



CONSOLIDATED AND COMPANY
ANNUAL FINANCIAL STATEMENTS 2017

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How to navigate the annual financial statements

The format of the annual financial statements for 2017 has been changed from the prior years. The purpose of the change was to assist readers of the financial statements to navigate the financial statements more efficiently by grouping all key information relating to an income statement and/or balance sheet item in one note. Refer to note 1.1

Primary statements

The primary statements are included in the beginning of the annual financial statements and include note references to specific underlying detailed notes.

Notes to the financial statements

The notes to the financial statements have been re-ordered on the basis set out in note 1.1

Accounting policies

The principle accounting policies applied in the preparation of these annual financial statements are included in the specific notes to which they relate and are indicated with light blue background.

Significant accounting estimates and judgements

The areas involving a high degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements, are included in the specific notes to which they relate and are indicated with a dark blue border.

Company information

Registration number:	2004/009817/06
Registered address:	53A Victoria Road Woodstock 7925
Postal address:	PO Box 43 Woodstock 7915
Auditors:	PricewaterhouseCoopers Inc. Cape Town
Attorneys:	Edward Nathan Sonnenbergs
Bankers:	ABSA Bank Ltd First National Bank of Africa Ltd Investec Bank Limited Standard Bank of South Africa Ltd

Directors' responsibility statement

Management have prepared the annual financial statements in accordance with International Financial Reporting Standards ("IFRS") and the Companies Act of South Africa.

The financial statements, which present the results and financial position of the company and its subsidiaries, are the responsibility of the directors.

In fulfilling its responsibility, the board of directors has approved the accounting policies applied and established that reasonable and sound judgements and estimates have been made by management when preparing the financial statements.

Adequate accounting records and an effective system of internal controls have been maintained to ensure the integrity of the underlying information. Internal audit has performed a written assessment confirming the effectiveness of the company's system of internal control and risk management, including internal financial controls. The board is satisfied that the system of internal controls, which includes internal financial controls, operates effectively.


A well established control environment, which incorporates risk management and internal control procedures, exists to provide reasonable, but not absolute, assurance that assets are safeguarded and the risk facing the business is being adequately managed. The board confirms that during the

period under review the Group has maintained an efficient and effective process to manage key risks. The directors are not aware of any current or anticipated key risks that may threaten the sustainability of the business.

The board of directors has reviewed the business of the Group together with budget and cash flows for the year to 31 March 2018 as well as the current financial position and have no reason to believe that the Group will not be a going concern for the foreseeable future. The going concern basis has therefore been adopted in preparing the financial statements.

PricewaterhouseCoopers Inc., as external auditors, have examined the financial statements and their report appears on pages 4 to 9.

The financial statements of the Group and the Company for the year ended 31 March 2017, which appear on pages 16 to 77 have been approved by the board of directors and signed on their behalf by:



DM Nurek
Chairman



J Enslin
Chief
executive officer



LA Davies
Chief
financial officer

Cape Town
24 May 2017

Preparation and presentation of annual financial statements

The preparation of the annual financial statements was supervised by the chief financial officer of Lewis Group, Mr LA Davies CA(SA).

Company secretary certificate

In my capacity as company secretary, I hereby confirm to the best of my knowledge and belief that all returns required of a public company have, in respect of the year under review, been lodged with the Registrar of Companies and that all such returns are true, correct and up to date.



MG McConnell
Company secretary

24 May 2017

Independent auditor's report to the shareholders of Lewis Group Limited

Report on the audit of the consolidated and separate financial statements

Our opinion

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Lewis Group Limited (the Company) and its subsidiaries (together the Group) as at 31 March 2017, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

What we have audited

Lewis Group Limited's consolidated and separate financial statements set out on pages 16 to 77 comprise:

- the consolidated and separate balance sheets as at 31 March 2017;
- the consolidated and separate income statements for the year then ended;
- the consolidated and separate statements of comprehensive income for the year then ended;
- the consolidated and separate statements of changes in equity for the year then ended;
- the consolidated and separate cash flow statements for the year then ended; and
- the notes to the consolidated and separate financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated and separate financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the *Independent Regulatory Board for Auditors Code of Professional Conduct for Registered Auditors (IRBA Code)* and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants *Code of Ethics for Professional Accountants* (Parts A and B).

Independent auditor's report to the shareholders of Lewis Group Limited (continued)

Our audit approach

OVERVIEW AND SUMMARY OF KEY AUDIT MATTERS



OVERALL GROUP MATERIALITY

- R37 million, which represents 5% of the adjusted three-year average net profit before tax.

GROUP AUDIT SCOPE

- The Group operates through six trading subsidiaries in South Africa, Botswana, Lesotho, Swaziland and Namibia.
- All trading subsidiaries were subjected to full scope audits.

KEY AUDIT MATTERS

- Provision for impairment of trade receivables.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated and separate financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the consolidated financial statements as a whole.

Independent auditor's report to the shareholders of Lewis Group Limited (continued)

OVERALL GROUP MATERIALITY	R37 million
HOW WE DETERMINED IT	5% of the adjusted three-year average net profit before tax
RATIONALE FOR THE MATERIALITY BENCHMARK APPLIED	<p>In our view, profit before tax is the benchmark against which the performance of Lewis Group is most commonly measured by the users of the financial statements.</p> <p>Profits during the current year have been adversely affected by low economic growth and the impact of affordability assessment regulations. We therefore chose the three-year average net profit before tax as the benchmark for determining materiality, as we believe that it provides a more stable measure of the financial position and operations. The 2016 net profit before tax was adjusted to exclude the significant once-off profit realised on the disposal of the available-for-sale investments.</p> <p>We chose 5%, which is consistent with quantitative materiality thresholds used for profit oriented companies in this sector.</p>

How we tailored our Group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group operates its retail operations through its main operating subsidiary, Lewis Stores (Proprietary) Limited and provides insurance cover to customers through its short-term insurance subsidiary, Monarch Insurance Company Limited. The Group operates across five different geographical locations – South Africa, Botswana, Lesotho, Swaziland and Namibia.

All trading subsidiaries in the five geographical locations were subject to full scope audits by auditors from within the PricewaterhouseCoopers (PwC) network of firms, in order to align the statutory audits with the audit of the consolidated financial statements.

In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed by us, as the Group engagement team, or component auditors from within the PwC network of firms. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those components to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the consolidated financial statements as a whole.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements for the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We communicate the key audit matter that relates to the audit of the consolidated financial statements of the current period in the table below. We have determined that there are no key audit matters to communicate in our report with regard to the audit of the separate financial statements of the Company for the current period.

Independent auditor's report to the shareholders of Lewis Group Limited (continued)

Key audit matter	How our audit addressed the key audit matter
<p>Provision for impairment of trade receivables</p> <p>At 31 March 2017, the value of trade receivables (instalment sale and loan receivables net of unearned provisions) was R5 581.2 million (representing 74.7% of total assets) against which a provision for impairment of R1 560.6 million was recorded.</p> <p>The value of impaired trade receivables is determined by calculating the net present value of the expected cash flows from each account, discounted at the original effective interest rate implicit in the credit agreement.</p> <p>The Group records specific provisions for each customer account with reference to the individual customer payment history. The expected cash flows are estimated with reference to the individual customer lifetime payment rating, which is based on the customer's actual payment history.</p> <p>The provision for impairment of trade receivables was considered to be a matter of most significance in the audit as it required the application of judgement and assumptions by management.</p> <p>Refer to note 3 to the consolidated financial statements for the disclosures relating to trade receivables, credit risk, the accounting policy for trade receivables and the critical accounting estimates and judgements relating to the provision for impairment of trade receivables.</p>	<p>Our audit procedures included understanding and testing of the key controls within the revenue and receivables cycle, including:</p> <ul style="list-style-type: none"> • The recording of credit sales transactions; • The credit granting process, including determining credit limits; • The identification and write-off of bad debts; and • The data used in the calculation of the provision for impairment of trade receivables. <p>We obtained an understanding of the Group's credit policy and tested the processes for identifying impairment indicators and the grading of customer accounts by lifetime payment ratings based on customer payment history.</p> <p>We performed tests over a sample of life to date payments made to assess the accuracy, validity and completeness of the data used. We also tested a sample of underlying credit sale agreements to assess the accuracy, validity and completeness of the recorded sales transactions and noted no exceptions.</p> <p>For selected accounts, we tested the key inputs and the calculation of the provision for impairment by:</p> <ul style="list-style-type: none"> • recalculating the customer lifetime payment rating and the resulting impact on the revised cash flows over the projected payment period; and • recalculating the present value of the future instalments due. <p>With the assistance of our actuarial team, we performed an independent valuation of the debtor book by applying independent actuarial judgements, assumptions and methodologies in calculating the required provision for impairment of trade receivables in terms of International Accounting Standard 39 – Financial Instruments: Recognition and Measurement.</p> <p>Our independent valuation was performed using the client's historical data and our independently determined discount rate. The valuation also took into consideration any losses which had been incurred but not reported. We tested the accuracy of the historical client data used as input data in the independent actuarial valuation.</p> <p>We compared the results of our independent valuation to management's calculation and found that the difference was not material.</p>

Independent auditor's report to the shareholders of Lewis Group Limited (continued)

Other information

The directors are responsible for the other information. The other information comprises the directors' report, the Audit Committee's report and the Company Secretary's Certificate as required by the Companies Act of South Africa and the directors' responsibility statement, which we obtained prior to the date of this auditor's report, and the Integrated Annual Report, which is expected to be made available to us after that date. Other information does not include the consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not and will not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated and separate financial statements

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going-concern basis of accounting unless the directors either intend to liquidate the Group and/or the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated and separate financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company's internal control.

Independent auditor's report to the shareholders of Lewis Group Limited (continued)

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going-concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and/or the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.
- We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that PricewaterhouseCoopers Inc. has been the auditor of Lewis Group Limited for 26 years.



PricewaterhouseCoopers Inc.

Director: A Legge

Registered Auditor

Cape Town
24 May 2017

Audit committee report

The Audit Committee (“the committee”) has pleasure in submitting its report for the year ended 31 March 2017 in compliance with the Companies Act 71 of 2008, as amended.

Introduction

The committee has an independent role with accountability to the board. The committee operates in accordance with a documented charter and complies with all relevant legislation, regulation and governance codes. The committee’s terms of reference are reviewed annually and approved by the board.

The committee’s role and responsibilities includes its statutory duties and further responsibilities as assigned by the board. The committee executed its duties in terms of the requirements of King III.

The committee acts as the Audit Committee for all the subsidiaries in the Lewis Group except for Monarch Insurance Company Limited (“Monarch”) which has its own Audit and Risk Committee.

Objectives

The objectives of the committee are:

- To assist the board to discharge its duties relating to the safeguarding of assets, the operation of adequate systems and controls, overseeing integrated reporting, reviewing of financial information and the preparation of interim and annual financial statements in compliance with all applicable legal requirements and accounting standards.
- To facilitate and promote communication and liaison between the board of directors and the company’s management in respect of the matters referred to above.
- To recommend the introduction of measures which the committee believes may enhance the credibility and objectivity of financial statements and reports concerning the affairs of the company.

- To perform their statutory functions under section 94 of the Companies Act.
- To advise on any matter referred to the committee by the board of directors.

Relationship with the Monarch Audit and Risk Committee

- Due to the integrated nature of the Group’s systems and processes, the Lewis Group Audit Committee has responsibility relating to:
 - Internal and external audit management
 - Maintenance of an effective internal control system
- In order for the Monarch Audit and Risk Committee to discharge its responsibilities under the Short-term Insurance Act, the Lewis Group Audit Committee refers any issues to the Monarch Audit and Risk Committee where such issues impact on Monarch.
- The duty and scope of the Monarch Audit and Risk Committee in monitoring the compliance with legal and regulatory requirements has been extended to include the Financial Advisory and Intermediary Services Act due to its interrelationship with the insurance activities of the Group.
- The minutes of all Monarch Audit and Risk Committee meetings are submitted and reviewed by the Lewis Group Audit Committee.

Membership

The committee consists of three independent non-executive directors:

H Saven (chairman)

D Nurek

BJ van der Ross

Biographical details of the committee members are provided on pages 24 to 25 of the integrated report. Fees paid to the committee members are outlined in the table of directors’ remuneration on page 68 of the Remuneration Report.

The chief executive officer, chief financial officer, certain of the other non-executive directors and representatives of the internal and external auditors attend the meetings as invitees.

The chairman of the committee also meets separately with the external and internal auditors, without members of executive management being present. The effectiveness of the committee is assessed as part of the annual board and committee self-evaluation process.

Audit committee report (continued)

Committee activities

The committee met four times during the year under review. All members of the committee attended all four meetings during the period under review. Attendance of the members has been set out on page 78 of the Corporate Governance Report.

The committee attended to the following material matters:

Financial statements

The committee took note of the amendments to IAS1 – Disclosure Initiative project and considered the Group's annual financial statements in light of the following:

- In deciding how it aggregates information, an entity should consider all relevant facts and circumstances.
- An entity should not obscure material information with immaterial information or by aggregating material items that have different natures or functions.
- An entity need not provide a specific disclosure required by IFRS if the information resulting from that disclosure is immaterial.
- An entity should consider providing additional disclosure where specific IFRS requirements is insufficient to enable users to understand the entity's financial position and performance.

Furthermore, the committee also considered the JSE report on proactive monitoring of Financial Statements – 2016 regarding the decluttering of financial statements. As a consequence of the above, a Lewis project team was constituted to deal with this matter during the period under review. PwC audit and technical teams also provided input to the process. The approach adopted by the project team can be summarised as follows:

- The notes were re-ordered on a systematic basis to incorporate all related disclosures, accounting policies, significant judgements, risk management disclosures and other information relating to a particular balance sheet and/or income statement item together to provide a complete picture of such items.
- The notes are, as far as possible, ordered in terms of materiality and significance to the business.
- The effect of consolidating the notes on the above basis resulted in the removal of duplication, deletion of some immaterial items and some minor additions to provide a complete view of the balance sheet/income statement item.

