, off-set by a reduction in the interest income earned.

The conversion of revenue to EBITDA of R701.4 million, an 11.0% increase on 2015, was impacted by a decline in the gross profit margin and higher group debtor costs. Operating profit increased by 11.7% to R648.2 million.

Headline earnings per share (HEPS) grew by 6.6% to 414.6 cents. The dividend cover has been maintained at 2.6 times.

Financial commentary

The financial commentary on the performance for the twelve months ended 31 December 2016 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.

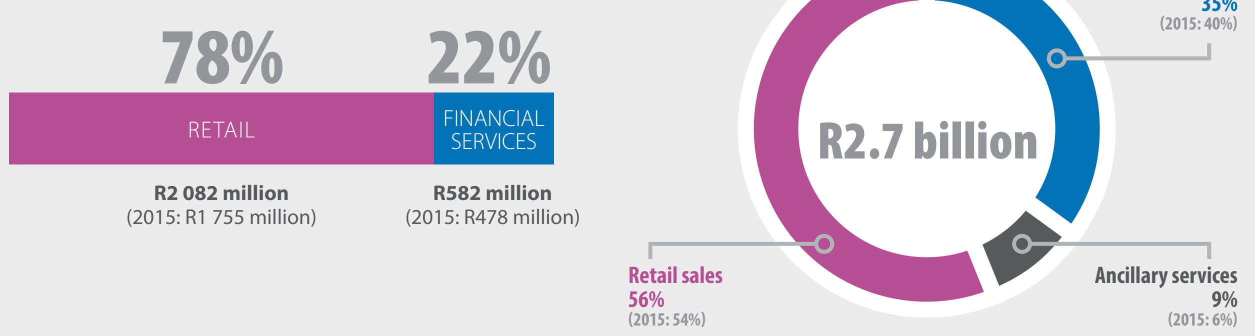
A summarised five-year review is shown on the opposite page.

PAUL BURNETT

Statement of comprehensive income

	2016 R'000	% change	2015 R'000
Revenue	2 664 230	19.3	2 232 967
Retail sales	1 497 610	25.1	1 197 131
Finance charges and initiation fees earned	940 585		893 722
Finance charges earned	672 083	3.1	652 083
Initiation fees earned	268 502	11.1	241 639
Fees from ancillary services	226 035	59.1	142 114
Cost of Retail sales	(759 288)	28.7	(590 010)
Gross profit	738 322	21.6	607 121
Retail gross profit margin (%)	49.3		50.7
Other operating costs	(1 267 819)		(1 064 382)
Debtor costs	(478 114)	20.3	(397 469)
Other trading expenses	(789 705)	18.4	(666 913)
Other net gains and losses	7 505		(1 873)
Other income	3 532		3 692
Operating profit	648 160	11.7	580 394
Interest received	3 393	0.5	3 375
Interest paid	(64 854)	97.7	(32 809)
Share of loss of associates	(1 564)		(1 137)
Profit before taxation	585 135	6.4	549 823
Taxation	(160 281)	3.2	(155 264)
Profit and total comprehensive income for the year	424 854	7.7	394 559
Earnings per share (cents)			
Basic	414.8	6.7	388.9
Diluted	410.5	7.4	382.1

REVENUE CONTRIBUTION



Revenue

Revenue for the group increased by 19.3%, with a five-year compound annual growth rate (CAGR) of 13.2%. Financial Services' contribution to revenue marginally increased to 21.8% compared with the 21.4% achieved in 2015.

Retail sales

Retail sales grew 25.1%, with pleasing volume growth driven by continued product innovation in the bedding categories and the introduction of external branded home appliances and electronics.

Loan disbursements

Loan disbursements in Financial Services were relatively subdued in the first six months and improved in the second six months, resulting in an increase of 10.4% to R1 249.5 million. Financial Services customers took advantage of rebasing their loans at the lower interest rates, with reload activity up 16.4%. The average loan size is R9 972, up 13.4% (2015: R8 792).

Finance charges and initiation fees earned

With effect from May 2016 the NCR reduced the maximum prescribed interest rates on credit contracts. This impact, together with the strategic introduction of the lower interest-earning Retail credit facility account, has resulted in group finance charges earned increasing by only 3.1% to R672.1 million (2015: R652.1 million).

Initiation fees earned increased by 11.1% to R268.5 million (2015: R241.6 million) due to the high proportion of reloans in Financial Services and lower fees earned from the Retail credit facility account.

Fees from ancillary services

As the group moves towards becoming less reliant on interest earned from credit agreements, it has increased other forms of revenue. Fees from ancillary services have increased by 59.1% to R226.0 million (2015: R142.1 million) and now represents 9% of total revenue earned.

Credit life insurance is offered on all Financial Services loan products and was also made available in the Retail business. Revenue earned from funeral insurance has increased significantly as this product was scaled during the year.

Gross profit

Gross profit margin at 49.3% for the twelve months ended December 2016 showed an improvement from the first half of 48.8% and a decrease of 140 basis points from 50.7% in 2015.

The decrease in the margin was as a result of a change in the product mix. The impact of the Rand weakness in the first quarter was limited by selective price increases across products. The growth of external branded home appliances and electronics, which typically earns a lower margin than private label brands, has been mitigated by good efficiencies and productivity gains achieved in the product supply chain.

Other trading expenses

There has been a strong focus on cost management across the group. The increase in trading expenses at 18.4%, below the revenue growth of 19.3%, includes the continued investment in the strategic growth drivers of digital, operational excellence and the African business. Marketing costs have been well controlled, while the affordability regulations have resulted in additional compliance costs incurred by the group.

Interest paid

The increase in interest paid is due to higher borrowings mainly related to the property bond.

Profit for the year

Group profit before taxation for the year is R585.1 million, 6.4% up on 2015, whilst group EBITDA increased by 11.0% to R701.4 million.

The effective tax rate has decreased from 28.2% to 27.4% in line with the increase in the revenue and operating profit earned from the Mauritian-based Financial Services operations.

Group operating profit margin at 24.3%, (2015: 26.0%) is marginally below the medium-term target of 25% to 30% primarily due to the changing contribution of interest income.

Balance sheet

	2016 R'000	% change	2015 R'000
Assets			
Non-current assets			
Property, plant and equipment	425 926	0.9	422 243
Intangible assets	89 654	(12.0)	101 928
Loans to employees	–		207
Investment in associates and other	24 259		13 248
Deferred taxation	38 217		25 708
	578 056	2.6	563 334
Current assets			
Inventories	213 750	25.4	170 391
Taxation receivable	4 756		4 271
Trade and other receivables	2 214 754	23.9	1 787 273
Trade receivables – Retail	1 221 729	24.4	982 061
Loans receivable – Financial Services	969 544	22.6	790 575
Other receivables	23 481	60.4	14 637
Cash and cash equivalents	187 277		88 300
	2 620 537	27.8	2 050 235
Total assets	3 198 593	22.4	2 613 569
Non-current liabilities			
Interest-bearing liabilities	579 140	>100.0	164 324
Deferred taxation	134 844		112 282
Other payables	4 900		5 070
	718 884	>100.0	281 676
Current liabilities			
Interest-bearing liabilities	31 453	(85.8)	221 102
Taxation payable	11 801		18
Trade and other payables	214 464	16.2	184 550
Provisions	31 713		12 357
Bank overdraft	–		1 780
Shareholder loan	160 094		160 658
	449 525	(22.6)	580 465
Total liabilities	1 168 409	35.5	862 141

Property, plant and equipment (PPE) and intangible assets

Capital expenditure, at R46.3 million, reflects more normalised levels of expenditure following a five-year programme of significant infrastructure investments.

R31.0 million, 67% of total capital expenditure, was allocated to the continued enhancement and development of information technology systems and infrastructure. The merchandise management component of the ERP system went live in March 2016.

In 2015 the capitalised development policy was revised. This has resulted in more technology development reflected as operating costs as opposed to capital expenditure. Technology operating expenses increased in excess of 20% for 2016.

Inventories

Stock has increased by 25.4% to R213.8 million.