The committee also established a task team to investigate the impact of IFRS 9 – Financial Instruments and IFRS 15 – Revenue recognition on the Group. These new standards are applicable for the 2019 financial year. The task team is currently focused on the impact of IFRS 9, particularly in the recognition of expected credit losses as opposed to incurred losses. Advisors have been appointed and progress is being made but the task team is not yet in a position to estimate the outcome due to the highly technical nature of the calculations.

- Reviewed the interim results and year-end financial statements, including the public announcements of the company's financial results, and made recommendations to the board for their approval. In the course of its review, the committee:
 - took appropriate steps to ensure that the financial statements were prepared in accordance with International Financial Reporting Standards (IFRS);
 - considered the appropriateness of accounting policies and disclosures and material judgements applied; and
 - completed a detailed review of the going-concern assumption and confirmed that the going-concern assumption was appropriate in the preparation of the financial statements.

Integrated report

The committee fulfils an oversight role regarding the Company's integrated report and the reporting process:

- The committee will consider the Company's integrated report and assess its consistency with operational, financial and other information known to the audit committee members, and for consistency with the annual financial statements. The committee will satisfy itself that the integrated report is materially accurate, complete and reliable and consistent with the annual financial statements.
- Thereafter, the committee will recommend the integrated report for the year ended 31 March 2017 for approval by the board of directors prior to the issue on 30 June 2017.

Audit committee report (continued)

External auditors

- Considered and met with nominees for the appointment of the designated auditor for Lewis Group in accordance with the audit partner rotation process;
- Considered and met with nominees for the appointment of a specialist audit partner for Monarch Insurance;
- Reviewed the independence of PricewaterhouseCoopers Inc., the Company's external auditors, and the nominee for the appointment of the designated auditor, before recommending to the board that their re-election be proposed to shareholders (refer section on Independence of External Auditors);
- Approved, in consultation with management, the audit fee and engagement terms for the external auditors for the 2016 financial year. The fees paid to the auditors are disclosed in note 19.3 to the annual financial statements;
- Determined the nature and extent of allowable non-audit services and approved the contract terms for the provision of non-audit services. It is the policy of the Group that the auditor is restricted from rendering accounting, IT consulting services, company secretarial, internal audit and human resource services;
- Reviewed and approved the external audit plan, ensuring that material risk areas were included and that coverage of the significant business processes was acceptable; and
- Reviewed the external audit reports and management's response, considered their effect on the financial statements and internal financial control.

The committee was not required to deal with any complaints relating to accounting practices or internal audit, nor to the content or audit of the Group's financial statements, the internal financial controls and related matters.

Internal audit

- Reviewed and approved the existing internal audit charter which ensures that the Group's internal audit function is independent and has the necessary resources, standing and authority within the organisation to enable it to discharge its duties.
- Satisfied as to the credibility, independence and objectivity of the internal audit function.
- Internal audit has direct access to the committee, primarily through the committee's chairman.
- Reviewed and approved the annual internal audit plan, ensuring that material risk areas were included and that the coverage of significant business processes was acceptable.
- Reviewed the quarterly internal audit reports, covering the effectiveness of internal control, material fraud incidents and material non-compliance with Group policies and procedures. The committee is advised of all internal control developments and advised of any material losses, with none being reported during the year.
- Considered and reviewed with management and internal auditors any significant findings and management responses thereto in relation to reliable financial reporting, corporate governance and effective internal control to ensure appropriate action is taken.
- Oversaw the co-operation between internal audit and external auditors, and the committee is satisfied that the Company has optimised the assurance coverage obtained from management, internal and external assurance providers in accordance with an appropriate combined assurance model.
- Assessed the performance and qualification of the internal audit function and found them to be satisfactory.

Audit committee report (continued)

Internal financial control and compliance

- Reviewed and approved the Group's existing treasury policy and reviewed the quarterly treasury reports prepared by management;
- Reviewed the quarterly legal and regulatory reports setting out the latest legislative and regulatory developments impacting the Group;
- Reviewed the quarterly report on taxation;
- Reviewed information technology reports; and
- Considered and, where appropriate, made recommendations on internal financial control.

Internal audit has performed a written assessment of the effectiveness of the Company's system of internal control and risk management, including internal financial controls. This written assessment by internal audit, as well as other information available to the committee, formed the basis for the committee's recommendation to the board, on the effectiveness of the system of internal controls to be included in the integrated report.

Governance of risk

The board has assigned oversight of the company's risk management function to the risk committee. The minutes of the risk committee are made available to the audit committee to assist them in fulfilling its oversight role with respect to financial reporting risks arising from internal financial controls, fraud and information technology risks.

Evaluation of expertise and experience of the chief financial officer and finance function

- In terms of the JSE Listings Requirements, the committee satisfied itself as to the appropriateness of the expertise and experience of the Group's chief financial officer.
- The committee has considered, and has satisfied itself of the appropriateness of the expertise and adequacy of resources of the finance function and experience of the senior members of management responsible for the financial function.

Independence of External Auditors

The committee is satisfied that PricewaterhouseCoopers Inc. are independent of the Group. This assessment was made after considering the following:

- Confirmation from the external auditors that they, or their immediate family, do not hold any significant direct or indirect financial interest or have any material business relationship with Lewis. The external auditors also confirmed that they have internal monitoring procedures to ensure their independence.
- The auditors do not, other than in their capacity as external auditors or rendering permitted non-audit services, receive any remuneration or other benefits from the Group.
- The auditor's independence was not impaired by the non-audit work performed having regard to the quantum of audit fees relative to the total fee base and the nature of the non-audit work undertaken.
- The auditor's independence was not prejudiced as a result of any previous appointment as auditor. In addition, an audit partner rotation process is in place in accordance with the relevant legal and regulatory requirements.
- The criteria specified for independence by the Independent Regulatory Board for Auditors.
- The audit firm and the designated auditor is accredited with the JSE.

The committee confirms it has functioned in accordance with its terms of reference for the 2017 financial year.



Hilton Saven
Chairman

Audit Committee
24 May 2017

Directors' report

Nature of Business

Lewis Group Limited is a holding company listed on the JSE Limited, operating through two main trading subsidiaries, Lewis Stores (Proprietary) Limited and Monarch Insurance Company Limited. Lewis Stores (Proprietary) Limited offers a selected range of furniture and appliances through 513 Lewis, 123 Best Home and Electric and 125 Beares stores. Sales are mainly on credit. Monarch Insurance Company Limited, a registered short-term insurer, underwrites Customer Protection Insurance benefits to South African customers. In addition, there are also trading subsidiaries in Botswana, Lesotho, Namibia and Swaziland operating under the Lewis, Best Home and Electric and Beares brands.

During the current period, the Group's subsidiaries in Namibia and Swaziland acquired on 8 May 2016 and 8 April 2016 respectively for approximately R100 million the businesses trading under the Ellerines and Beares brands from the relevant in-country subsidiaries of Ellerines Services Proprietary Limited (subsidiary of Ellerines Furnishers Proprietary Limited in business rescue). The businesses consisted of 26 stores, the Ellerines and Beares brands, trade receivables, inventory and fixed assets. The purchase consideration was paid by cash and assumption of liabilities. The stores trade either under the Lewis or Beares brands. (refer note to 17 of financial statements).

The store presence outside South Africa now amounts to 116 stores.

The nature of the business of the subsidiaries is set out in note 20.

Review of financial results and activities

The financial results and affairs of the Group are reflected in the annual financial statements set out on pages 16 to 77.

Segmental Analysis

Segmental information is set out in note 7 to the annual financial statements.

Share Capital

The Company's authorised and issued share capital remained unchanged during the year.

Treasury Shares

The Group holds 9 216 928 (9.4%) of its own shares through its subsidiary, Lewis Stores (Proprietary) Limited. In addition, the Lewis Employee Incentive Scheme Trust effectively holds 51 312 shares, all of which will be utilised to cover share awards granted to executives. Refer to note 11.4 for more detail.

Dividends

The following dividends have been declared or proposed for the financial year ended 31 March 2017:

	Dividend per share	Date declared	Date payable
Interim - declared	100 cents	9 Nov 2016	23 Jan 2017
Final - proposed	100 cents	24 May 2017	24 Jul 2017
For the year	200 cents		

Notice is hereby given that a final gross cash dividend of 100 cents per share in respect of the year ended 31 March 2017 has been declared payable to holders of ordinary shares. The number of shares in issue as of the date of declaration is 98 057 959. The dividend has been declared out of income reserves and is subject to a dividend tax of 20%. The dividend for determining the dividend tax is 100 cents and the dividend tax payable is 20 cents for shareholders who are not exempt. The net dividend for shareholders who are not exempt will therefore be 80 cents. The dividend tax rate may be reduced where the shareholder is tax resident in a foreign jurisdiction which has a Double Tax Convention with South Africa and meets the requirements for a reduced tax rate. The Company's tax reference number is 9551/419/15/4.

The following dates are applicable to this declaration:

- Last date to trade "cum" dividend Tuesday 18 July 2017
- Date trading commences "ex" dividend Wednesday 19 July 2017
- Record date Friday 21 July 2017
- Date of payment Monday 24 July 2017

Share certificates may not be dematerialised or rematerialised between Wednesday 19 July 2017 and Friday 21 July 2017, both days inclusive.

Directors' report (continued)

Directors

In terms of the Articles of Association of the Company, David Nurek will retire and has offered himself for re-election.

Ben van der Ross has advised the Company that he is retiring and is not available for re-election.

Company secretary

MG McConnell remained as company secretary throughout the year. The address of the company secretary is that of the registered offices as stated on page 2.

Directors' Interests

At 31 March 2017, the directors' beneficial direct and indirect interest in the Company's issued shares were as follows:

	2017		2016	
	Direct	Indirect	Direct	Indirect
DM Nurek		20 000	–	20 000
H Saven		6 440	–	6 440
AJ Smart	319 070	–	319 070	–
J Enslin	176 038	17 522	131 380	33 070
LA Davies	320 192	13 699	281 289	25 933
	815 300	57 661	731 739	85 443

The following share awards have been made to directors:

J Enslin	413 375
LA Davies	313 948

Full details of the terms and conditions in relation to these share awards are set out in note 11.2 to the financial statements.

During the course of the year, no director had a material interest in any contract of significance with the Company or any of its subsidiaries that could have given rise to a conflict of interest.

No related party transaction in terms of the JSE Limited Listing Requirements took place between the Group and its directors or their associates, other than remuneration for services rendered to the Company as set out in note 11.2 to the financial statements.

Subsidiary Companies

Details of the Company's subsidiaries are set out in note 20.

The company's interest in the aggregate profits and losses after taxation of the subsidiary companies is as follows:

	2017 Rm	2016 Rm
Profit	404.2	971.0
Losses	(29.2)	(2.5)

Borrowing Powers

Borrowings were R947.3 million at 31 March 2017 (2016: R1 975.0 million). Borrowings are subject to the treasury policy adopted by the board of directors. In terms of the articles of association, the group has unlimited borrowing powers.

Lewis Group Limited

Consolidated Income Statement

for the year ended 31 March 2017

		Group	
	Notes	2017 Rm	2016 Rm
Revenue	4	5 592.1	5 785.0
Merchandise sales		2 607.9	2 667.7
Finance charges and initiation fees earned		1 451.8	1 426.3
Insurance revenue		822.3	908.2
Ancillary services		710.1	782.8
Cost of merchandise sales	8	(1 522.4)	(1 652.8)
Operating costs		(3 504.9)	(3 317.2)
Debtor costs	3.2	(1 065.5)	(1 005.1)
Employment costs	11.1	(987.0)	(946.3)
Occupancy costs		(370.8)	(329.1)
Administration and IT		(318.4)	(274.5)
Transport and travel		(202.8)	(224.2)
Marketing		(199.9)	(192.4)
Depreciation and amortisation		(90.1)	(85.6)
Other operating costs		(270.4)	(260.0)
Operating profit before investment income		564.8	815.0
Investment income	5.2	104.9	600.6
Profit before finance costs and taxation		669.7	1 415.6
Net finance costs		(148.4)	(136.1)
Interest paid	6.2	(174.3)	(158.4)
Interest received	6.2	39.4	14.0
Forward exchange contracts	6.2	(13.5)	8.3
Profit before taxation		521.3	1 279.5
Taxation	12	(163.3)	(318.0)
Net profit attributable to ordinary shareholders		358.0	961.5
Earnings per share (cents)	10.1	403.5	1 082.6
Diluted earnings per share (cents)	10.1	399.1	1 073.9

Lewis Group Limited Consolidated Statement of Comprehensive Income

for the year ended 31 March 2017

	Group	
	2017 Rm	2016 Rm
Net profit for the year	358.0	961.5
Items that may be subsequently reclassified to income statement:		
Movement in other reserves	(2.4)	(456.7)
Fair value adjustments of available-for-sale investments	9.6	(71.2)
Fair value adjustments of available-for-sale investments	13.4	(94.5)
Tax effect	(3.8)	23.3
Disposal of available-for-sale investments recognised	(0.2)	(406.3)
Disposal of available-for-sale investments	(0.3)	(495.6)
Tax effect	0.1	89.3
Foreign currency translation reserve	(11.8)	20.8
Items that may not be subsequently reclassified to income statement:		
Retirement benefit remeasurements	1.2	(2.3)
Remeasurements of the retirement asset and liabilities	1.6	(3.1)
Tax effect	(0.4)	0.8
Total comprehensive income for the year attributable to ordinary shareholders	356.8	502.5

Lewis Group Limited

Consolidated Balance Sheet

at 31 March 2017

	Notes	2017 Rm	Group 2016 Rm
Assets			
Non-current assets			
Property, plant and equipment	15	343.5	370.4
Trademarks	16	66.2	61.4
Goodwill	17	5.5	–
Deferred taxation	12	48.9	85.7
Retirement benefit asset	11.5	55.0	63.0
Financial assets – insurance investments	5.1	455.9	432.0
		975.0	1 012.5
Current assets			
Inventories	8	454.6	444.5
Trade and other receivables	3.1	4 225.8	4 514.3
Reinsurance assets	5.3	152.2	397.3
Insurance premiums in advance		403.2	1 185.4
Taxation		181.1	28.3
Financial assets – insurance investments	5.1	294.9	1 236.5
Cash-on-hand and deposits	6.1	788.6	587.2
		6 500.4	8 393.5
Total assets		7 475.4	9 406.0
Equity and liabilities			
Capital and reserves			
Share capital and premium	10.4	108.3	92.1
Other reserves	10.5	6.2	27.5
Retained earnings	10.6	5 330.8	5 329.8
		5 445.3	5 449.4
Non-current liabilities			
Long-term interest-bearing borrowings	6.1	700.0	1 375.0
Deferred taxation	12	91.0	60.8
Retirement benefit liability	11.5	101.7	100.2
		892.7	1 536.0
Current liabilities			
Trade and other payables	9.1	271.3	270.2
Reinsurance and insurance liabilities	5.4	618.8	1 550.4
Short-term interest-bearing borrowings	6.1	247.3	600.0
		1 137.4	2 420.6
Total equity and liabilities		7 475.4	9 406.0

Lewis Group Limited Consolidated Statement of Changes in Equity

for the year ended 31 March 2017

	Notes	Group	
		2017 Rm	2016 Rm
Share capital and premium	10.4		
Opening balance		92.1	110.8
Cost of own shares acquired (treasury shares)		–	(53.0)
Share awards to employees		16.2	34.3
		108.3	92.1
Other reserves	10.5		
Opening balance		27.5	492.4
Other comprehensive income:			
Fair value adjustments of available-for-sale investments		9.6	(71.2)
Disposal of available-for-sale investments recognised		(0.2)	(406.3)
Foreign currency translation reserve		(11.8)	20.8
Share-based payment		(4.0)	10.3
Transfer of share-based payment reserve to retained earnings on vesting		(14.9)	(18.5)
		6.2	27.5
Retained earnings	10.6		
Opening balance		5 329.8	4 845.4
Net profit attributable to ordinary shareholders		358.0	961.5
Distribution to shareholders	10.2	(356.9)	(459.0)
Transfer of share-based payment reserve to retained earnings on vesting		14.9	18.5
Retirement benefit remeasurements		1.2	(2.3)
Share awards to employees		(16.2)	(34.3)
		5 330.8	5 329.8
Balance at 31 March		5 445.3	5 449.4

Lewis Group Limited

Consolidated Cash Flow Statement

for the year ended 31 March 2017

	Notes	2017 Rm	Group 2016 Rm
Cash flow from operating activities			
Cash flow from trading		540.9	1 104.7
Operating profit before investment income		564.8	815.0
<i>Adjusted for:</i>			
Share-based payments		(4.0)	10.3
Depreciation and amortisation		90.1	85.6
Movement in debtors impairment provision		27.0	239.3
Movement in other provisions		(144.7)	(46.2)
Other movements		7.7	0.7
<i>Changes in working capital:</i>		573.9	(154.3)
Decrease/(increase) in inventories		11.6	(6.6)
Decrease/(increase) in trade and other receivables		322.8	(242.0)
Increase in trade payables		143.8	35.3
Decrease in insurance premiums in advance		782.2	300.1
Decrease in reinsurance asset		245.1	84.5
Decrease in reinsurance and insurance liabilities		(931.6)	(325.6)
Cash generated from operations		1 114.8	950.4
Interest received		144.0	99.3
Dividends received		–	19.7
Interest paid		(187.8)	(150.1)
Taxation paid	12	(254.8)	(330.3)
		816.2	589.0
Cash utilised in investing activities			
Net disposals of insurance business investments		931.1	79.6
Purchase of insurance investments		(2 253.8)	(1 574.8)
Disposals of insurance investments		3 184.9	1 654.4
Acquisition of property, plant and equipment		(61.3)	(104.3)
Purchase of businesses	17	(107.6)	(101.1)
Proceeds on disposal of property, plant and equipment		7.6	12.7
		769.8	(113.1)
Cash flow from financing activities			
Dividends paid	10.2	(356.9)	(459.0)
Proceeds from borrowings		–	1 150.0
Repayments of borrowings		(1 027.7)	(700.0)
Purchase of own shares		–	(53.0)
		(1 384.6)	(62.0)
Net increase in cash and cash equivalents		201.4	413.9
Cash and cash equivalents at the beginning of the year		587.2	173.3
Cash and cash equivalents at the end of the year		788.6	587.2

Lewis Group Limited: Consolidated Financial Statements

Notes to the annual financial statements

for the year ended 31 March 2017

1.1 Basis of preparation

The financial statements have been prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards ("IFRS"), IFRS Interpretations Committee interpretations and the SAICA Reporting Guidelines as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council and the requirements of the Companies Act.

The Group and Company discloses its significant accounting policies, including its measurement basis or bases, as part of its disclosures in each note in order to assist the users of these statements in understanding how transactions, events and conditions are reflected in the primary financial statements.

In accordance with the Disclosure Initiative amendment to IAS 1 issued in December 2014 and effective for entities with annual periods beginning on or after 1 January 2016, Lewis Group has elected to re-order its notes on the following basis:

- Incorporate all related disclosures, accounting policies, significant judgements, risk management disclosure and other information relating to a particular balance sheet and/or income statement item together to provide a complete overall picture of such items.
- the notes are, as far as possible, ordered in terms of materiality and significance to the business. (refer to navigation on page 1.)

Other than the adoption of IAS 1 amendment referred to above, the revisions and amendments to standards and interpretations effective for the current financial reporting year have had no material impact on the Group's results and financial position.

1.2 Significant accounting estimates and judgements

Preparation of financial statements in conformity with IFRS requires the use of certain accounting estimates. It also requires management to exercise judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed as significant judgements.

The following significant judgements have been identified:

	Note reference
Impairment of receivables	3.1
Debtor costs	3.2
Share-based payments	11.3
Normal and deferred taxation	12
Retirement benefits	11.5
Useful lives and residual values of fixed assets	15

2. Risk Management

Risk Management disclosures are categorised as follows:

- Credit Risk

The risk that the counterparty to the financial instruments that Lewis Group holds will cause loss to Lewis Group as a result of the counterparty failing to discharge its obligations.

- Price Risk

The risk that the fair value of future cash flows of a financial instrument that Lewis Group holds will fluctuate because of changes in market prices, other than due to the interest rate risk or currency risk.

- Interest Rate Risk

The risk that the fair value or future cash flows of financial instrument (whether an asset or liability) will fluctuate because of changes in market interest rates.

Lewis Group Limited: Consolidated Financial Statements

Notes to the annual financial statements (continued)

for the year ended 31 March 2017

2. Risk Management (continued)

- Currency Risk

The risk that the fair value of future cash flows of a financial instrument (whether an asset or liability) will fluctuate because of changes in the foreign exchange rates.

- Liquidity Risk

The risk that Lewis Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by cash or another financial asset.

- Insurance Risk

The risk that results from fluctuations in the timing, frequency and severity of insured events. It includes the risk that premiums may be insufficient to compensate for future claims and that provisions for reported and unreported claims are inadequate.

- Actuarial Risk

The risk that defined benefit liabilities expose the Group to the risk of these promised benefits exceeding the accumulated assets set aside to meet these obligations which will result in additional funding from the Group.

The risk disclosures per risk category have been set out as follows:

	Note reference
- Credit Risk	
Trade receivables	3.1
Insurance investments	5.1
Reinsurance assets	5.3
Cash	6.1
- Price Risk	
Insurance investments	5.1
Borrowings	6.1
- Interest Rate Risk	
Trade receivables	3.1
Insurance investments	5.1
Net Finance Costs	6.2
- Currency Risk	
Net Finance Costs	6.2
Investment in foreign subsidiaries	18
- Liquidity Risk	
Borrowings	6.1
- Insurance Risk	
Reinsurance and insurance liabilities	5.4
- Actuarial Risk	
Defined benefit Retirement Plans	11.5.3
Post-Retirement Healthcare Benefits	11.5.4

Lewis Group Limited: Consolidated Financial Statements

Notes to the annual financial statements (continued)

for the year ended 31 March 2017

3. Trade and other receivables and debtor costs

3.1 Trade receivables

	Group	
	2017	2016
	Rm	Rm
Trade and other receivables		
Instalment sale and loan receivables	6 107.1	6 482.6
Unearned provisions	(525.9)	(606.3)
Provision for unearned maintenance income	(320.0)	(376.5)
Provision for unearned finance charges and unearned initiation fees	(205.9)	(229.8)
	5 581.2	5 876.3
Net instalment sale and loan receivables	(1 560.6)	(1 533.6)
Provision for impairment	4 020.6	4 342.7
Other receivables	205.2	171.6
	4 225.8	4 514.3
Debtors' impairment provision as % of net debtors	28.0%	26.1%

Amounts due from instalment sale and loan receivables after one year are reflected as current, as they form part of the normal operating cycle. The credit terms of instalment sale and loan receivables range from six to 36 months.

Accounting Policies

Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. They are recognised initially at fair value and are subsequently measured at amortised cost using the effective interest rate, less a provision for impairment when there is objective evidence that a receivable is impaired. Impaired receivables are carried at the net present value of the estimated future cash flow from such accounts, discounted at the original interest rate implicit in the credit agreement. Estimated future cash flows are projected utilising the payment ratings which measure the customer's actual payments received over the lifetime of the account relative to the instalments due in terms of the contract. Changes in the impairment provision are recognised in the income statement.

If collection is expected in one year or less or in the normal operating cycle of the business, if longer, they are classified as current assets. If not, they are presented as non-current assets.

Significant accounting estimates and judgements

Impaired receivables are carried at their net present value of the expected cash flows from such accounts, discounted at the original effective interest rate implicit in the credit agreement. Estimated future cash flows are projected utilising the payment ratings. Payment ratings assess the customer's actual payment pattern as compared to the contractual payments. Customer payment ratings are affected by the overall economic and credit environment such as the levels of employment and interest rates and, consequently, the impairment provision will be dependent on the changing financial circumstances of our customers.

Credit risk of trade receivables

Credit risk is the risk of suffering financial loss, should any of the Group's customers and counterparties fail to fulfil their contractual obligations with the Group. The main credit risk faced is that customers will not meet their payment obligations in terms of the sale agreements concluded.

Credit granting

The Group has developed advanced credit-granting systems to properly assess the customer. The credit underwriting process flows through the following stages:

- Credit scoring: this involves the gathering of appropriate information from the client, use of credit bureaus and third parties such as employers. These input variables are run through the various

Lewis Group Limited: Consolidated Financial Statements

Notes to the annual financial statements (continued)

for the year ended 31 March 2017

3. Trade and other receivables and debtor costs (continued)

3.1 Trade receivables (continued)

credit scorecards. Lewis deals with its new customers and existing customers differently when credit scoring takes place.

The process differs as follows:

- For new customers, application risk scorecards predict the risk with the emphasis for such an evaluation on information from credit bureaus and third-party information.
- For existing customers, behavioural scorecards have been developed to assess the risk through predictive behaviour with the emphasis on the customer's payment record with Lewis, bureau and other information being considered.
- Assessing client affordability: this process involves collecting information regarding the customer's income levels, expenses and current debt obligations. Lewis has its own priority expense model based on surveys conducted with customers in addition to the National Credit Regulator's expense table.
- Determining the credit limit for the customer: the customer's risk score determined by the scorecard together with the expense assessment and outstanding obligations are used to calculate a credit limit within the customer's affordability level.

The credit granting systems enable the Group to determine its appetite for risk. In determining the acceptable level of risk, the potential loss is weighed up against the revenue potential using the predictive behavioural models inherent in the credit-granting system. The Group monitors any variances from the level of risk that has been adopted and adjusts the credit-granting process on a regular basis.

The Group manages its risk effectively by assessing the customer's ability to service the proposed monthly instalment. However, collateral exists in that ownership of merchandise is retained until the customer settles the account in full.

Impairment provision

The customer's payment profile is managed using payment ratings. Payment ratings are determined on an individual customer level and aggregated over all the customer's sub-accounts. Payment ratings measure the customer's actual payments received over the lifetime of the account relative to the instalments due in terms of the contract. These payment ratings are used to categorise and report on customers at the store level to follow up the slow paying and non-performing customers. There are 13 payment rating categories a customer can fall into following the monthly assessment.

The payment rating is integral to the calculation of the debtor's impairment provision. Impaired receivables are carried at their net present value of the estimated future cash flows from such accounts, discounted at the original effective interest rate implicit in the credit agreement. Estimated future cash flows are projected utilising the payment ratings.

The management of the debtor book and the determination of the impairment provision utilises the payment rating as a leading indicator. Past customer behaviour as reflected in the payment ratings determine future expected collections for the purpose of the impairment provision. The impairment provision being the result of the payment ratings is a key indicator to the ultimate cash recovery expected for each individual customer.

The impairment calculation is performed on a monthly basis taking into account the payment behaviour of the debtors book having regard to the payment rating and age of the debtors account. Various profiles of the impairment provision are prepared monthly. The credit risk systems (the system that monitors the customer's payment behaviour post-credit granting) also produces customer payment data. The aforementioned and the key indicators are monitored by senior management to analyse and assess the state of the debtors book. Daily collection statistics are also collated to identify trends early.

Lewis Group Limited: Consolidated Financial Statements

Notes to the annual financial statements (continued)

for the year ended 31 March 2017

3. Trade and other receivables and debtor costs (continued)

3.1 Trade receivables (continued)

The key indicators that are reviewed include, inter alia, the following:

- Number of satisfactorily paid customers. While the expectation is that the gross receivables would be the key indicator, this is not the case as there is a distortion created by the slow-paying and non-performing customer's balances growing faster than satisfactory paid customers. The key operational objective is to have as many satisfactory paid customers as possible as it is the Group's expectation that these customers will settle their accounts, albeit that certain categories of satisfactory paid customers may settle past their contractual term. Satisfactory paid customers are the source of future repeat business which is one of the core strengths of the business model.
- The level of impairment provision applicable to the payment rating and the trend thereof over the months. This is correlated with collection statistics and customer payment data produced by the credit risk systems.

Contractual arrears

The key aspect of the arrears calculation is Lewis's policy not to reschedule arrears nor to amend the terms of the original contract. In other words, the contractual arrears calculated is the actual arrears in terms of the originally signed agreement.