A strategic investment in stock was made to support and drive the strong customer reaction to Retail sales in the last quarter of 2016. Additional investment was also made to support the introduction of external brands in home appliance and electronics.

Trade and other receivables

Group trade receivables increased by 23.9% to R2 214.8 million (2015: R1 787.2 million).

The growth in the gross debtors' books has been driven by the increase in terms and loan balances from both businesses.

The average Financial Services book term has increased from 20.2 months to 20.8 months, with a balance increase of 13.4%.

The Retail book term has increased to 17.6 months from 17.4 months and a balance increase of 11.3%.

Interest-bearing liabilities

Interest-bearing liabilities increased by 41.1% to R770.7 million (2015: R546.1 million).

The group concluded the agreements for term loan financing of R350 million which will create more sustainable long-term funding for the group. All the term loan funds were drawn down prior to 31 December 2016.

A JSE-listed bond of R101.3 million was repaid in October 2016. The short-term shareholder loan of R160.1 million will be repaid during 2017.

The net debt to equity ratio of 28.7% is well within the target range of <40%.

THE NET DEBT TO EQUITY RATIO OF 28.7% IS WELL WITHIN THE TARGET RANGE OF <40%.

Debtor costs

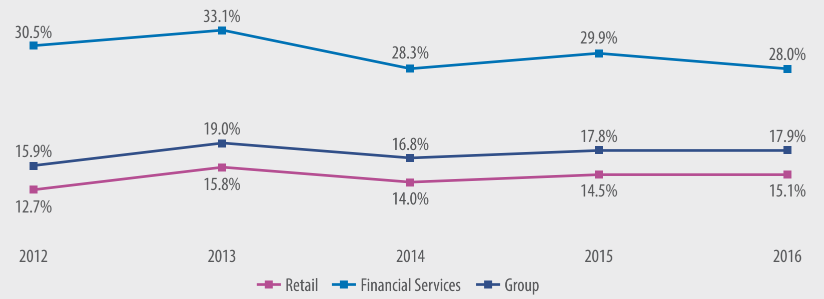
		2016	2015	% change
Group				
Gross trade and loans receivable	(Rm)	**2 654.6**	2 156.2	23.1
Debtor costs as a % of revenue	(%)	**17.9**	17.8	
Non-performing loans (NPL) (>120 days)	(%)	**7.0**	7.3	
Retail				
Gross trade receivable	(Rm)	**1 507.3**	1 208.6	24.7
Debtor costs as a % of revenue	(%)	**15.1**	14.5	
Provision for impairment as % of gross receivables	(%)	**18.9**	18.7	
NPL (>120 days)	(%)	**8.7**	9.5	
Financial Services				
Gross loans receivable	(Rm)	**1 147.3**	947.6	21.1
Debtor costs as a % of revenue	(%)	**28.0**	29.9	
Provision for impairment as % of gross receivables	(%)	**15.5**	16.6	
NPL (>120 days)	(%)	**4.7**	4.6	

Group debtor costs increased by 20.3% to R478.1 million (2015: R397.5 million), compared to a revenue growth of 19.3%. Debtor costs as a percentage of revenue has marginally increased to 17.9% from 17.8%.

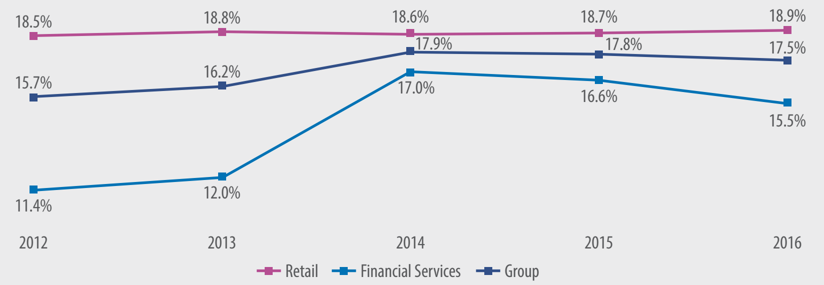
The use of television media to drive Retail customer acquisition negatively impacted debtor costs in the first half together with poor performance in late-stage collections. The tightening of credit criteria and a change in processes has seen an improvement of those metrics in the second half.

Non-performing loans (loans in arrears after 120 days) have decreased from 7.3% in 2015 to 7.0% in 2016. The group provision for impairment has reduced from 17.8% to 17.5%, mainly due to a reduction in the conservative provision held on the Financial Services debt review book. (See credit report on pages 66 and 67 for more detail.)

DEBTOR COSTS AS A PERCENTAGE OF REVENUE
Percentage



PROVISION FOR IMPAIRMENT AS A PERCENTAGE OF GROSS RECEIVABLES
Percentage



Cash flow

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

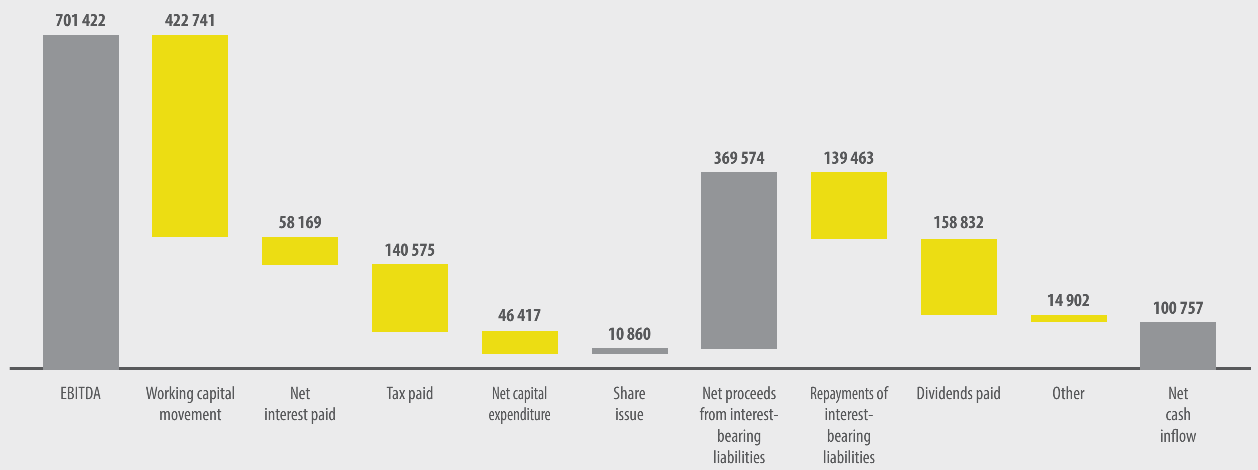
Cash and cash equivalents increased to R187.3 million (2015: R86.5 million) at year-end.

Cash generated from operations at R277.1 million was 22.7% down on 2015. The generation of cash was negatively impacted by the strong growth in the last quarter in both Retail sales and Financial Services loan disbursements. This growth required additional working capital funding in debtors and inventory. The growth in the fourth quarter was particularly strong, requiring higher-than-anticipated cash requirements. Cash conversion (cash generated from operations expressed as a percentage of EBITDA) decreased to 39.5% in 2016 as the revenue and cash earned on these sales would be delayed into 2017.

During 2016 dividends of R158.8 million were paid, representing the final dividend of 2015 of 84.0 cents per share and the half-year dividend for 2016 of 71.0 cents per share. The dividend cover has remained at 2.6 times, within our target of 2.2 – 2.8.

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

ANALYSIS OF GROUP CASH FLOWS
Rand '000



Financial targets

The medium-term targets for the group remain unchanged. Performance in 2016 was well within the target ranges, with the exception of return on equity and operating profit margin. Targets were not achieved for these metrics as a result of the higher dividend cover, increased interest expense for the group funding requirements and the impact of the reduction in the maximum interest rates. The targets will be reviewed at the next strategy cycle.

		Medium-term target	2016	2015	2014	2013	2012
Retail gross profit margin	(%)	48 – 52	**49.3**	50.7	49.8	49.1	51.1
Operating profit margin	(%)	25 – 30	**24.3**	26.0	26.6	26.4	28.1
Return on equity	(%)	25 – 30	**22.5**	23.7	24.8	26.3	29.8
Net debt to equity	(%)	<40	**28.7**	26.2	14.8	14.8	8.6
Dividend cover	(times)	2.2 – 2.8	**2.6**	2.6	2.2	2.8	5.6

Q&A with the Retail chief executive officer

2016 has been a transformative year for the Retail business.

Q: How has the Retail business performed during the year?

A: In a challenging trading market the Retail business has delivered a good set of results.

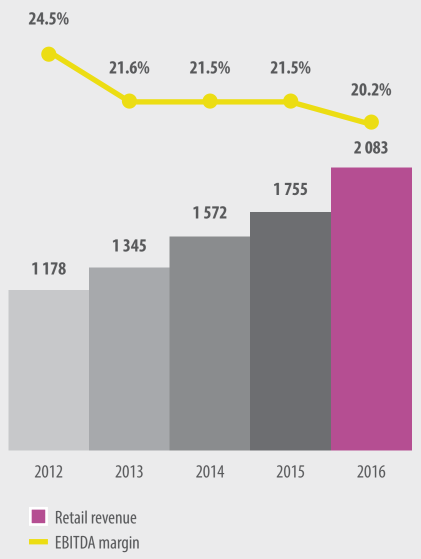
We achieved good growth in its heritage textiles business, with customers responding positively to the product innovation. Strong marketing offers and the continued use of television advertising increased the Retail customer base to 700 000, up 9.0% on 2015.

The strategic introduction of the Retail credit facility product at reduced interest rates has seen good customer engagement. The credit facility product has a lower chargeable interest rate than the previous instalment credit agreement. This new credit offer enabled customers to purchase similar product at a "lower price" or use the opportunity to purchase higher-value items while keeping the monthly instalment outlay constant.

The gross profit margin declined to 49.3% from 50.7% with a change in product mix.

Debtor costs were higher than expected, increasing by 23.9%, and pleasingly other trading expenses showed good productivity efficiencies up 11.2% on 2015.

Retail EBITDA increased by 11.3% to R420.2 million as interest and initiation fees earned were flat on 2015. Operating profit has increased by 13.2% to R370.7 million, improved by a more normalised depreciation and amortisation charge.



RETAIL REVENUE
Rand million

LEANNE BUCKHAM

Q: What were the key drivers for the Retail sales growth of 25.1%?

A: There were four main drivers:

(a) strong growth in our heritage textiles business with more contemporary bedding product designs;

(b) product innovation across the homeware catalogue with the introduction of new ranges and the expansion of existing product ranges;

(c) introduction of well-known branded home appliances and electronic products which revived the stagnant sales growth of the hard goods product category. The introduction also reinvigorated our private label offering; and

(d) changes made to our credit offering replacing an instalment credit account with a credit facility account.

In addition, we had a particularly strong second six months with a sales growth of 29.8% to R910.0 million. The fourth quarter trading was higher than anticipated.

Q: Can you tell us why you introduced a credit facility account?

A: The introduction of the credit facility account has transformed the Retail business.

The new NCR regulations markedly changed the credit landscape. The granting of credit became more onerous for customers and business. Our previous credit offer for customers was an instalment credit account. The prescribed affordability regulations require customers to submit documentation for each purchase made on instalment credit. Our existing loyal customers told us that this was an extremely cumbersome and time-consuming process to follow for each purchase.

The regulations also reduced the maximum interest rates that could be charged from 5 May onwards. Bearing these changes in mind, the Retail business took a strategic decision to rebalance the mix of revenue earned to become less reliant on interest income and more focused on driving merchandise customer sales. The Retail credit facility account was introduced at the end of April 2016.

The maximum interest rate that can be charged on a credit facility is 21%, 12% lower than the 33% interest rate charged on an instalment credit account. We aggressively marketed this reduction in the interest rates as a "drop" in selling prices across all our channels, with the result that customer demand increased from both new and existing customers. Once a credit facility account is opened the buying process is easy and streamlined across all sales channels.

From a financial point of view, the introduction of the credit facility product has resulted in a decrease in interest income and initiation fees earned for the year. We have made up for some of the lost interest income in additional sales and developed new streams of income. Fees from ancillary services, which now include insurance income, were up 42.4% for the year.

Q: The EBITDA margin has shown a gradual deterioration in the last five years, with a decline from 21.5% to 20.2% in the current year. What caused this?

A: The decrease in the current year is as a result of revenue, in particular interest income and initiation fees, growing at a slower rate than retail sales as we start to rebalance the revenue/sales mix highlighted earlier. This, coupled with a lower gross profit margin and higher debtor costs, has eroded the EBITDA margin from the average of the past three years.

The retail market has increasingly become more competitive and promotional driven and together with the steady decline of the Rand will continue to put pressure on gross profit margins.

We will look to manage the gross profit margin through selected price increases and a reconfiguration of product componentry. Productivity gains from the Cape Town distribution centre continue to be driven from the infrastructure investment made in recent years.

New strategies in the credit risk origination and collections departments are focused to manage debtor costs to more acceptable levels whilst still enabling the organic growth plans.

The rebalancing of interest to sales and other income will continue to improve as the group expands its insurance product offering to more customers.

Q: Retail credit metrics have deteriorated from 14.5% to revenue in 2015 to 15.1% in 2016. What has driven this?

A: Disappointingly, debtor costs increased by 23.9%, higher than our revenue increase.

These higher costs were mainly driven by the acquisition of new customers and disappointing late-stage collections performance. The use of television to drive non-targeted Retail customer acquisition negatively impacted debtor costs in the first six months. However, the tightening of credit criteria and changes in the credit processes, such as pre-scoring for that channel, saw improved metrics in the second six months. The majority of our external debt collectors did not meet our collections expectations and we experienced an increase in fraud during the fourth quarter of 2015, going into 2016.

This has reflected in higher than targeted levels in the >120 days' vintages. Changes to the credit risk models have been actioned and we have started to see early signs of improvements.

During the latter part of 2016 we strengthened the credit risk management team. Consequently, we are reviewing the end-to-end origination, collections and fraud processes to ensure that they are focused on delivering the key metrics for current market conditions.

The provision for impairment has marginally increased from 18.7% to 18.9%, with non-performing loans (>120 days) improving to 8.7% (2015: 9.5%) reflecting the strong sales growth in the fourth quarter.

Q: In 2015 you experienced high attrition rates in your call centre which have now decreased from 55% to 42% in 2016.

A: Yes, we implemented several initiatives which have driven the attrition rates down.

The new call centre was fully operational for 2016 and has significantly improved the working environment for the teams. We have also been working very hard on the employee value proposition across the business and, in particular, the call centre.

A market-related remuneration was actioned during the annual salary increase process and a more affordable medical aid option was provided. There has also been a significant amount of leadership training and culture awareness at all levels in the call centre, upskilling agents, team leaders and management.

Lower attrition rates have resulted in improved tenure of call centre agents. Tenure rates are beneficial in driving improved productivity as the agents have better knowledge and awareness of the customers and products. This resulted in a 14% increase in the average sales per agent.

Q: Digital engagement is one of your strategies. What were the key drivers behind the 40.3% digital sales growth?

A: We are very pleased that digital is our fastest-growing sales channel, up 40.3% for the year and now represents 12% sales contribution.

Mobi is our customer's preferred digital shopping channel, with 56% contribution to total digital orders. We launched a USSD platform and are happy with the results that it delivered. The Financial Services business has based much of its digital strategy on USSD and it was a natural progression to introduce it into Retail. We will pursue this more aggressively in 2017.

We have invested in mobi development and much of the operational work has been focused on driving conversion of traffic to orders, in addition to process improvement. We have also seen how marketing efficiencies can be delivered through more digital engagement with customers. The positive customer response to products only available on digital channels has given us confidence that our customers are becoming more comfortable with a digital retail offering.

Q: Can you expand on your technology roadmap?

A: As a "distance retailer", technology is a key enabler of the business. Technology not only delivers software, but is instrumental in supporting tools such as the dialler, optimises the telephony usage and enables the Retail business to operate at a lower cost base than the more traditional "bricks and mortar" retailer. Digitisation of business processes includes automating and streamlining of processes from merchandise to credit risk management.