From the onset of the agreement, contractual arrears is calculated by comparing payments made life to date with the originally calculated instalments due life to date, causing a customer who is paying less than the required contracted instalment to immediately fall into arrears. Once the customer exceeds the term of the agreement by paying less than the required contracted instalments, the full balance owing will be in arrears. The Group does not consider arrears the leading indicator, but rather payment ratings for the reasons mentioned above.

Lewis Group Limited: Consolidated Financial Statements

Notes to the annual financial statements (continued)

for the year ended 31 March 2017

3. Trade and other receivables and debtor costs (continued)

3.1 Trade receivables (continued)

Combined impairment and contractual arrears table

The table reflects the following:

- A summary of the four main groupings of payment ratings describing payment behaviour. The payment ratings categorise individual customers into 13 payment categories. For purposes of this table, the payment ratings have been summarised into four main groupings.
- For each of the four main groupings of payment ratings, the following is disclosed:
 - Number of customers.
 - Gross receivables. Note that unearned provisions have not been allocated to this amount.
 - Impairment provision allocated to each grouping.
 - Contractual arrears for each grouping have been categorised by number of instalments in arrears.

Gross Debtor Analysis

MARCH 2017	Customer grouping	Number of Customers Total	Gross Receivables R'000	Impairment Provision R'000	Total Arrears R'000	Instalments in arrears					
						1 R'000	2 R'000	3 R'000	4 R'000	> 4 R'000	
Satisfactory paid	Customers fully up to date including those who have paid 70% or more of amounts due over the contract period. The provision in this category results from <i>in duplum</i> provision.	No	422 070	3 507 921	27 609	596 271	162 822	114 395	86 010	65 285	167 759
		%	68.5%	57.4%	1.8%						
Slow payers	Customers fully up to date including those who have paid 65% to 70% of amounts due over the contract period. The provision in this category ranges from 13% to 72% of amounts due and includes an <i>in duplum</i> provision.	No	52 078	538 715	192 890	321 871	37 240	36 064	33 849	31 573	183 145
		%	8.4%	8.9%	12.4%						
Non-performing accounts	Customers who have paid between 55% and 65% of amounts due over the contract period. The provision in this category ranges from 24% to 86% of amounts due.	No	47 981	576 347	258 823	366 979	34 413	32 902	31 201	29 727	238 736
		%	7.8%	9.4%	16.6%						
Non-performing accounts	Customers who have paid 55% or less of amounts due over the contract period. The provision in this category ranges from 34% to 100% of amounts due.	No	94 118	1 484 119	1 081 237	1 057 905	67 299	66 090	64 564	63 075	796 877
		%	15.3%	24.3%	69.2%						
Total		616 247	6 107 102	1 560 559	2 343 026	301 774	249 451	215 624	189 660	1 386 517	
Unearned provisions				(525 900)							
Net instalment sale and loan receivables				5 581 202	28.0%						

Lewis Group Limited: Consolidated Financial Statements

Notes to the annual financial statements (continued)

for the year ended 31 March 2017

3. Trade and other receivables and debtor costs (continued)

MARCH 2016	Customer grouping	Number of Customers Total	Gross Receivables R'000	Impairment Provision R'000	Total Arrears R'000	Instalments in arrears					
						1 R'000	2 R'000	3 R'000	4 R'000	> 4 R'000	
Satisfactory paid	Customers fully up to date including those who have paid 70% or more of amounts due over the contract period. The provision in this category results from <i>in duplum</i> provision.	No	459 390	3 775 137	38 319	641 286	175 898	121 896	90 493	67 565	185 434
		%	68.8%	58.2%	2.5%						
Slow payers	Customers fully up to date including those who have paid 65% to 70% of amounts due over the contract period. The provision in this category ranges from 13% to 72% of amounts due and includes an <i>in duplum</i> provision.	No	54 507	558 758	176 249	313 201	37 684	36 322	33 604	30 913	174 678
		%	8.1%	8.7%	11.5%						
Non- performing accounts	Customers who have paid between 55% and 65% of amounts due over the contract period. The provision in this category ranges from 24% to 86% of amounts due.	No	50 690	589 858	241 999	353 286	35 071	33 189	31 195	29 501	224 330
		%	7.6%	9.1%	15.8%						
Non- performing accounts	Customers who have paid 55% or less of amounts due over the contract period. The provision in this category ranges from 34% to 100% of amounts due.	No	103 495	1 558 864	1 077 046	1 068 377	70 458	68 649	66 504	64 447	798 319
		%	15.5%	24.0%	70.2%						
Total		668 082	6 482 617	1 533 613	2 376 150	319 111	260 056	221 796	192 426	1 382 761	
Unearned provisions			(606 354)								
Net instalment sale and loan receivables			5 876 263	26.1%							

Lewis Group Limited: Consolidated Financial Statements

Notes to the annual financial statements (continued)

for the year ended 31 March 2017

3. Trade and other receivables and debtor costs (continued)

3.1 Trade receivables (continued)

The ageing of satisfactory paid receivables past due but not impaired is as follows:

	Group	
	2017	2016
	Rm	Rm
Satisfactory paid arrears		
1 instalment in arrears	162.8	175.9
2 instalments in arrears	114.4	121.9
3 instalments in arrears	86.0	90.5
4 instalments in arrears	65.3	67.6
5 or more instalments in arrears	167.8	185.4
Satisfactory paid receivables past due but not impaired	596.3	641.3

An *in duplum* provision of R27.6 million (2016: R38.3 million) has been provided across the arrears categories for satisfactory paid customers.

The total *in duplum* provision is R29.1 million (2016: R39.8 million).

Interest rate risk

Interest rates charged to customers are fixed at the date the contract is entered into. Consequently, there is no interest rate risk associated with these contracts during the term of the contract.

The average effective interest rate on instalment sale and loan receivables is 22.5% (2016: 22.2%) and the average term of the sale is 32.6 months (2016: 32.8 months).

Fair value

In terms of paragraph 29(a) of IFRS 7, disclosure of fair value is not required as trade receivables form part of a normal operating cycle and the carrying value of trade receivables is a reasonable approximation of fair value.

3.2 Debtor costs

	Group	
	2017	2016
	Rm	Rm
Bad debts, repossession losses and bad debt recoveries	1 038.5	765.8
Movement in debtors' impairment provision	27.0	239.3
Closing balance	1 560.6	1 533.6
Opening balance	(1 533.6)	(1 294.3)
	1 065.5	1 005.1
Debtor costs as a % of net instalment sale and loan receivables	19.1%	17.1%

Accounting policy

Debtor costs are bad debts written off, net of recoveries, plus the movement in the debtors' impairment provision.

Significant accounting estimate and judgement

The Group employs a store-based collection system which allows the collection staff to deal with customers face to face, thus maximising collections and minimising debtor's costs. Bad debt write-off's are initiated where the customer payment behaviour cannot be rehabilitated. Bad debts result where the customer's account is written off or the goods repossessed. The decision to write-off will take into account where applicable, recent payment behaviour, payment ratings, age of the account, whether the customer has exceeded their contractual terms and arrears.

Lewis Group Limited: Consolidated Financial Statements

Notes to the annual financial statements (continued)

for the year ended 31 March 2017

4. Revenue

	Group	
	2017 Rm	2016 Rm
4.1 Revenue	5 592.1	5 785.0
Merchandise sales	2 607.9	2 667.7
Finance charges and initiation fees earned	1 451.8	1 426.3
Insurance revenue (refer to note 4.2)	822.3	908.2
Ancillary services	710.1	782.8

Accounting policies

Revenue

Revenue is recorded at the fair value of the consideration received or receivable and comprises merchandise sales net of discounts, earned finance charges, earned maintenance contracts, cartage and insurance premiums earned, net of reinsurance premiums paid. Value added tax is excluded.

(i) Merchandise sales

Revenue from the sale of merchandise is recognised on the date of delivery. Sales are mainly conducted as follows:

- by instalment sale and loan agreements. Such agreements are subject to credit legislation in the jurisdictions that the Group operates.
- cash and open accounts

(ii) Finance charges and initiation fees earned

For contracts concluded in South Africa, finance charges are recognised by reference to the daily principle outstanding and the effective interest rate implicit in the agreement. For contracts concluded outside South Africa, finance charges are recognised on a basis which approximates the effective interest rate. Initiation fees are recognised over the period of the contract on an effective yield basis.

(iii) Insurance revenue

Insurance revenue consists of gross insurance premiums and reinsurance commission earned less reinsurance premiums. Insurance premiums are recognised on a straight-line basis over the period of the contract, after an appropriate allowance is made for commission and reinsurance. Reinsurance commissions are earned on a straight-line basis over the period of the contract.

(iv) Ancillary services

Revenue from maintenance contracts is recognised as follows:

- the income is deferred until the expiry of the suppliers warranty in terms of the contractual arrangement with suppliers which is one year.
- for the two years of the maintenance contract, revenue is recognised on an expected cost basis which defers revenue in line with the expected cost of rendering the service under the maintenance contract.

Revenue from the provision of other services (delivery, service fees, club income and sundry revenue) is recognised when the services are rendered.

Trading cycle

The Group's trading cycle, consistent with prior financial periods, ends on the fifth day after the month being reported on, unless such day falls on a Sunday, in which case it ends on the fourth day.

Lewis Group Limited: Consolidated Financial Statements

Notes to the annual financial statements (continued)

for the year ended 31 March 2017

4. Revenue (continued)

4.2 Insurance revenue

	Group	
	2017 Rm	2016 Rm
Gross premiums written	205.6	734.1
Reinsurance premiums outwards	(30.7)	(245.3)
Net premiums written	174.9	488.8
Changes in unearned premiums, net of reinsurance	438.5	162.7
Net premiums earned	613.4	651.5
Reinsurance commission	208.9	256.7
Insurance revenue	822.3	908.2

In the current year, the insurance revenue note has been expanded to present gross premiums written and changes in unearned premiums, net of reinsurance separately to provide enhanced disclosure of the insurance revenue in light of the move from term to monthly insurance policies. These amounts were previously included in the gross earned insurance premium. The 2016 amounts have been reclassified to conform to the current period disclosure.

5. Insurance

5.1 Insurance investments

	Group	
	2017 Rm	2016 Rm
Listed investments		
Fixed income securities – available-for-sale	455.9	432.0
Unlisted Investments		
Money market – available-for-sale	294.9	1 236.5
	750.8	1 668.5
Analysed as follows:		
Non-current	455.9	432.0
Current	294.9	1 236.5
	750.8	1 668.5
Movement for the year		
Beginning of the year	1 668.5	1 842.6
Additions to investments	2 253.8	1 574.8
Disposals of investments	(3 184.6)	(1 654.4)
Fair value adjustment	13.1	(94.5)
End of the year	750.8	1 668.5

A register of listed investments is available for inspection at the Company's registered office.

Lewis Group Limited: Consolidated Financial Statements

Notes to the annual financial statements (continued)

for the year ended 31 March 2017

5. Insurance (continued)

5.1 Insurance investments (continued)

Accounting policy

Financial assets

Investments are classified, based on the purpose for which the investment was acquired. The classification is determined on initial recognition.

Available-for-sale assets are assets designated as available-for-sale or those assets that cannot be classified in any of the other categories of financial instruments as set out in IAS 39. Available-for-sale financial assets are included in non-current assets, unless management intends to dispose of the investment within 12 months of the balance sheet date.

Purchases and sales of financial assets are recognised on the trade date, being the date that the Group commits to the transaction. The financial assets are initially recognised at their fair value with transaction costs being added to their carrying value in respect of those classified as available-for-sale assets. Available-for-sale assets are subsequently carried at fair value and are valued by reference to quoted bid prices at the close of business on the balance sheet date or, where appropriate, by discounted cash flow with maximum use of market inputs.

Unrealised gains and losses arising from a change in fair value of available-for-sale investments are recognised in other comprehensive income. When investments classified as available-for-sale are sold or impaired, the accumulated fair value adjustment is included in the income statement as gains and losses on investment.

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For debt securities, if any such evidence exists, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement – is removed from equity and recognised in the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

Credit risk

Fixed income securities are almost entirely risk-free government bonds or government-traded securities.

The money market investments are invested with credit-worthy financial institutions. The Group uses Moody's credit ratings:

Financial institutions	Credit Rating (as per Moody)		Group	
	Foreign	Local	2017 Rm	2016 Rm
FNB	Baa2	P-2	60.8	261.9
ABSA	Baa2	P-2	49.0	233.1
Nedbank	Baa2	P-2	65.0	228.1
Standard Bank	Baa2	P-2	53.0	227.1
Investec	Baa2	P-2	53.0	218.0
Other			14.1	68.3
Total			294.9	1 236.5

Both the foreign and local ratings as at 31 March 2017 are provided. Foreign ratings are heavily influenced by the country's overall credit rating.

Lewis Group Limited: Consolidated Financial Statements

Notes to the annual financial statements (continued)

for the year ended 31 March 2017

5. Insurance (continued)

5.1 Insurance investments (continued)

Price risk

There is exposure to securities price risk because of investments held by Monarch Insurance Company Limited ("Monarch"). These investments are classified as available-for-sale investments.

Monarch holds investments in order to meet the insurance liabilities and solvency margins required by the Short-term Insurance Act of 1998. The investments are managed by Sanlam Investment Management Proprietary Limited ("Sanlam") on Monarch's behalf.

The overall management objectives of the Monarch investment portfolio are:

- Preservation of capital over the long-term
- Managing market risk over the short- to medium-term
- To ensure the portfolio is adequately diversified

Monarch's board controls the investment strategy adopted by Sanlam. At each of the board's quarterly meetings, a comprehensive report from Sanlam is presented and discussed. Particular emphasis is placed on:

- Current market conditions and future expectations
- Asset allocations considering the above
- Returns under each asset category
- Detailed reviews of the positioning of the bond portfolio
- Recommendations of the asset manager going forward

The Monarch board considers the recommendations of the asset managers. The investment strategy is then formulated for the following quarter and authority given to the chief financial officer to implement the strategy. The performance of this portfolio is presented to the Group's Audit Committee on a quarterly basis.