As our digital strategy matures and develops we will focus more of our resource allocation to information technology – both capital expenditure and operating expenses.

During the year, the spend was a balance of technology infrastructure upgrades and maintenance, and implementing several new initiatives. Much of the system development was focused on designing and implementing the new Retail credit facility product. In addition, we have moved to more of an operating expense model for technology investment as this supports the need for agile systems implemention.

Looking forward to 2017, we will explore the development of a new e-commerce engine and allocate resources to commence decoupling the legacy systems which do not easily allow for speed and agility that we need for the future.

Q: Do you have plans to open more showrooms?

A: The results from our first showroom in Wynberg have given us the opportunity to understand the potential sales and services that can be driven from the showroom, as well as the profitability.

We are satisfied that we have proven the concept and will roll out further showrooms in 2017 as we find suitable sites.

The showroom has provided an added advantage to our customers – "call and collect". Customers told us that they wanted to be able to take their products home after they had purchased them. In response to this "call and collect" was introduced, with the showroom providing a convenient collection point for those customers who wanted to fetch their products. Customers have embraced this delivery option and this will be a key offering with the roll-out of other showrooms.

Q: African sales contribution of 10% has been maintained. Can you expand on this?

A: Africa is a core growth strategy for the business and we are disappointed that we have not managed to grow the sales contribution this year.

African growth strategies were deprioritised to focus on the introduction of the credit facility account.

Pleasingly, we acquired over 17 000 new foreign customers, a 14% growth on 2015. In line with the trend experienced in the South African business, digital growth performed well.

INVESTMENT IN TECHNOLOGY
Rand million

>R80m

Q: What are the key focus areas for 2017?

A: We believe that the positive sales momentum experienced in the last quarter of 2016 will extend into 2017.

The Retail strategy will remain unchanged. We will continue to drive product innovation, focus on digital engagement with our customer, particularly via the mobile phone, and driving cost-efficiencies through group synergies.

Developing and improving the customer experience strategy will be a key focus to deliver our growth strategy. The development of a customer-centric framework will enable more targeted marketing activity, improving our customer offers and journey across the multiple channels – focused on growing the customer base.

Q&A with the Financial Services chief executive officer

We are very excited by the opportunity for our digital platforms to improve customer engagement.

Q: How has Financial Services performed this year?

A: We achieved a good set of results in a difficult and challenging unsecured credit market.

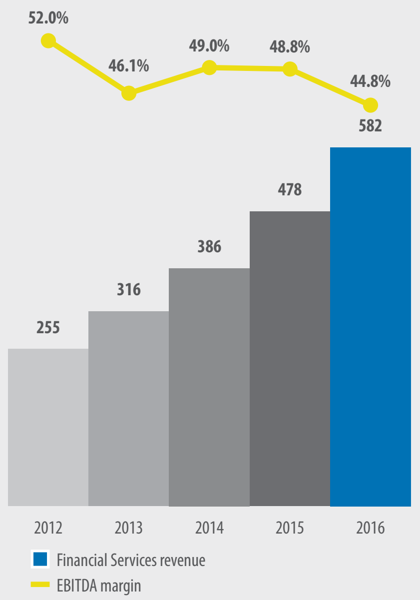
Revenue grew by 21.6% to R581.5 million with a stronger second six months where we achieved a 23.2% growth. Debtor costs were well managed and with investments made in people, technology and compliance costs, EBITDA grew by 11.7% to R260.7 million.

It was a story of two halves. Much of the first six months was focused on ensuring that the changes to the NCR affordability requirements were fully integrated into the business and the management of the proof of income documentation was robust and streamlined. The customer base only grew by 1.5% in the first six months, but as customers adapted to and became more comfortable with the processes, and we developed more user-friendly options for them, we saw the customer base increase by 6.5% to 142 000 at year-end. New customer accounts declined by 12% to 35 000.

The African expansion commenced with the Financial Services business in Mauritius launching a pilot of loan disbursements.

DEBTOR COSTS AS PERCENTAGE OF REVENUE DOWN TO

28.0%



FINANCIAL SERVICES REVENUE
Rand million

SEAN WIBBERLEY

Q: In 2015 you highlighted the significant changes required to implement the NCR regulations. How have you dealt with them?

A: The processes were implemented in the latter part of 2015, and so this year was focused on streamlining them to make them more user-friendly for our customers and more efficient for us as a group.

As our business is primarily a digital one it was important to us to find convenient ways in which customers could submit her documents to us electronically. Customer education was provided on ways in which she could submit her documents by using the social media tool WhatsApp, and document photograph and upload functionality was built into our mobi site. Our call centre agents received extensive training to hand-hold customers through the new regulations.

Document management tools were implemented to manage the collation of all the required documents internally.

The DTI reduced the maximum allowable interest rates for unsecured credit from 35.4% to 28.0% from May 2016. This reduction provided some relief to customers and resulted in the group identifying alternative ways to mitigate the impact on the bottom-line profit. We scaled up the insurance business and saw good growth from "fees from ancillary services" increasing by 73.3% on 2015, to mitigate a finance charges growth of only 11.8%.

Q: Loan disbursements grew by 10.4% to R1 249.5 million, yet your book growth was 21.1%. Why was that?

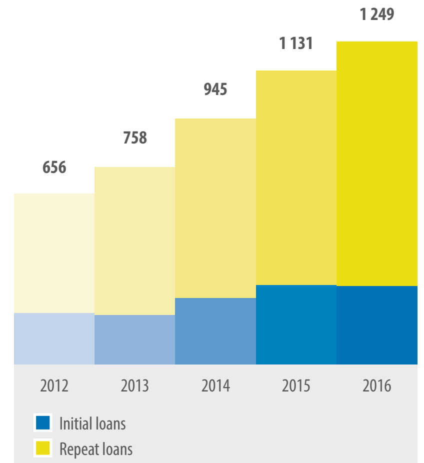
A: Yes, the full-year loan disbursements growth was disappointing, but this was also a story of two halves.

The regulations certainly influenced the lower disbursement growth of 7.4% in the first six months. Customer walkaways increased due to these regulations. After optimising our processes and systems in the first six months, we aggressively acquired new customers and had a much-improved second six months with disbursements growing by 13.1%.

Repeat loans to existing customers increased by 6.4% as customers took advantage of the lower interest rates after May.

New loans contribution shifted from 20.1% in the first six months to 25.0% in the second six months.

The strong growth in new loans in the last quarter, together with credit limit increases to our best customers, resulted in the average term in the book increasing from 20.2 months to 20.8 months. This resulted in our book growth being higher than disbursement growth.



LOAN DISBURSEMENTS
Rand million

+10.4%

Q: Debtor costs of R163.1 million were 14.0% up on 2015 and declined as a percentage of revenue from 29.9% to 28.0%, a good achievement.

A: Yes, it was positive to see debtor cost growth well below our revenue growth. Given the uncertainties in the unsecured credit market, we kept tight management on the credit metrics and are pleased with the result. The Financial Services debtors' collection process is driven through early direct debit orders and this is a key driver in the management of the collections process. We implemented process improvements in our arrears collection teams and our legal outsource partners with positive results.

The provision for impairment was reduced from 16.6% to 15.5% with a stable provision for the main debtors' book and a reduction in the conservatively held provision for the debt review book.

Our non-performing loans (> 120 days), at 4.7% are static (2015: 4.6%) – a conservative 3.3 times cover of NPL with provisions.

Q&A with the Financial Services chief executive officer – continued

Q: 64% of all loan transactions were effected digitally compared to 65% in 2015. What impact does this have on your digital engagement strategy?

A: Given the customer uncertainties with the affordability regulations, we see it as a temporary drop. We found that many of our customers commenced their transaction using the digital platform, and then when they became unsure of the documentation process, contacted the call centre who would assist them, with the result that the transaction was concluded through the call centre.

The KwikServe® USSD channel continues to be the primary way customers engage with us digitally, with a 78% (2015: 81%) penetration of the active loan base. The decline is expected as customers migrate to mobi. We have seen strong growth from our mobi site, with registered customers increasing from 15% to 35% of the active loan base.

A trial of a seamless end-to-end digital new loan process on mobi took place in the latter part of 2016. Based on the success of this new 24/7 acquisition channel, we will roll this out more aggressively in 2017.

We are very pleased about the opportunities for our digital platform to be used to empower customers to solve their own queries or requests themselves without contacting the call centre. The first customer self-service feature launched enables an account settlement quote to be requested. We have seen this feature shift 30% of such service requests away from the call centre. Similar customer self-service features will be rolled out in 2017.

Q: Can you give us an update into the "new markets" strategy?

A: I am excited about the Financial Services kiosk that we opened in the Retail showroom in Cape Town during October 2016. Customers can either engage with the sales consultants to assist them with a loan or make use of the digital self-service kiosk. The early results are encouraging and we expect to acquire incremental customers through this channel. Financial Services kiosks will be included as part of the Retail showroom footprint.

Q: The Mauritian business conducted a pilot of loans disbursements to South African customers. Is this part of the African expansion strategy?

A: Yes, it is. Much of the year was focused on establishing the systems, products and processes for FinChoice Africa (FCA), the Financial Services business in Mauritius. FCA commenced a pilot of loan disbursements to South African customers and initial results are pleasing. We expect this business will scale during 2017. The establishment of the digital platform allows us to commence the journey of the African expansion. FinChoice Africa will conduct exploratory work in Botswana and Namibia during 2017 with the aim to launch in these countries.

The group's insurance business is now conducted from Mauritius, using a cell captive operation. Credit life insurance is now offered on all loan products and the funeral insurance product was scaled during the second six months, with good customer conversion. The revenue earned from the insurance business is mitigating the lower interest caps earned by the group and we intend to expand the insurance range further.

Q: What is your strategy for 2017?

A: We are happy with the strategy that has been operating for 2016 and will keep on this direction for 2017, with some changes in the emphasis in response to economic conditions.

Our digital engagement strategy is a key driver of the business and so we will continue to innovate to grow mobi as her preferred digital platform. More digital customer self-service features will be introduced to increase the focus of the call centre to improving the customer experience.

The insurance and loan business in Mauritius will continue to grow and become a more meaningful part of the group's operations.

More **digital customer self-service features** will be introduced

Governance

Board of directors

STANLEY PORTELLI
Independent non-executive director – Chairman

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

AMANDA CHORN
Independent non-executive director

Member of audit and risk committee

ROBERT HAIN
Independent non-executive director

CHARLES RAPA
Independent non-executive director

Chairman of remuneration and audit and risk committees and member of nominations committee

RICHARD GARRATT
Non-executive director

EDUARDO GUTIERREZ-GARCIA
Non-executive director

Member of remuneration and nominations 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 African operations

From left to right: Guy Wills, Elmori Bester, Dirk Oberholster, Cathy MacKenzie, Duane Birkholtz, Leanne Buckham, Francois Grobler, Shirley Maltz, Sean Wibberley, Anthea Abrahams, Hylton Bannon

SHIRLEY MALTZ
Group chief executive officer – South Africa

LEANNE BUCKHAM
Retail chief executive officer

SEAN WIBBERLEY
Financial Services chief executive officer

HYLTON BANNON
Financial Services operations

ANTHEA ABRAHAMS
Marketing and digital

ELMORI BESTER
Human resources

DUANE BIRKHOLTZ
Finance

CATHY MACKENZIE
Merchandise

DIRK OBERHOLSTER
Technology

FRANCOIS GROBLER
Credit risk

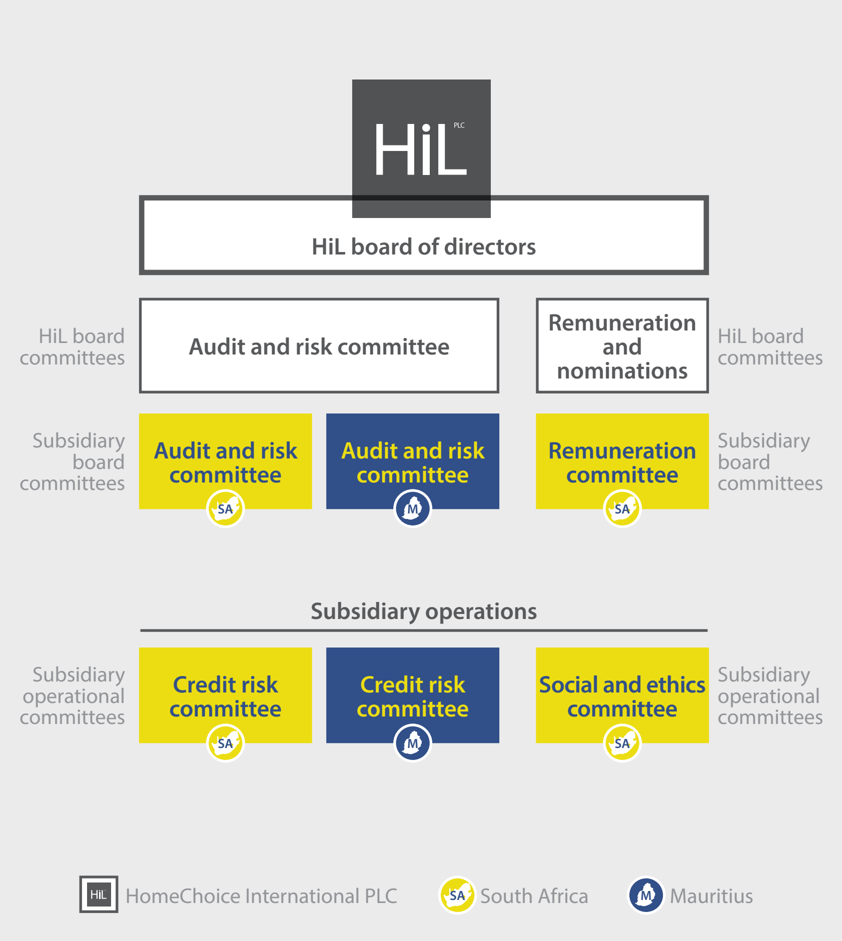
GUY WILLS
Logistics and Operations

Governance report

Introduction

The governance structure of the group has been positioned to provide effective oversight for both the company (HIL) and for the two main operational geographies in which the group operates – South Africa and Mauritius.

The governance structure is shown alongside:



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 2016 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 a chairman of a board of directors is not also a member of its 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 are shown below.

	Attendance	Board	Audit and risk	Remuneration and nominations
Stanley Portelli	100%	4/4	4/4	1/1
Gregoire Lartigue	100%	4/4		
Shirley Maltz	100%	4/4		
Amanda Chorn	63%	3/4	2/4	
Paul Burnett	100%	4/4		
Richard Garratt	100%	4/4		
Eduardo Gutierrez-Garcia	100%	4/4		1/1
Robert Hain	100%	4/4		
Charles Rapa	100%	4/4	4/4	1/1

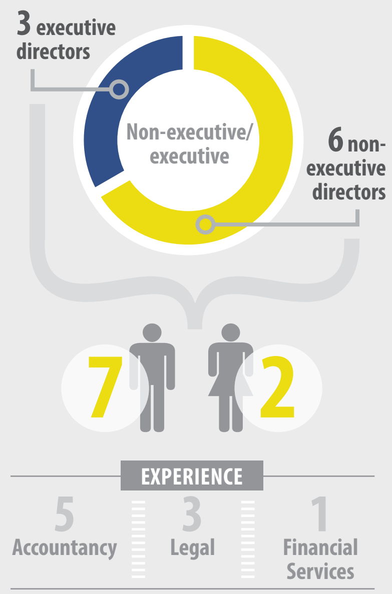
Board of directors

The group has a unitary board structure with nine directors. Of the nine directors four are independent non-executive directors, two are non-independent non-executive directors and there are 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 21.0% 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.

Board composition



The board has developed a policy on gender diversity. No director appointments were made during the year. There are two females represented on the board, 22% representation.

The board meets at least quarterly and all meetings are convened by formal notice. The board met four times during the year with 100% attendance from all directors, with the exception of Amanda Chorn who tended her apologies for one meeting.

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.

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 and Mauritius, are chaired by independent non-executive directors.