The market risk of the fixed security portfolio is monitored through the modified duration of the portfolio, a measure which approximates the movement in the fair value of such securities relative to interest rate movements. The modified duration of the fixed income portfolio at the respective year-ends and the JSE All-Bond Index are as follows:

	2017	2016
Modified duration of Monarch's fixed income portfolio	7.3	7.4
Modified duration of the JSE All Bond index	7.2	6.8

Interest rate risk

Interest rate volatility arises from insurance investments in two ways:

- Money market deposits in the form of negotiable certificates of deposits
- Fixed income securities

The coupon rates on both money market deposits and fixed income securities are fixed to maturity. The sensitivity analysis below deals with changes in the coupon rate on reinvestment.

The interest rate prevailing on money market deposits at year-end was 7.0% (2016: 7.4%). Assuming the current levels of money market deposits throughout the year, the impact of changes to the coupon rate on net profit after tax is as follows:

	2017	2016
+50 basis points	1.4	6.0
-50 basis points	(1.4)	(6.0)

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Notes to the annual financial statements (continued)

for the year ended 31 March 2017

The interest rate on fixed income securities prevailing at year-end was 8.1% (2016: 7.0%). Assuming no change in current level of fixed income securities, the impact of changes in the coupon rate on net profit after tax is as follows:

	2017	2016
+50 basis points	2.7	2.7
-50 basis points	(2.7)	(2.7)

Fair value hierarchy

The following table presents the assets recognised and subsequently measured at fair value:

	Level 1 Rm	Level 2 Rm	Total Rm
2017			
Available-for-sale assets:			
Insurance investments:			
Fixed income securities	–	455.9	455.9
Money market	–	294.9	294.9
	–	750.8	750.8
2016			
Available-for-sale assets:			
Insurance investments:			
Fixed income securities	432.0	–	432.0
Money market	–	1 236.5	1 236.5
	432.0	1 236.5	1 668.5

All government and corporate bonds were transferred from Level 1 to Level 2 based on management's current assessment of all active markets for debt instruments. There were no other significant transfers between Level 1 and Level 2.

A description of the categorisation of the valuation techniques used to value the assets at fair value is set out below:

Level 1:

Financial instruments valued with reference to quoted prices in active markets where the quoted price is readily available and the price represents actual and recurring market transactions on an arm's length basis. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.

Level 2:

Financial instruments valued using inputs other than quoted prices as described for Level 1, but which are observable for the asset, either directly or indirectly, such as:

- Quoted prices for similar assets in an active market
- Quoted prices for identical or similar assets in inactive markets
- Valuation model using observable inputs
- Valuation model using inputs derived from/corroborated by observable market data

Level 3:

Financial instruments valued using inputs that are not based on observable market data. The Group does not have any assets that fall into this category.

Lewis Group Limited: Consolidated Financial Statements

Notes to the annual financial statements (continued)

for the year ended 31 March 2017

5. Insurance (continued)

5.2 Investment income

	Group	
	2017	2016
	Rm	Rm
Interest – insurance business	104.6	85.3
Dividends from listed investments – insurance business	–	19.7
Realised gain on disposal of insurance investments	0.3	495.6
	104.9	600.6

The move from term to monthly insurance policies will significantly reduce the capital required by the Group's insurance subsidiary. Consequently, to limit the risk, the insurance subsidiary sold in the prior year the equity and a large portion of the bond portfolio realising a capital gain of R495.6 million which was included in investment income, in the 2016 financial year.

Accounting policy

Investment income is recognised as follows:

- Interest on investments is recognised on a time proportion basis taking into account the effective interest rate method on the assets.
- Dividends are recognised when the right to receive payment is established.
- When investments classified as available-for-sale are sold or impaired, the accumulated fair value adjustment is included in the income statement as gains and losses on insurance investments.

5.3 Reinsurance assets

	Group	
	2017	2016
	Rm	Rm
Reinsurer's share of unearned premiums	123.8	364.0
Opening balance	364.0	456.1
Recognised in income statement	(240.2)	(92.1)
Reinsurer's share of insurance provisions	28.4	33.3
Opening balance	33.3	25.7
Recognised in income statement	(4.9)	7.6
Total reinsurance assets	152.2	397.3

Accounting policies

The reinsurer's share of unearned premiums and insurance provisions is dependent on the expected claims and benefits arising under the related reinsured insurance contracts and is measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of the reinsurance contract. Reinsurance assets are recognised in respect of unearned premiums, outstanding claims and claims incurred but not yet reported and separately disclosed under current assets.

The Group assesses its reinsurance assets for impairment. If there is objective evidence that the reinsurance asset is impaired, the Group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the income statement. Impairment losses on reinsurance assets are calculated in the same manner as impairment losses on financial assets.

Credit risk

Re-insurance is placed with Constantia Insurance Company Limited ("Constantia"). Constantia has been given a rating of A-(ZA) by Global Credit Ratings Co.

Lewis Group Limited: Consolidated Financial Statements

Notes to the annual financial statements (continued)

for the year ended 31 March 2017

5.4 Reinsurance and insurance liabilities

	Group	
	2017 Rm	2016 Rm
Unearned premiums	412.1	1 090.8
Opening balance	1 090.8	1 345.6
Recognised in income statement	(678.7)	(254.8)
Due to reinsurers	0.3	98.4
Other reinsurance and insurance liabilities	206.4	361.2
Opening balance	361.2	396.0
Recognised in income statement	(154.8)	(34.8)
Total reinsurance and insurance liabilities	618.8	1 550.4

Accounting policies

Classification

Insurance contracts are those contracts that transfer significant risk. The Group defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event in terms of the cover given to the insured.

Contracts entered with reinsurers under which the Group's insurer is compensated for losses on contracts issued by it and that meet the requirements for insurance contracts are classified as reinsurance contracts held. Insurance contracts entered into by the Group's insurer under which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts.

Provision for unearned premiums

The provision for unearned premiums represents that part of the current year's premiums relating to risk periods that extend to the subsequent years. The unearned premiums are calculated on a straight-line basis over the period of the contract.

Unexpired risk reserve

Provision will be made by the Group for underwriting losses if it is anticipated that the unearned premiums at reporting date will not be sufficient to cover future claims, including claims handling fees and related administration costs. This liability adequacy test is performed annually to ensure the adequacy of short-term insurance liabilities.

Reinsurance

Income from reinsurance contracts is deferred over the period of the related reinsurance contract on a straight-line basis and is recognised as a current liability.

Reinsurance liabilities are premiums payable for reinsurance contracts.

Outstanding claims

Provision is made for the estimated final cost of all claims notified but not settled at the accounting date and claims arising from insurance contingencies that occurred before the close of the accounting period, but which had not been reported by that date. Claims and expenses are charged to income as incurred based on the estimated liability for compensation owed to insurance policyholders. The Group's own assessors individually assess claims. Outstanding claims provisions are not discounted.

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Notes to the annual financial statements (continued)

for the year ended 31 March 2017

5. Insurance (continued)

5.4 Reinsurance and insurance liabilities (continued)

Insurance risk

The risks covered under insurance contracts entered into with customers by the Group's insurer, Monarch Insurance Company ("Monarch"), and external insurers in the foreign territories are as follows:

- replacement of customer's goods in the event of damage or theft of goods;
- settlement of customer's outstanding balance in the event of death or disability; and
- settlement of customer's outstanding balance, should the customer become unemployed after three months subsequent to the sale.

As Monarch is part of the Group, the underwriting of the above insurance risks forms part of the credit assessment made prior to entering an instalment sale or loan with the customer for the purchase of goods.

The risk under the insurance contract is the possibility that the insured events as detailed above occur and the uncertainty of the amount of the resulting claim. By the very nature of the insurance contract, this risk is random and therefore unpredictable.

The principle risk that the Group faces is that the actual claims exceed the amount of the insurance claims provisions. This could occur because the frequency or severity of claims are greater than estimated. Insurance events are random and the actual number of claims will vary from year-to-year from the estimated claims provision established using historical claims patterns.

The development of insurance claims provisions provides a measure of the Group's ability to estimate the ultimate value of the claims. The Group does not underwrite long-term risks and, consequently, the uncertainty about the amount and timing of claim payments is limited. Regular estimates of claims are performed in reviewing the adequacy of the insurance claims provisions. Claims development is reviewed by management on a regular basis. Insurance claim provisions will generally be settled within one year.

The frequency and severity of claims can be affected due to unforeseen factors such as patterns of crime, AIDS and employment trends. The Group manages these risks through its underwriting strategy, adequate reinsurance arrangements and proactive claims handling. The geographical spread of the Group ensures that the underwritten risks are well-diversified. No significant concentrations of insurance risk exist.

Reinsurance is used to manage insurance risk. This does not discharge Monarch's liability as a primary insurer. If a reinsurer fails to pay a claim for any reason, Monarch still remains liable for the payment to the policyholder. There is some exposure to concentration risk with individual reinsurers due to the nature of the reinsurance market and the restricted range of reinsurers that have acceptable credit ratings.

A proportional reinsurance arrangement has been entered into by Monarch to facilitate the transfer of 40% of the risk under these policies to an external reinsurer. Catastrophe cover has been placed with third-party insurers and reinsurers in order to reduce the potential impact of a single event on the earnings and capital of Monarch. Due to the nature of the insurance risk, claims can be measured reliably. Past experience has indicated that claims provision estimates approximately the actual claims costs. The insurance result is dependent on the trend in the Group's merchandising sales. There is no insurance business other than with the Group's customers.

Regulatory requirements

The Group's wholly-owned Insurance Company, Monarch Insurance Company Ltd ("Monarch"), is subject to the regulations as set out in the Short-Term Insurance Act of 1998 ("STIA"). The STIA stipulates that an insurer must maintain a minimum solvency margin of 15% of the premium income (after deduction of reinsurance premiums). Monarch has met the requirements of the STIA.

On 1 January 2012 Board Notice 169 of 2011 ("BN169") became effective. BN169 stipulates the requirements for the calculation of the value of assets, liabilities and the capital adequacy requirement of Short-Term Insurers. This new calculation, as part of the Solvency Assessment and Management ("SAM") regime, requires Monarch to hold certain prescribed assets to meet its insurance liabilities and capital adequacy requirement. Monarch has met the requirements of the BN169.

Lewis Group Limited: Consolidated Financial Statements

Notes to the annual financial statements (continued)

for the year ended 31 March 2017

6. Borrowings, cash and net finance cost

6.1 Borrowings, banking facilities and cash

	Group	
	2017 Rm	2016 Rm
Interest-bearing borrowings		
Long-term		
Banking facilities	700.0	1 375.0
	700.0	1 375.0
Short-term		
Banking facilities	225.0	300.0
Bank overdrafts	22.3	–
Domestic Medium Term Note Program	–	300.0
	247.3	600.0
Cash and cash equivalents		
Cash on hand	(788.6)	(587.2)
Net borrowings	158.7	1 387.8
Unutilised facilities		
Banking facilities	2 116.3	1 337.2
Domestic Medium Term Note Program	2 000.0	1 700.0
	4 116.3	3 037.2
Available facilities	4 275.0	4 425.0

Interest rate profile

Interest rate profile of borrowings is as follows:

- Bank borrowings at interest rates linked to three-month JIBAR. The weighted average interest rate at the end of the reporting period is 9.6 % (2016: 9.4%)	925.0	1 675.0
- three-year floating note issued under the Group's Domestic Medium Term Note program at 158 basis points above the three-month JIBAR	–	300.0
	925.0	1 975.0

The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates at the end of the reporting period are set out below in terms of years subsequent to reporting date:

Variable interest rates:

1 year	225.0	600.0
2 years	–	375.0
3 years	700.0	1 000.0
4 years	–	–
	925.0	1 975.0

The above borrowings are unsecured. The Group has committed facilities with banks and financial institutions of R 2 275 million (2016: R 2 425 million) and has established a Domestic Medium-Term Note program ("DMTN") in October 2013, under which the Group can issue notes up to R2 billion.

Lewis Group Limited: Consolidated Financial Statements

Notes to the annual financial statements (continued)

for the year ended 31 March 2017

6. Borrowings, cash and net finance cost (continued)

6.1 Borrowings, banking facilities and cash (continued)

Accounting policies

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and deposits held on call with banks, bank overdrafts and demand loans. Cash and cash equivalents are recognised initially at fair value and are subsequently measured at amortised cost using the effective interest rate.

Capital management

	Group	
	2017	2016
	Rm	Rm
Interest-bearing borrowings	947.3	1 975.0
Less: cash and cash equivalents	(788.6)	(587.2)
Net debt	158.7	1 387.8
Shareholders equity	5 445.3	5 449.4
Gearing ratio	2.9%	25.5%

Consistent with others in the industry, capital is monitored on the basis of the gearing ratio. This ratio is calculated as net debt divided by equity capital. Net debt is calculated as total interest-bearing borrowings less cash and cash equivalents.

The Group's objectives when managing capital are to:

- Safeguard the Group's ability to continue as a going concern.
- Provide returns for shareholders.
- Provide benefits for other stakeholders.
- Maintain an optimal capital structure as approved by the board.

In order to maintain the optimal capital structure, dividends paid to shareholders may be adjusted, capital could be returned to shareholders or new shares could be issued.

During the 2017 financial year, the strategy was to reduce the gearing significantly, which in the current credit conditions is considered to be prudent.

Credit risk

Credit risk may also arise when an entity has its credit rating downgraded causing the fair value of the Group's investment in that entity's financial instruments to fall. The credit ratings of the financial institution's holding deposits on our behalf and those whose securities we hold are monitored on a regular basis.

Deposits are placed with high-quality South African institutions. Included in the cash on hand and deposits are bank balances held in foreign currency amounting to R 85.7 million (2016: R58.3 million).

Lewis Group Limited: Consolidated Financial Statements

Notes to the annual financial statements (continued)

for the year ended 31 March 2017

The Group's cash and cash equivalents was invested in the following financial institutions:

Financial institutions	Credit Rating (as per Moody)		Group	
	Foreign	Local	2017 Rm	2016 Rm
FNB	Baa2	P-2	37.3	371.8
ABSA	Baa2	P-2	360.7	211.0
Investec	Baa2	P-2	193.0	–
Standard Bank	Baa2	P-2	193.4	–
Other			4.2	4.4
Total			788.6	587.2

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of committed facilities. Due to the dynamic nature of the underlying business, the Group maintains flexibility in funding through the use of committed facility lines.