The key activities carried out by the board committees during the year are shown below:

Audit and risk committee

The committee met four times during the year with 100% attendance from all members, with the exception of Amanda Chorn who tended her apologies for two meetings.

Composition	Activities
Charles Rapa (c) Amanda Chorn Stanley Portelli The finance director, head of internal audit and external audit attend by invitation.	• Reviewed the annual financial statements and any other financial information presented to shareholders, ensuring compliance with International Financial Reporting Standards • Reviewed integrated reporting and considered factors and risks that could impact on the integrity of the integrated report • Nominated the external auditors for appointment, monitored and reported on their independence, approved the terms of engagement and scope of the audit, and fees paid • Reviewed the group's risk management processes, the group's exposure to significant risks and its risk mitigation strategy • Provided assurance on the adequacy and effectiveness of the group's systems of internal financial and operational control and compliance with laws and procedures • Monitored and supervised the effective functioning and performance of internal audit, ensuring that it operates independently of management, and approved the annual audit plan • Considered the appropriateness of the expertise and experience of the finance director and group's finance function

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

Remuneration and nominations committee

The committee held one meeting during the year with 100% attendance from all members.

Composition	Activities
Charles Rapa (c) Eduardo Gutierrez-Garcia Stanley Portelli Stanley Portelli chairs all matters relating to nominations. The chief executive officers attend by invitation and are recused for all matters involving themselves.	• Assisted the board in setting and administering effective group remuneration policies that are in the group's long-term interests • Ensured the directors are fairly rewarded based on both their individual and team contributions to overall group performance • Agreed targets for financial and non-financial metrics for short-term bonus • Approved the achievement of short-term bonus performance conditions – financial and non-financial metrics • Approved the allocations of long-term share allocations • Approved the Forfeiture Share Plan for shareholder approval • Ensured the disclosure of remuneration is accurate, complete and transparent • Reviewed the group's board structures, and identifies and nominates potential new directors for approval by the board

For additional information refer to the remuneration report on pages 68 to 76.

South African and African committees

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

The relevant board committees, which are chaired by an independent non-executive director, are: audit and risk (South Africa and Mauritius) and remuneration (South Africa). Two main operational committees are credit risk (South Africa and Mauritius) and social and ethics (South Africa).

As a Maltese registered company HIL is not required to have a social and ethics committee. The board agreed that oversight for social and ethics matters, as contemplated by the South African Companies Act, would be best managed closer to the main operating subsidiary in South Africa. This allowed more operational directors managing the South African operations to be involved in monitoring and reviewing the activities. Eduardo Gutierrez-Garcia attends the meeting as member, in addition to a South African independent non-executive director. Four meetings were held during the year and the HIL board received feedback after each meeting. Subsequent to the year-end it was agreed that the social and ethics committee would be chaired by a South African independent non-executive director.

For additional information refer to the stakeholders section on pages 20 to 29.

The credit risk committee, in both South Africa and Mauritius, is managed as an operational committee. 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 HIL board receives regular feedback from this committee.

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 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

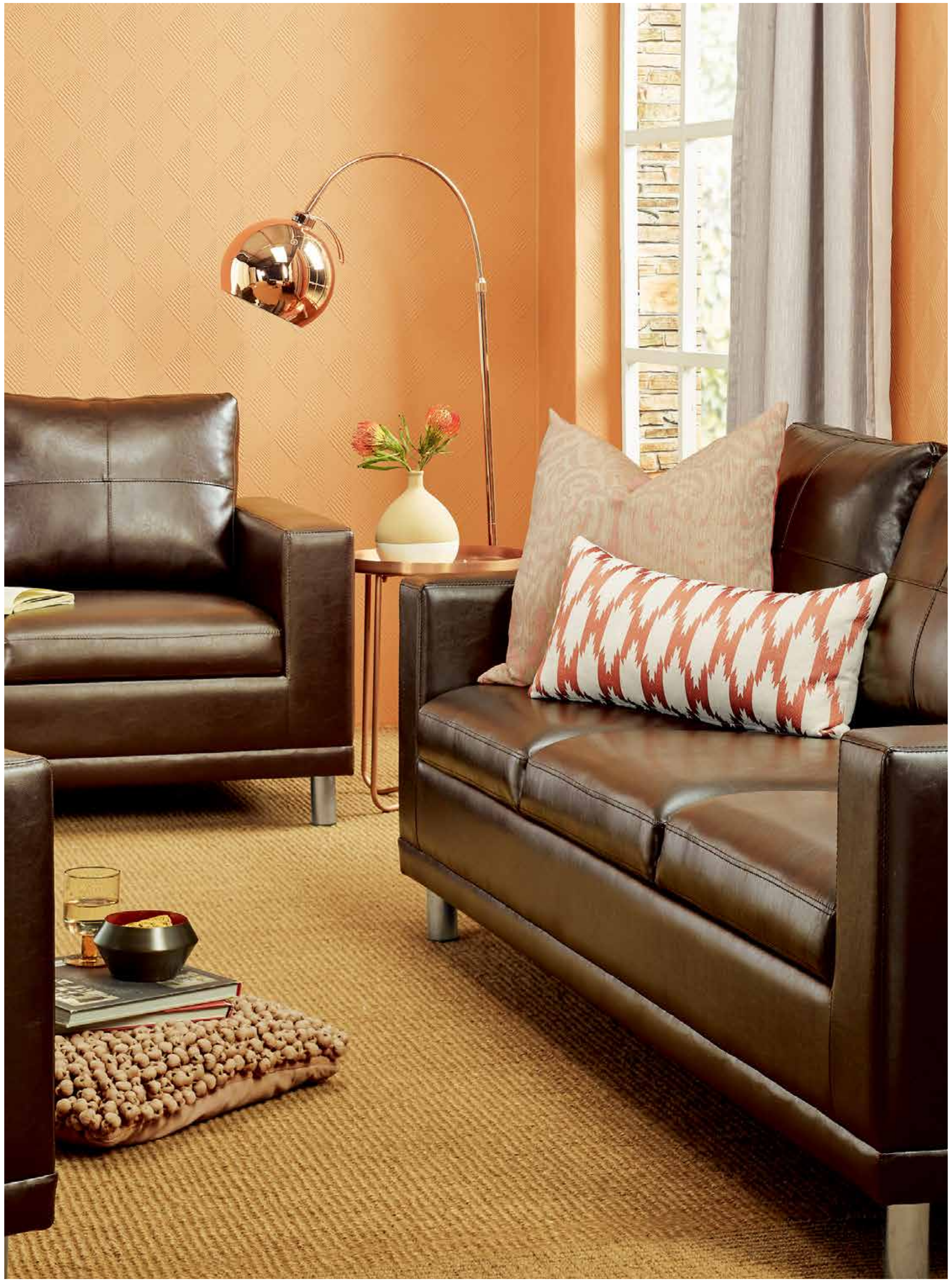
The group has established an internal audit function, reporting to the chairman of the audit and risk committee, to provide assurance on the adequacy and effectiveness of internal control and risk management practices, and to assist management by making recommendations for improvement. The audit and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

Legislative compliance

The group maintains its focus on compliance with legislation that impacts on the group. Project teams are established to review new legislation and identify any compliance requirements. The group is not aware of any material instances of non-compliance with legislation during the period and no fines were incurred. The group did not receive any requests for information in terms of the Promotion of Access to Information Act 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, the intranet 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 terms are typically weighted towards shorter periods and lower values. The average Retail credit account balance is R1 614 with a term of 17.6 months; the average Financial Services balance is R9 972 with a term of 20.8 months. The maximum term available is 36 months.

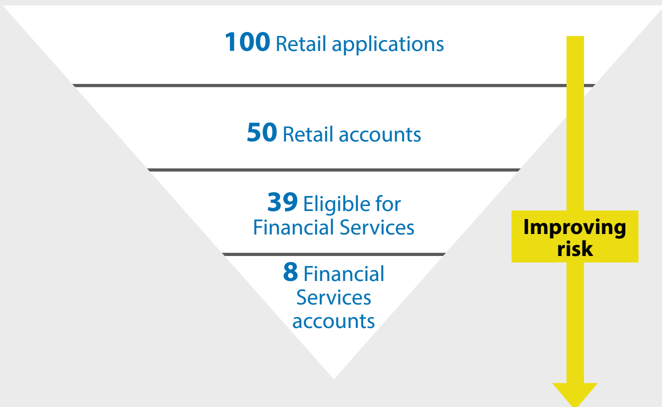
Credit policy

New customers are generally 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.

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 enables the Financial Services to select a profitable group of loan customers, with a stable and acceptable risk of bad debt, at a reduced customer acquisition cost.

The Retail credit policy and debtors' book is managed independently of the Financial Services book. This allows credit decisions in the Retail business to consider 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 considered in each credit decision.

The risk-filtering process



Credit origination

The group is primarily a direct marketer and therefore has the ability to manage credit risk by restricting potential customers to receive marketing offers. As part of the Retail digital strategy, new customers may apply for credit as part of the digital shopping process by completing the relevant information online. To drive customer acquisition the group introduced television advertising during 2016. Pre-scoring is used for those potential customers to determine whether they would be eligible for credit.

All group data is considered when considering a customer for credit. In this way, a customer in arrears with any group product will not be granted further credit for Retail or Financial Services.

Whilst the primary source of Financial Services customers is through the Retail customer base it may acquire new customers by using external customer databases. Financial Services' credit risk is managed through a process of continued multiple-level risk filtering as shown opposite.

Vetting

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.

To cater for the NCR affordability assessment regulations, significant changes have been made to the credit verification processes to ensure that the group complies with the regulations. The use of social media tools, such as WhatsApp, provides more convenient options for customers to submit documentation. Document management systems and processes were implemented to streamline in-house processes required to manage the documentation. As a member of the Document Exchange Association, obtaining the relevant banking information has been made more efficient and quicker.

Collections

The group has an in-house collections team. Collections in the Financial Services business are executed by way of regular debit order payments, which benefit payment performance. Retail customers have the ability to make payments at more than 6 000 payment points throughout South Africa and neighbouring countries. Payment points include selected retailers, SAPO, banks and electronic options.

It was previously expected that the requirement to change from the debit order collection process to an "authenticated collections" process would be implemented in 2016. This change has been delayed and the group will continue to monitor developments to ensure that it is ready for potential system changes required for this to be implemented.

External debt collection (EDC) agencies are used to assist in late-stage collections. Constant monitoring and knowledge share sessions are held with EDC agencies to gain insight into the collections market and to ensure that the EDC agencies perform in line with the targets set for them. During the year the group brought on additional EDC agencies to assist with collections in the neighbouring South African countries.

Profitability management

Credit risk committees are managed at an operating subsidiary level and meet on a quarterly basis. Feedback is provided to the HIL board on a regular basis.

The group maintains conservative debtors' impairment provisions which are determined and reviewed during the year. The impairment provision is considered by the external auditors as a "key audit matter" and the way the audit addressed the determination of the reasonableness of this provision is explained in the Report of the external auditors, on pages 6 to 11 in the annual financial statements. The auditors provided an unqualified opinion on the annual financial statements.

During 2017 the group will be reviewing the provisioning methodologies in readiness for the application of IFRS 9.

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

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 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, as applicable to executives, is proposed to shareholders for a non-binding advisory vote at the annual general meeting.

Employee value proposition (EVP)

The EVP model is built on the following six pillars:

- employees should be rewarded fairly for the role that they perform;
- there is appropriate recognition for the work performed;
- employees are managed in a fair and transparent manner;
- employees are encouraged to develop and grow through training and development;
- offer employees wellness and a healthy and safe working environment; and
- leadership will be provided in line with the group's vision and values, with respect for diversity.

Components of remuneration

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

The monetary remuneration structure is made up of three components:

- guaranteed pay (GP);
- short-term variable remuneration (ST); and
- long-term variable remuneration (LT).

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

- executives – includes executive directors and senior management in operating companies;
- specialists – employees in the head office environment; and
- operations – employees in the call centres, sales agents and distribution centres.

In addition to the GP all staff receive a component of variable remuneration, dependent on the level and their role within the group.

Employee value proposition (EVP)

REWARD FAIRLY (Remuneration)
- Guaranteed pay
- Related benefits
- Short- and long-term incentive schemes

RECOGNISE
- Biannual performance reviews
- Robust commission schemes
- Discretionary recognition awards

MANAGE FAIRLY
- Annual employee Pulse survey
- Communication sessions
- Employment equity and skills development forums

GROW
- Talent management framework
- Career mapping
- Bursary programme

CARE
- ChoiceCare wellness programme
- Ergonomically designed workplace
- "Green" building
- ISO 9000 certification

LEAD
- Vision and values
- Leadership model and programmes
- Transformation to drive diversity

Remuneration structure

The details of each component of the remuneration structure applied in the 2016 financial year are shown in the tables below. These components will also be applicable for the 2017 financial year subject to shareholder approval of the Forfeitable Share Plan (FSP).

Guaranteed pay	Executives	Specialists	Operations
Rationale	Salary is based on competitive market value and adjusted in accordance with performance and contribution. A market-related suite of benefits is made available, which is included in the cost-to-company basis.		
Basic salary	Reviewed annually, benchmarked against the market and assessed against prevailing economic metrics. Annual increases are granted on 1 March.		
Benefits:			
• Provident fund	Defined contribution provident fund is compulsory for all South African employees. Employees have the flexibility to elect from 12% to 18% of pensionable salary.		
• Medical aid	Membership of a medical scheme is encouraged, but is not compulsory.		Staff may join an affordable medical scheme with relevant benefits.
• Discount	Product discount on merchandise sold by the group.		
• Other	Expatriate staff in Mauritius receive additional benefits appropriate to the nature of their contract.		
Long-service award	Long-service awards are made on every five-year anniversary.		
Contracts and notice periods	The average notice period is three months. Key executives have contracts that include restraint of trade conditions. No agreements provide for ex-gratia or other lump sum payments on retirement or severance from the group.	Market-related norms.	

HomeChoice International PLC • Integrated annual report • 2016

Short-term variable remuneration	Executives	Specialists	Operations
Rationale and link to strategy	Short-term incentives are based on the achievement of the group's one-year financial performance targets, non-financial targets and individual performance measures. Non-financial measures include, for example, merchandise control, expand the customer base, optimise supply chain efficiencies, manage talent and drive transformation, implement leading information systems, customer experience and credit risk management.		
Short-term performance incentive scheme	Target: group budget EBITDA Financial performance: 60% weighting Non-financial performance: 40% weighting Calculation: % of GP Individual annual performance assessment rating can modify overall % bonus. Applicable to all executive and specialist employees.		n/a
Commission scheme	n/a		Call centre employees are incentivised against targets. Sales and collections employees are incentivised through schemes based on performance against individual targets.
Recognising and rewarding achievement	n/a	Discretionary year-end cash awards are made to recognise employees for outstanding achievements in areas such as excellence, innovation and teamwork.	
Other	Target agreed annually in advance. Bonus not payable where the EBITDA target is missed by more than 5%. Remuneration committee retains discretion on whether to award a bonus, and the quantum. Payments made in March in cash.		Commission payments are made monthly in cash.