Management monitors the Group's cash flows through the monitoring of actual inflows and outflows against forecasted cash flows and the utilisation of borrowing facilities. A quarterly analysis is presented to the Audit Committee.

As noted above, the Group has adequate facilities to meet its liquidity requirements.

Fair value

The fair value of borrowings approximates its carrying value as it is linked to market-related interest rates.

6.2 Net finance costs

	Group	
	2017 Rm	2016 Rm
Interest paid bank loans and other	174.3	158.4
Interest received bank and other	(39.4)	(14.0)
Forward exchange contracts	13.5	(8.3)
Net finance costs	148.4	136.1

Accounting policies

Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are recognised in the income statement.

Foreign exchange gains and losses that relate to forward exchange contracts are presented in the income statement, within net finance costs.

Translation differences on assets and liabilities carried at fair value are included in the fair value gain or loss.

Derivative instruments

Derivative instruments are utilised to hedge exposure to foreign currency fluctuations. Derivatives are recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. These derivative instruments have been classified as fair value through profit and loss and changes in the fair value are recognised in the income statement.

Lewis Group Limited: Consolidated Financial Statements

Notes to the annual financial statements (continued)

for the year ended 31 March 2017

6. Borrowings, cash and net finance cost (continued)

6.2 Net finance costs (continued)

Interest rate risk

The principal objective of interest rate management is to:

- Minimise the impact of interest rate volatility on profits in the short-term
- Ensure that the Group is protected from volatile interest rate movements for the medium- to long-term

As part of the process of managing floating rate interest-bearing debt, the interest rate characteristics of borrowings are positioned according to the expected movements in interest rates. The chief financial officer may recommend to the Audit Committee ("the committee") the use of fixed interest debt and interest rate swaps as circumstances dictate. The use of such instruments must be specifically approved by the committee. During the current year, no fixed rate loans or interest rate swaps were entered into.

Interest rate profiles are analysed by the changes in its borrowing levels and the interest rates applicable to the facilities available to the Group. The sensitivity analysis for a 50 basis points change in the interest on net profit after tax is set out below, assuming the current level of borrowings at year-end is maintained throughout the year:

	2017	2016
Interest increases by 50bp	3.7	7.7
Interest decreases by 50bp	(3.7)	(7.7)

Foreign exchange risk

Foreign exchange risk is present in respect of imports of merchandise. Merchandise is sourced from foreign suppliers, particularly in the Far East. In order to minimise exposure to foreign currency fluctuations, forward cover is taken out to cover forward purchase commitments made with foreign suppliers. The Group strives to maintain forward cover for the next six months' purchase commitments.

During the year, 7.2% (2016: 18.4%) of the purchases were in foreign denominated currencies. Below is a summary of the amounts payable under forward contracts:

	Term	Rate	Foreign currency FC'm	Rand equivalent R'm	Fair value (gain)/loss R'm
2017					
US Dollar	Less than 3 months	Rate at 13.39	3.9	52.4	(1.9)
2016					
US Dollar	Less than 3 months	Rate at 14.83	1.5	22.4	(0.7)

Below is a sensitivity analysis of the effect of currency movements of 10% on the year-end valuation of the forward exchange contracts on net profit after tax:

	2017	2016
Currency appreciates by 10%	3.8	1.6
Currency depreciates by 10%	(3.8)	(1.6)

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Notes to the annual financial statements (continued)

for the year ended 31 March 2017

7. Reportable segments

	Lewis Rm	Best Home and Electric Rm	Beares Rm	Group Rm
2017				
Segment income statement				
Total revenue from external customers				
Merchandise sales	1 803.7	307.1	497.1	2 607.9
Other revenue	2 333.3	418.3	232.6	2 984.2
	4 137.0	725.4	729.7	5 592.1
Cost of merchandise sales	(1 065.1)	(188.7)	(268.6)	(1 522.4)
Operating costs	(2 647.7)	(425.7)	(431.5)	(3 504.9)
Segment operating profit before investment income	424.2	111.0	29.6	564.8
Segment operating margin	10.3%	15.3%	4.1%	10.1%
Segment assets ⁽¹⁾	3 357.2	578.7	539.3	4 475.2
Capital expenditure	47.6	2.2	15.2	65.0
Depreciation	71.5	5.3	13.3	90.1
2016				
Segment income statement				
Total revenue from external customers				
Merchandise sales	2 039.5	328.8	299.4	2 667.7
Other revenue	2 525.2	464.5	127.6	3 117.3
	4 564.7	793.3	427.0	5 785.0
Cost of merchandise sales	(1 257.4)	(210.5)	(184.9)	(1 652.8)
Operating costs	(2 606.9)	(439.8)	(270.5)	(3 317.2)
Segment operating profit before investment income	700.4	143.0	(28.4)	815.0
Segment operating margin	15.3%	18.0%	(6.7%)	14.1%
Segment assets ⁽¹⁾	3 759.8	624.1	403.3	4 787.2
Capital expenditure	84.3	6.1	17.0	107.4
Depreciation	68.1	5.7	7.2	81.0

⁽¹⁾ Segment assets include net instalment sale and loan receivables of R4 020.6 million (2016: R4 342.7million) and inventory of R454.6 million (2016: R444.5 million).

Geographical

	South Africa Rm	Namibia Rm	BLS(*) Rm	Total Rm
2017				
Revenue	4 559.0	526.3	506.8	5 592.1
Non-current assets ⁽¹⁾	368.8	22.6	18.3	409.7
2016				
Revenue	4 986.4	382.3	416.3	5 785.0
Non-current assets ⁽¹⁾	408.0	6.8	17.0	431.8

(*) Botswana, Lesotho and Swaziland

⁽¹⁾ Non-current assets are defined as property, plant and equipment and trademarks.

Lewis Group Limited: Consolidated Financial Statements

Notes to the annual financial statements (continued)

for the year ended 31 March 2017

7. Reportable segments (continued)

Accounting policy

Operating segments are reported in a manner consistent with the internal reporting to the chief operating decision makers. The chief operating decision makers, who are responsible for allocating resources and assessing performance of the operating segments, has been identified as the chief executive officer and the chief financial officer.

The Group has identified its reportable segments based on the chains that it operates. These segments reflect how the Group's businesses are managed and reported to the chief operating decision makers. All of the business segments operate in the furniture retail business. Set out below is a summary of the operations in each of the reportable segments of the Group:

(i) Lewis

Lewis sells a range of household furniture, electrical appliances and home electronics to customers in the LSM 4 to 7 categories.

(ii) Best Home and Electric

Best Home and Electric is a retailer of electrical appliances, sound and vision equipment and furniture, targeting the LSM 4 to 7 customer.

(iii) Beares

Beares is a retailer of upmarket furniture, electrical appliances and home electronics to customers in the LSM 6 to 9 categories.

Information regarding the performance of each segment is disclosed in the segmental report. Performance is measured on the basis of the operating profit (which includes the insurance underwriting result), as management believes that this measure is useful in evaluating the results of the segments, both in relation to each other and in relation to their respective competition. Investment income, net finance costs and taxation (i.e. the items that reconcile total segment operating profit to profit attributable to ordinary shareholders) are reviewed on a Group basis. With respect to assets and liabilities, the chief operating decision makers only monitor the trade receivables and inventory for each segment. The remaining assets and the liabilities are reviewed on a Group basis.

The Group's segments report their segmental result and their segment assets (i.e. trade receivables and inventory) in accordance with the Group's accounting policies. There are no significant inter-segmental transactions.

8. Gross profit and inventories

	Group	
	2017 Rm	2016 Rm
Merchandise sales	2 607.9	2 667.7
Cost of merchandise sales	(1 522.4)	(1 652.8)
Purchases	(1 532.5)	(1 677.0)
Movement in inventory	10.1	24.2
Merchandise gross profit	1 085.5	1 014.9
Gross profit percentage	41.6%	38.0%
Inventories		
Cost of merchandise	515.3	503.9
Less: provision for obsolescence	(60.7)	(59.4)
	454.6	444.5

Lewis Group Limited: Consolidated Financial Statements

Notes to the annual financial statements (continued)

for the year ended 31 March 2017

Accounting policy

Inventory, comprising merchandise held for resale, is valued at the lower of cost or net realisable value. Cost is determined using the weighted average basis, net of trade and settlement discounts. It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less variable selling expenses. Provision is made for slow moving, redundant and obsolete inventory.

9. Trade and other payables

9.1 Trade and other payables

	2017 Rm	Group 2016 Rm
Trade payables	78.9	75.1
Employment provisions	63.0	65.2
Accruals and other payables	129.4	129.9
	271.3	270.2

Accounting policies

Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. They are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method.

Trade payable are classified as current liabilities if payment is due within one year or less or in the normal operating cycle of the business if longer. If not, they are presented as non-current liabilities.

Provisions

A provision is recognised when the Group has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Employment provisions

Employee entitlements to annual leave and bonuses are recognised as they accrue to employees. An accrual is made for the estimated provision still owing as a result of services provided by employees up to the balance sheet date.

9.2 Operating leases

	2017 Rm	Group 2016 Rm
Operating lease charged to income statement		
Operating lease payments on a cash flow basis	278.9	243.7
Lease adjustment	–	(0.7)
Operating leases on a straight-line basis	278.9	243.0

Lewis Group Limited: Consolidated Financial Statements

Notes to the annual financial statements (continued)

for the year ended 31 March 2017

9. Trade and other payables (continued)

9.2 Operating leases (continued)

	Group	
	2017	2016
	Rm	Rm
Operating lease commitments		
Payments on a straight-line basis:		
Within one year	193.0	174.3
Two to five years	357.6	268.5
	550.6	442.8
Payments on a cash flow basis:		
Within one year	191.8	177.6
Two to five years	379.5	286.0
	571.3	463.6

The Group leases the majority of its properties under operating leases. The lease agreements of certain store premises provide for a minimum annual rental payment and additional payments determined on the basis of turnover.

Accounting policy

Leases, mainly store rentals, where the lessor retains a significant portion of the risks and rewards of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

10. Capital management

10.1 Earnings

	2017	2016
	Cents	Cents
Earnings per share		
Earnings per share	403.5	1 082.6
Diluted earnings per share	399.1	1 073.9
Headline earnings per share		
Headline earnings per share	400.1	621.7
Diluted headline earnings per share	395.8	616.7
	Gross	Income Tax
	Rm	Effect
		Rm
		Net
		Rm
Headline earnings		
2017		
Attributable earnings	358.0	358.0
Profit on disposal of property, plant and equipment	(2.2)	(1.6)
Profit on disposal of available-for-sale investments	(0.3)	(0.2)
Gain on acquisition of businesses	(1.2)	(1.2)
Headline earnings	354.3	355.0
2016		
Attributable earnings	961.5	961.5
Profit on disposal of property, plant and equipment	(3.7)	(2.7)
Profit on disposal of available-for-sale investments	(495.6)	(406.3)
Gain on acquisition of businesses	(0.4)	(0.4)
Headline earnings	461.8	552.1

Lewis Group Limited: Consolidated Financial Statements

Notes to the annual financial statements (continued)

for the year ended 31 March 2017

10.2 Dividends

	2017 Cents	2016 Cents
Dividends paid per share (cents)		
Final dividend 2016 (2015)	302.0	302.0
Interim dividend 2017 (2016)	100.0	215.0
	402.0	517.0
Dividends declared per share (cents)		
Interim dividend 2017 (2016)	100.0	215.0
Final dividend 2017 (2016)	100.0	302.0
	200.0	517.0
Dividends Paid (Rm)		
	Rm	Rm
Dividend no. 22 declared on 27 May 2015 and paid on 20 July 2015		296.2
Dividend no. 23 declared on 9 November 2015 and paid on 25 January 2016		210.8
Dividend no. 24 declared on 25 May 2016 and paid on 25 July 2016	296.2	
Dividend no. 25 declared on 9 November 2016 and paid on 23 January 2017	98.1	
Dividends received on treasury shares:		
Lewis Stores Proprietary Limited	(37.1)	(47.7)
Lewis Employee Share Incentive Scheme Trust	(0.3)	(0.3)
	356.9	459.0

10.3 Number of shares

	000's	000's
Weighted average number of shares		
Weighted average shares for earnings and headline earnings per share	88 730	88 811
Dilution resulting from share awards outstanding	969	721
Weighted average shares for diluted earnings and headline earnings per share	89 699	89 532
Diluted earnings and diluted headline earnings per share is calculated by adjusting the weighted average number of ordinary shares assuming that all share options will be exercised. The dilution is determined by the number of shares that could have been acquired at fair value (determined as the average annual market price of the shares) less the number of shares that would be issued on the exercise of all the share options.		
Number of ordinary shares in issue		
	000's	000's
Number of shares issued	98 058	98 058
Treasury shares held by:		
Lewis Stores Proprietary Limited	(9 217)	(9 217)
Lewis Employee Share Incentive Scheme Trust	(51)	(342)
Number of shares in issue	88 790	88 499

Lewis Group Limited: Consolidated Financial Statements

Notes to the annual financial statements (continued)

for the year ended 31 March 2017

10. Capital management (continued)

10.4 Equity

	Group	
	2017 Rm	2016 Rm
Share capital and premium		
Share Capital	1.0	1.0
Share premium	2 710.6	2 710.6
Reverse acquisition reserve	(2 123.1)	(2 123.1)
	588.5	588.5
Treasury shares		
Lewis Stores (Pty) Ltd	(477.7)	(477.7)
Lewis Employee Share Incentive Scheme Trust	(2.5)	(18.7)
	108.3	92.1

The average market price paid for treasury shares was R50.45, with the lowest price being R32.99 and the highest R65.90.

On listing, Lewis Group Limited ("Lewis Group") acquired the total shareholding of Lewis Stores Proprietary Limited ("Lewis Stores") through issuing shares to the shareholder at that date. In terms of IFRS 3 requirements for reverse acquisitions, Lewis Stores was the acquirer and Lewis Group the acquiree, although Lewis Group is the holding company and Lewis Stores the subsidiary. The group financial statements were in substance a continuation of the operations of Lewis Stores from the date that the reverse acquisition took place.

10.5 Other reserves

	Fair Value Reserve Rm	Foreign Currency Translation Reserve Rm	Share Based Payment Reserve Rm	Other Rm	Total Rm
2017:					
Opening Balance	(27.8)	22.9	31.6	0.8	27.5
Fair value adjustments of available-for-sale investments	9.6				9.6
Disposal of available-for-sale investments recognised	(0.2)				(0.2)
Movement in foreign currency translation reserve		(11.8)			(11.8)
Share-based payment			(4.0)		(4.0)
Transfer of share-based payment reserve to retained income on vesting			(14.9)		(14.9)
Closing Balance	(18.4)	11.1	12.7	0.8	6.2
2016:					
Opening Balance	449.7	2.1	39.8	0.8	492.4
Fair value adjustments of available-for-sale investments	(71.2)				(71.2)
Disposal of available-for-sale investments recognised	(406.3)				(406.3)
Movement in foreign currency translation reserve		20.8			20.8
Share-based payment			10.3		10.3
Transfer of share-based payment reserve to retained income on vesting			(18.5)		(18.5)
Closing Balance	(27.8)	22.9	31.6	0.8	27.5

Lewis Group Limited: Consolidated Financial Statements

Notes to the annual financial statements (continued)

for the year ended 31 March 2017

10.6 Retained earnings

	Group	
	2017 Rm	2016 Rm
Opening balance	5 329.8	4 845.4
Net profit attributable to ordinary shareholders	358.0	961.5
Distribution to shareholders	(356.9)	(459.0)
Transfer of share-based payment reserve to retained earnings on vesting	14.9	18.5
Retirement Benefit Remeasurements	1.2	(2.3)
Share awards to employees	(16.2)	(34.3)
	5 330.8	5 329.8

Distribution by foreign subsidiaries of all their reserves at balance sheet date will potentially give rise to withholding taxes of R93.2 million (2016: R 94.6 million) which may be offset in certain instances against South African tax.

Accounting policy

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction from the proceeds, net of tax.

Where any group company purchases the company's equity share capital (treasury shares), the consideration paid, including the costs attributable to the acquisition, is deducted from the Group's equity until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of transaction costs, is included in the group's equity. The weighted average number of shares is reduced by the treasury shares for earnings per share purposes. Dividends received on treasury shares are eliminated on consolidation.

11. Directors and employees

11.1 Employee costs

	Group	
	2017 Rm	2016 Rm
Employment costs		
Salaries, wages, commissions and bonuses	905.9	865.6
Retirement benefit costs	68.0	61.2
Share based payments	(4.0)	10.3
Other employment costs	17.1	9.2
	987.0	946.3
Remuneration of key executives		
Salary	13.0	10.8
Bonus	–	9.0
Retirement and medical contributions	2.2	2.2
Gains on share awards vested	8.7	17.4
	23.9	39.4

Key executives comprise the directors of Lewis Stores Proprietary Limited, the main operating subsidiary. Non-executive fees are disclosed in Note 11.2

Lewis Group Limited: Consolidated Financial Statements

Notes to the annual financial statements (continued)

for the year ended 31 March 2017

11. Directors and employees (continued)

11.2 Directors' emoluments

Non-executive directors – fees as directors	Group	
	2017 R'000	2016 R'000
DM Nurek – company	918	888
– for subsidiary	212	203
H Saven – company	740	704
– for subsidiary	265	265
AJ Smart – company	609	578
– for subsidiary	263	263
B van der Ross	597	578
F Abrahams	659	637
	4 263	4 116

	Executive Director – J Enslin (paid by subsidiary)		Executive Director – LA Davies (paid by subsidiary)	
	2017 R'000	2016 R'000	2017 R'000	2016 R'000
Salary	3 443	3 348	2 638	2 566
Bonuses paid during the year	–	2 936	–	2 296
Contributions to pension scheme	551	536	422	411
Contribution to medical aid	127	115	97	88
Gains on share awards	2 911	5 808	2 267	4 602
	7 032	12 743	5 424	9 963

Gains on share awards – executive directors	J Enslin		LA Davies	
	2017	2016	2017	2016
Share awards vested	59 405	59 797	46 269	47 370
Offer date	14 June 2013	13 June 2012	14 June 2013	13 June 2012
Date vested	14 June 2016	13 June 2015	14 June 2016	13 June 2015
Market value on date of vesting	R2 911 439	R5 808 681	R2 267 644	R4 601 522
Gain	R2 911 439	R5 808 681	R2 267 644	R4 601 522

Lewis Group Limited: Consolidated Financial Statements

Notes to the annual financial statements (continued)

for the year ended 31 March 2017

11.2 Directors' emoluments (continued)

Outstanding share awards	2017		2016	
	J Enslin	LA Davies	J Enslin	LA Davies
Lewis Short-Term and Long-Term Executive Performance Scheme - New Scheme:				
30 June 2015 - Short-term award	33 695	25 817	33 695	25 819
30 June 2015 - Long-term award	120 000	90 000	120 000	90 000
28 June 2016 - Short-term award	149 980	114 911		
Lewis Executive Retention Scheme - New Scheme:				
30 June 2015	29 700	23 220	29 700	23 220
Lewis Executive Performance Scheme - Old Scheme:				
14 June 2013: three-year award			50 232	38 819
14 June 2013: five-year award	80 000	60 000	120 000	90 000
Lewis Co-Investment Scheme - Matching Scheme Options - Old Scheme:				
14 June 2013			25 917	20 390
	413 375	313 948	379 544	288 246

In terms of the Lewis Executive Retention Scheme, the Trust holds 31 221 shares (2016: 31 221 shares) on behalf of the above directors by virtue of the investment of their bonuses into the scheme.

Directors' interests

The directors' interests are set out on page 15.

11.3 Share-based payments

	Group	
	2017 Rm	2016 Rm
Value of services provided:		
In respect of share awards granted	(4.0)	10.3

Accounting policy

The Group operates a number of equity-settled share incentive schemes under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of share awards and options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of share awards and options granted, excluding the impact of service and non-market performance vesting conditions. Non-market performance and service vesting conditions are included in the assumptions about the number of options that are expected to become exercisable. The total amount expensed is recognised over the vesting period, which is the period over which all vesting conditions are to be satisfied. At each balance sheet date, the Group revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to equity. Any accelerated vesting of the share awards and options requires immediate recognition of the remaining expense. On vesting, the attributable value of share awards is transferred from the share-based payment reserve to retained income.

Share awards granted by the Company over its equity instruments to the employees of subsidiary undertakings in the Group are treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary and a corresponding credit to equity.

Lewis Group Limited: Consolidated Financial Statements

Notes to the annual financial statements (continued)

for the year ended 31 March 2017

11.3 Share Based Payments (continued)

Significant accounting estimates and judgements

As the fair value of the services received cannot be measured reliably, the services have been valued by reference to the fair value of shares granted. The fair value of such shares is measured at the grant date using the Black-Scholes model. The assumptions used in the Black-Scholes model are as follows:

Weighted average share price	72.99	81.20
Weighted average expected volatility	58.8%	51.1%
Weighted average expected dividend yield	6.7%	5.4%
Weighted average risk-free rate (bond yield curve at date of grant)	7.1%	6.6%

11.4 Share incentive schemes

The following employee share incentive schemes are in operation for directors holding salaried employment office and executives:

Shareholders at a general meeting held on 24 June 2015 approved two new schemes, namely the Lewis Executive Retention Scheme and the Lewis Long-Term and Short-Term Executive Performance Scheme. It is the intention to terminate the two old schemes, namely the Lewis Executive Performance Scheme and the Lewis Co-Investment Scheme once all existing awards have vested or have been forfeited.

	New Schemes		Old Schemes	
	Lewis Executive Retention Scheme	Lewis Long-Term and Short-Term Executive Performance	Lewis Co-Investment Scheme	Lewis Executive Performance
2017				
Beginning of year	131 839	1 240 040	106 881	1 154 744
Granted	–	900 058		–
Forfeited	–	(195 288)		(418 517)
Vested	–	–	(106 881)	(182 894)
End of year	131 839	1 944 810	–	553 333
Maximum awards utilised over the life of the scheme	1 000 000	3 500 000		
Utilised for the scheme to date	131 839	1 944 810		
Invested shares	68 644		–	

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Notes to the annual financial statements (continued)

for the year ended 31 March 2017

11.4 Share incentive schemes (continued)

	New Schemes		Old Schemes	
	Lewis Executive Retention Scheme	Lewis Long-Term and Short-Term Executive Performance	Lewis Co-Investment Scheme	Lewis Executive Performance
2016				
Beginning of year	–	–	188 193	1 406 185
Granted	131 839	1 273 660	–	–
Forfeited	–	(33 620)	–	(34 013)
Vested	–	–	(81 312)	(217 428)
End of year	131 839	1 240 040	106 881	1 154 744
Maximum awards utilised over the life of the scheme	1 000 000	3 500 000		
Utilised for the scheme to date	131 839	1 240 040		
Invested shares	77 781		64 128	

Note: Invested shares are those shares paid through the investment of executives' net bonuses.

Lewis Executive Retention Scheme – New Scheme

In terms of the scheme, senior executives have been offered the right to acquire shares of the Group for no consideration subject to the achievement of performance targets. The Committee will select executives who have achieved the requisite performance targets during the previous financial year as eligible for the scheme. The shares will vest after three years and is conditional upon the executive still being in the employ of the Group other than in the event of death, ill-health, retirement or retrenchment.

These shares are deferred for three years and matching shares equal to the before-tax bonus are awarded for no consideration at the end of the period. The matching share award will lapse, should the executive terminate his or her employment before the completion of the three-year period other than in the event of death, ill-health, retirement or retrenchment.

Lewis Long-Term and Short-Term Executive Performance Scheme (“LSPS”) – New Scheme

Awards made under the LSPS offer executives the right to acquire shares for no consideration, subject to the achievement of performance targets determined by the Committee. The vesting of shares is conditional upon the executive still being in the employ of the Group other than in the event of death, ill-health, retirement or retrenchment.

For purposes of determining the performance targets, awards are categorised as follows:

- Short-term awards means three-year awards or alternative awards in respect of which all portions of the award vest on or before the third anniversary of the grant date.
- Long-term awards means the four-year awards, five-year awards and alternative awards of which any portion of the awards vests after the third anniversary of the grant date.

In respect of short-term targets, performance targets are set at the grant date for the entire period or for each financial year during the performance period. For long-term awards, the performance targets will be set for the entire performance period as at grant date.

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Notes to the annual financial statements (continued)

for the year ended 31 March 2017

11. Directors and employees (continued)

11.4 Share incentive schemes (continued)

For short-term awards, the committee shall select all or any of the performance targets from the following:

- Headline earnings per share
- Quality of debtors book being either level of satisfactory paid customers or debtors costs as a percentage of net debtors
- Gross margin

Current short-term awards under the scheme use all three performance measures.

For long-term awards, the Committee must select the performance targets as follows:

- headline earnings per share (mandatory) and at least one of the targets below:
 - Return on shareholders' equity
 - After-tax return on average capital employed
 - Before-tax return on average assets managed
 - Gearing ratio

Current long-term awards under the scheme use headline earnings per share, return on shareholders' equity and gearing ratio.

Lewis Co-Investment Scheme – Old Scheme

There are no outstanding awards under this scheme and no intention to issue any further awards and the new Lewis Executive Retention Scheme has effectively replaced this scheme.

Lewis Executive Performance Scheme – Old Scheme

The only outstanding award under this scheme is a five-year award, details of which are set out below. There is no intention to issue further awards under this scheme as the new Lewis Long-Term and Short-Term Executive Performance scheme has effectively replaced this scheme.

The performance targets for the outstanding five-year award is net profit attributable to shareholders increasing annually by 6%. It is currently anticipated that no vesting of these share awards will materialise as it is unlikely that the performance criteria will be met.

11.5 Retirement benefits

11.5.1 Retirement plans and benefits

The Group operates a number of retirement funds. All retirement fund assets are held separate from the Group's assets. There are three defined contribution funds; namely the Lewis Stores Provident Fund; the Lewis Stores Namibia Orion Pension Fund for Namibian employees; and the SACCAWU Provident Fund for employees belonging to SACCAWU Trade Union. In addition, there are two defined benefit funds; namely the Lewis Stores Group Pension Fund which was closed to new members on 1 July 1997; and the Lewis Stores Retirement Fund for executive management. Both defined benefit plans are registered under the Pension Funds Act No. 24 of 1956.

The number of employees on these plans are as follows:

	Number of employees	
Lewis Group Pension Fund	106	118
Lewis Stores Retirement Pension Fund	30	28
SACCAWU Provident Fund	2 152	2 436
Lewis Stores Provident Fund	4 294	4 585
Lewis Stores Namibia Orion Pension Fund	595	392

The Group provides a subsidy of medical aid contributions to retired employees. Only those employees employed prior to 1 August 1997 qualify for this benefit. The liability was valued as at 31 March 2016 by a qualified actuary in accordance with the requirements of IAS 19. The Group has a commitment to meet these unfunded benefits.