Long-term variable remuneration	Executives	Specialists
Employee Share Option Scheme (ESOS)		
Rationale and link to strategy	Aimed at aligning employee remuneration with shareholder interests by rewarding senior employees for the creation of shareholder value over the medium to long term.	
Mechanics	Executives and selected specialist employees are offered on an annual "rolling basis" the option to acquire shares in the company. The options awarded are based on a value calculated as being the CTC, multiplied by a factor and divided by the share price (the 30-day VWAP) at the award date. Vesting period: four years Vesting condition: continuous employment in the group Expiry period: six years from date of grant Participants do not receive dividends and may not have a right to vote the shares during the vesting period. Maximum number of shares available for this scheme is 10 000 000 and held by any one participant is 1 000 000.	
Number of participants	11	70
Alternative Employee Share Option Scheme (AESOS)		
Rationale	Attract and retain senior executives who are key to the delivery of the group's long-term strategy. May 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.	
Mechanics	Awards are made at the discretion of the remuneration committee based on GP at the grant date at a combined strike price of R1. Vesting period: four years Vesting condition: continuous employment in the group Expiry period: six years from date of grant Participants do not receive dividends and may not have a right to vote the shares during the vesting period. Allocations are limited to selected employees. Maximum number of shares available for this scheme is 5 000 000 and held by any one participant is 500 000.	
Number of participants	–	–

The group intends to introduce an additional share scheme, called a Forfeiture Share Plan (FSP), which will be tabled at the annual general meeting for shareholder approval. The salient features of the scheme are available in the annual financial statements report available on the website and summarised below:

Long-term variable remuneration	Executives	Specialists
Forfeiture Share Plan (FSP)		
Rationale and link to strategy	A retention scheme for the group to attract, motivate, reward and retain employees who can influence the performance of the group, on a basis which aligns their interest with those of the company's shareholders.	
Mechanics	Executives and selected specialist employees may be eligible to participate in the scheme. The quantum of awards, the vesting period and any performance conditions' terms will be determined by the remuneration committee. FSP awards are held in escrow for the benefit of the participant until the vesting date. Participants have the right to receive dividends and vote the shares during the vesting period. The maximum number of shares available for this scheme is 15 000 000 less the aggregate of shares allocated by ESOS and AESOS. The maximum number of unvested awards held by any one participant across all share schemes is 1 500 000.	

Shares available for long-term incentive schemes

The company may issue 15 000 000 shares for the purposes of the long-term incentive schemes. This represents 14.5% of the issued share capital.

The number of shares available for the long-term incentive schemes as at 31 December 2016 is 10 132 750.

Application of remuneration policy for FY2016

The remuneration committee considered a number of matters during the year and the table below shows the application of the remuneration policy for the 2016 financial year.

Details of the remuneration paid to the executive directors can be found on page 75.

Remuneration component		Executives	Specialists	Operations
Number of employees		12	289	1 311
Guaranteed pay		Remuneration committee agreed an inflationary-linked increase to GP. Additional adjustments were made where there were changes in roles of key management.		Operations staff received an above inflation rate GP increase. The remuneration package of call centre agents was adjusted based on a benchmarking exercise to reflect market-related rates.
Short-term variable remuneration		The group EBITDA target was achieved and payments were approved by the remuneration committee.		Monthly payments made during the year when financial targets were achieved.
Long-term variable remuneration		Rolling annual allocations for the ESOS scheme were approved. Vesting for allocations from the legacy option scheme were confirmed. The AESOS scheme was approved by shareholders in May 2016. No allocations were made from this scheme during the year.		n/a
ESOS	Allocations	581 000	232 950	
	Vested/ forfeited	540 000	678 600	
AESOS	Allocations	–	–	
	Vested/ forfeited	–	–	

Non-executive directors' remuneration

The table below sets out the remuneration policies applied by the group for the 2016 financial year for non-executive directors. These policies are also applicable for the 2017 financial year and form the underlying basis for the fees tabled for shareholder approval. Details of the fees paid to the non-executive directors can be found on page 75.

Component	Details
Rationale	Market-related fees to attract and retain non-executive directors.
Fees	The non-executive directors receive fees for their services on the board and participation on the board committees. Fees are determined in Euros and may be paid in US Dollars or UK Pounds. The fees recognise the responsibilities of non-executives to provide their expertise throughout the year on an ongoing basis and a per meeting fee or per committee fee has not been adopted. Non-executive directors who perform a similar role for the main operating subsidiaries are remunerated for those functions – Amanda Chorn receives fees from HomeChoice Holdings. Fees are proposed by executive directors and discussed by the remuneration committee. The remuneration committee recommends the fees to the board for final approval by shareholders. One-third of non-executive directors must retire by rotation every year and shareholders vote for their appointment at the annual general meeting.
Contracts	Non-executive directors do not have service contracts with the company but receive letters of appointment. Rick Garratt has a consultancy agreement with the South African operating company and is remunerated for services and related benefits that he provides to that company.
Other	Non-executive directors do not receive any payments linked to organisational performance, nor are they entitled to participate in the long-term share option incentive schemes.

Proposed non-executive directors' fees

The proposed fees for the non-executive directors have been tabled by the executive directors for consideration by the remuneration committee.

The board approved a fee of a maximum of Euro 40 000 per annum for the financial year ended 31 December 2018.

Directors' remuneration and shareholding

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

The total remuneration, benefits and fees paid to each of the directors, for the company and its subsidiaries, in respect of the periods ended 31 December are as follows:

				Short-term remuneration				Long-term remuneration	
				Guaranteed pay		Variable		Variable	
	Notes	Directors' fees R'000	Fees earned from subsidiary companies R'000	Salary R'000	Benefits[1] R'000	Performance bonus R'000	Remuneration R'000	Value of equity-settled share options granted[2] R'000	Gains realised on share options vesting R'000
2016									
Executive directors									
Gregoire Lartigue		–	–	162	–	–	162	–	–
Shirley Maltz		–	–	3 050	366	3 059	6 475	311	1 936
Paul Burnett		–	–	1 485	664	518	2 667	72	–
				4 697	1 030	3 577	9 304	383	1 936
Non-executive directors									
Stanley Portelli		162	–	–	–	–	162	–	–
Amanda Chorn	3	117	179	–	–	–	296	–	–
Richard Garratt	3	–	8 146	–	–	–	8 146	–	–
Eduardo Gutierrez-Garcia	4	–	–	–	–	–	–	–	–
Robert Hain		117	–	–	–	–	117	–	–
Charles Rapa		130	–	–	–	–	130	–	–
		526	8 325	–	–	–	8 851	–	–
Total remuneration		526	8 325	4 697	1 030	3 577	18 155	383	1 936
2015									
Executive directors									
Gregoire Lartigue		–	–	141	–	–	141	–	–
Shirley Maltz		–	–	2 683	322	–	3 005	269	763
Paul Burnett		–	–	1 267	521	–	1 788	80	–
		–	–	4 091	843	–	4 934	349	763
Non-executive directors									
Stanley Portelli		127	–	–	–	–	127	–	–
Amanda Chorn	3	291	–	–	–	–	291	–	–
Richard Garratt	3	–	9 431	–	–	–	9 431	–	–
Eduardo Gutierrez-Garcia	4	–	–	–	–	–	–	–	–
Robert Hain		102	–	–	–	–	102	–	–
Charles Rapa		100	–	–	–	–	100	–	–
		620	9 431	–	–	–	10 051	–	–
Total remuneration		620	9 431	4 091	843	–	14 985	349	763

Notes

1. *Benefits include retirement fund contributions and benefits appropriate to expatriate staff employed in Mauritius operations.*
2. *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.*
3. *Amanda Chorn earns non-executive directors' fees from a South African subsidiary. Richard Garratt has a consultancy agreement with a South African subsidiary from which he earns consultancy fees and other related benefits.*
4. *Eduardo Gutierrez-Garcia, as a representative of ADP II Holdings 3 Limited on the HIL board, does not earn any directors' fees.*

Share options, held by executive directors, outstanding as at 31 December have the following vesting dates and exercise prices:

Director	Award date	Vesting date	Number of share options awarded	Strike price (Rand)	Exercised during the year	Unvested and/or unexercised options at the end of the year
Shirley Maltz	31 March 2012	31 March 2016	25 000	10.64	25 000	–
	23 June 2012	23 June 2016	450 000	10.64	75 000	375 000
	27 August 2013	27 August 2017	50 000	11.00	–	50 000
	31 March 2014	31 March 2018	100 000	14.44	–	100 000
	20 March 2015	20 March 2019	40 500	33.70	–	40 500
	1 May 2016	1 May 2020	52 000	28.00	–	52 000
			717 500		100 000	617 500
Paul Burnett	27 August 2013	27 August 2017	40 000	11.00	–	40 000
	20 March 2015	20 March 2019	12 000	33.70	–	12 000
	1 May 2016	1 May 2020	12 000	28.00	–	12 000
			64 000		–	64 000

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

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93 Mill Street, Qormi
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HomeChoice International PLC