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Notes to the annual financial statements (continued)

for the year ended 31 March 2017

	Group	
	2017 Rm	2016 Rm
11.5.2 Effects on comprehensive income		
Defined Benefit Retirement Plans (refer to note 11.5.3)	9.7	7.5
Post-Retirement Healthcare Plans (refer to note 11.5.4)	11.3	10.5
Defined Contribution plans (refer to note 11.5.5)	47.0	43.2
Income Statement Charge	68.0	61.2
Actuarial gains and losses included in Other Comprehensive Income:		
Defined Benefit Retirement Plans	3.9	16.1
Post-retirement Healthcare Plans	(5.5)	(13.0)
	(1.6)	3.1
11.5.3 Defined benefit retirement plans		
Amounts recognised in the balance sheet		
Present value of funded obligations	548.7	553.9
Fair value of plan assets	(603.7)	(616.9)
Retirement benefit asset	(55.0)	(63.0)
Present value of unfunded obligations as a liability	2.5	2.5
	(52.5)	(60.5)
Total movement in retirement benefit (asset)/liability		
Present value at the beginning of the year	(60.5)	(75.4)
Income statement charge	9.7	7.5
Current service cost	15.0	12.8
Interest income	(5.3)	(5.3)
Actuarial gains and losses included in other comprehensive income	3.9	16.1
Contributions paid during the year	(5.6)	(8.7)
Present value at the end of the year	(52.5)	(60.5)
Total present value of defined benefit obligations		
Beginning of year	556.4	486.2
Current service cost	15.0	12.8
Interest cost	52.5	36.9
Employee contributions	1.0	1.0
Benefit payments	(38.5)	(29.8)
Actuarial gains and losses recognised in other comprehensive income	(35.2)	49.3
End of year	551.2	556.4
Fair value of defined benefit plan assets		
Beginning of year	616.9	561.6
Employee contributions	1.0	1.0
Employer contributions	5.6	8.7
Interest income	57.8	42.2
Benefit payments	(38.5)	(29.8)
Actuarial gains and losses recognised in other comprehensive income	(39.1)	33.2
End of year	603.7	616.9

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Notes to the annual financial statements (continued)

for the year ended 31 March 2017

11. Directors and employees (continued)

11.5 Retirement benefits (continued)

11.5.3 Defined benefit retirement plans (continued)

Plan assets

The major categories of plan assets as a percentage of the fair value of the total plan assets are as follows:

	2017 %	2016 %
Cash	12.8	11.0
Bonds - listed	16.0	18.5
Equity - listed	42.8	36.5
International equity- listed	20.2	23.1
Other	8.2	10.9
	100.0	100.0

The defined benefit funds are final salary-defined benefit plans. These schemes are valued by an independent actuary on an annual basis in terms of IAS 19 using the projected unit credit method. The latest valuation was carried out as at 1 January 2017.

The above defined benefit retirement plan asset was not subject to the asset ceiling as determined in IFRIC 14 being the maximum economic benefit arising from a future unconditional right to a refund and from reductions in future contributions in excess of the minimum funding requirement.

The employer's future contribution is set on an annual basis in consultation with the fund's actuary.

Accounting policy

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan.

Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, dependent on factors such as age, years of service and compensation.

The Group operates a number of defined benefit and defined contribution plans, the assets of which are held in separate trustee-administered funds. These plans are funded by payments from employees and Group companies, taking into account the recommendations of independent, qualified actuaries. The defined benefit obligation is assessed annually by a qualified actuary, in terms of IAS 19, using the projected unit credit method.

The asset and liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that have terms to maturity approximating the terms of the related pension obligation.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income in the period in which they arise. Past-service costs are recognised immediately in the income statement.

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Notes to the annual financial statements (continued)

for the year ended 31 March 2017

Significant accounting estimates and judgement

The underlying actuarial assumptions underlying the Retirement Benefit asset and liability with a sensitivity analysis are set out below:

Principal actuarial assumptions:	2017	2016
Discount rate	9.60%	9.75%
Inflation rate	7.60%	7.75%
Future salary increases	8.60%	8.75%
Future pension increases	7.60%	7.75%

The weighted average duration of the actuarial liability is 14.5 years (2016: 15 years).

Sensitivity analysis

The effect of a 1% increase and decrease in the following assumptions on the present value of the obligation are shown in the table below:

Assumption	Variation	Change in present value of obligation	
		2017	2016
Discount rate	+1%	(12.3%)	(12.3%)
	-1%	14.7%	14.9%
Salary increases	+1%	3.2%	3.3%
	-1%	(3.2%)	(1.3%)
Pension increases	+1%	10.7%	10.8%
	-1%	(9.5%)	(9.6%)
Mortality	x+1	(2.6%)	(2.5%)
	x-1	2.2%	2.0%

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated.

Assumptions regarding future mortality experience are based on advice, published statistics and experience. The average life expectancy in years of a pensioner retiring at age 65 on valuation date is as follows:

	2017	2016
Male	14.2 years	14.3 years
Female	16.8 years	17.1 years
Actual return on plan assets	2.8%	13.3%

Actuarial risks

The risks faced by Lewis as a result of the defined benefit retirement plans are set out below:

Investment risk is the risk of a fall in the asset values of the fund. This market risk to which the funds are exposed may affect the solvency level of the funds. This is reduced via an investment in a diverse portfolio of assets and a variety of asset managers.

Inflation risk is the risk that salary increases are higher than expected or that inflation itself is higher than expected which then impacts the pension increases, increasing the liabilities. The risk is mitigated via investment in real assets which in the long run are expected to match the increases in liabilities.

The funds have a mismatch risk as a change in the bond yields will have the effect on the liabilities of the fund which are not necessarily matched by an equivalent change in the assets. The risk is substantially covered by the surplus assets in the fund and establishment of a solvency reserve.

Lewis Group Limited: Consolidated Financial Statements

Notes to the annual financial statements (continued)

for the year ended 31 March 2017

11. Directors and employees (continued)

11.5 Retirement benefits (continued)

11.5.3 Defined benefit retirement plans (continued)

Liquidity risk is the risk of not having sufficient cash to pay for withdrawals, pensions and expenses of the fund. This is a risk for the Lewis Group Pension Fund due to it being a closed fund.

Longevity risk is the risk that pensioners live longer than expected. This risk has not been significant in the current membership profile.

The funds are exposed to legislative changes which are closely monitored by the fund's consultant to enable timeous action to be taken to mitigate any changes that emerge.

Trends	Obligation Rm	Experience Adjustments Gain/(loss)	
		Plan Assets Rm	Plan Liabilities Rm
2017	551.2	(39.1)	(35.2)
2016	556.4	33.2	(49.3)
2015	486.2	25.2	(31.2)
2014	446.3	73.4	(16.9)
2013	428.2	40.9	(30.3)

11.5.4 Post-Retirement healthcare benefits

	Group	
	2017 Rm	2016 Rm
Present value of Post-Retirement Healthcare Benefits	99.2	97.7
Present value of unfunded defined benefit obligation (refer to note 11.5.3)	2.5	2.5
	101.7	100.2
Movement in post-retirement healthcare liability		
Present value of liability at the beginning of the year	97.7	104.7
Charged to income statement	11.3	10.5
Current service cost	1.4	1.7
Interest cost	9.9	8.8
Actuarial gains and losses recognised in other comprehensive income	(5.5)	(13.0)
Employer benefit payments	(4.3)	(4.5)
Post-Retirement Healthcare Benefits liability	99.2	97.7

Accounting policy

The Group has an obligation to provide post-retirement medical aid benefits by subsidising medical aid contributions of certain retired employees and ex-gratia pensioners who joined the Group prior to August 1997.

The entitlement to these benefits is conditional on the employee remaining in service up to retirement age. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit pension plans. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. These obligations are valued annually by independent qualified actuaries.

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Notes to the annual financial statements (continued)

for the year ended 31 March 2017

Significant accounting estimates and judgements

The underlying assumptions underlying the Post-Retirement Healthcare Benefit liability with a sensitivity analysis is set out below:

Principal actuarial assumptions:

Health Care Inflation rate	9.20%	9.90%
CPI inflation	7.20%	7.90%
Discount rate	9.80%	10.40%
Average retirement age (years)	63	63

The weighted average duration of the actuarial liability is 14.5 years (2016: 15 years).

Sensitivity analysis

The effect of a 1% increase and decrease in the following assumptions on the present value of the obligation are shown in the table below:

Assumption	Variation	Change in present value of obligation	
		2017	2016
Discount rate	+1%	(11.7%)	(12.0%)
	-1%	14.6%	15.0%
Healthcare cost	+1%	16.2%	14.7%
	-1%	(13.1%)	(12.0%)
Expected retirement age	x+1	(2.2%)	(2.3%)
	x-1	2.2%	2.3%

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated.

Actuarial risks

The risks faced by Lewis as a result of the post-retirement healthcare obligation can be summarised as follows:

Inflation: The risk that future CPI inflation and healthcare cost inflation are higher than expected and uncontrolled.

Longevity: The risk that pensioners live longer than expected and thus their healthcare benefit is payable for longer than expected.

Open-ended, long-term liability: The risk that the liability may be volatile in the future and uncertain.

Future changes in legislation: The risk that changes to legislation with respect to the post-employment healthcare liability may increase the liability for Lewis.

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Notes to the annual financial statements (continued)

for the year ended 31 March 2017

11. Directors and employees (continued)

11.5 Retirement benefits (continued)

11.5.4 Post-Retirement healthcare benefits (continued)

Trends

The trends of the present value of the obligation and experience adjustments are as follows:

	Obligation	Adjustments (Gain)/loss
2017	99.2	(5.5)
2016	97.7	(13.0)
2015	104.7	8.5
2014	90.7	14.3
2013	73.1	10.4
	2017	2016
	Rm	Rm
	47.0	43.2

11.5.5 Defined contribution plans

Defined contribution plan costs

Accounting policy

For defined contribution plans, the Group pays contributions to these separately administered funds on a mandatory basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

12. Taxation

	Group	
	2017 Rm	2016 Rm
Taxation per income statement		
South Africa	126.5	265.1
Foreign	36.8	52.9
	163.3	318.0
Comprising:		
Normal taxation		
Current year	100.3	338.9
Prior year	0.8	(2.1)
Deferred taxation		
Current year	61.3	(18.7)
Prior year	0.9	–
Rate change	–	(0.1)
	163.3	318.0
Tax rate reconciliation		
Profit before taxation	521.3	1 279.5
Taxation calculated at a tax rate of 28% (2016: 28%)	146.0	358.3
Differing tax rates in foreign countries	6.3	5.4
Disallowances	14.5	11.2
Exemptions	(5.2)	(54.7)
Prior years	1.7	(2.2)
Taxation per income statement	163.3	318.0
Effective tax rate	31.3%	24.9%

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Notes to the annual financial statements (continued)

for the year ended 31 March 2017

	Group	
	2017 Rm	2016 Rm
Taxation paid per cash flow statement		
Amount due at the beginning of the year	28.3	34.8
Amount charged to the income statement	(163.3)	(318.0)
Adjustment for deferred taxation	61.3	(18.8)
Amount owing at the end of the year	(181.1)	(28.3)
	(254.8)	(330.3)
Deferred taxation as per balance sheet		
Balance at the beginning of the year	(24.9)	101.9
<i>Movement for the year attributable to:</i>		
Income statement (debit)/credit	61.3	(18.8)
Deferred tax on fair value adjustment in other comprehensive income	3.7	(112.6)
Acquisition	1.6	5.4
Deferred tax on retirement benefit remeasurements	0.4	(0.8)
	42.1	(24.9)
Balance at the end of the year		
<i>This balance comprises</i>		
Capital allowances	51.3	49.6
Available-for-sale assets	(7.1)	(10.8)
Debtors allowances	84.7	84.8
Income and expense recognition	1.8	1.9
Other provisions	(88.6)	(150.4)
Balance at the end of the year	42.1	(24.9)
Disclosed as:		
Deferred tax asset	(48.9)	(85.7)
Deferred tax liability	91.0	60.8
	42.1	(24.9)

Deferred tax assets relate to provisions which are not deductible for tax purposes. The deferred tax asset will be reversed as these provisions are released.

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Notes to the annual financial statements (continued)

for the year ended 31 March 2017

12. Taxation (continued)

Accounting policy

Current and deferred taxation

The tax expense comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. The Group evaluates positions taken in tax returns with respect to situations in which applicable legislation and regulations are subject to interpretation. Appropriate provisions are established on the basis of amounts expected to be paid to the tax authorities.

Deferred taxation, using the liability method, is provided on temporary differences between the taxation base of an asset or liability and its carrying value. Deferred taxation is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred taxation is calculated at current or substantively enacted rates of taxation at balance sheet date. A deferred tax asset is raised to the extent that it is probable that sufficient taxable profit will arise in the foreseeable future against which the asset can be realised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same authority in the same taxable entity.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Significant accounting estimates and judgement

The tax and deferred tax liabilities and assets are calculated using considered interpretations of the tax laws of the jurisdictions in which the Group operates.

13. Regulatory matters

Referrals by National Credit Regulator to National Consumer Tribunal

First referral

In July 2015, the National Credit Regulator ("NCR") referred both Lewis Stores ("Lewis") and Monarch to the National Consumer Tribunal ("NCT") for alleged breaches of the National Credit Act ("NCA") in relation to the sale of loss of employment insurance and disability cover to customers who were pensioners or self-employed persons. Following the notification of the referral, an internal investigation identified approximately 15% of cases where loss of employment insurance policies were invalidly sold to pensioners and self-employed customers as a result of human error at store level. Lewis is currently refunding the premiums and interest totalling approximately R67.7 million to the affected customers. To date, Lewis has reimbursed approximately 93% of amounts due.

In September 2016, the NCT delivered its judgment in the abovementioned matter. The main findings of the NCT were:

1. dismissed the NCR's application against Monarch;
2. found that the offering of loss of employment insurance by Lewis to pensioners or self-employed consumers was unreasonable and therefore constituted prohibited conduct under the NCA;
3. found that the offering of disability insurance by Lewis to pensioners would be unreasonable, unless further enquiry and clarification was obtained and recorded, which makes it clear that such consumers requested such insurance cover;

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Notes to the annual financial statements (continued)

for the year ended 31 March 2017

4. found that the offering of disability insurance by Lewis to self-employed persons was not unreasonable;
5. found that there is no clear basis on which the unreasonableness of the disability and loss of employment insurance has the effect of deceiving consumers;
6. ordered that an independent audit be done of all credit agreements entered into by Lewis since 2007, for purposes of determining whether any pensioners or self-employed consumers were sold loss of employment insurance and whether any pensioners were sold disability insurance. If so, Lewis is to reimburse such consumers with any premiums and any interest charged on their accounts as a result of such insurance premiums. Consumers who no longer have open accounts with Lewis are to be traced and reimbursed. On completion of the independent audit, the NCT will set the matter down for hearing on the quantum of the administrative penalty to be imposed.

Lewis appealed the judgment in October 2016. As a consequence of the appeal, the refund of disability insurance premiums and interest and the independent audit has been suspended pending the outcome of the appeal. The appeal is set down for determination on 2 May 2018. However, as indicated above, Lewis will be continuing to refund loss of employment insurance premiums and interest to customers.

Second referral

In April 2016, the NCR referred Lewis Stores to the NCT for alleged breaches of the NCA relating to club fees and extended maintenance contracts charged to its customers. Lewis has opposed the second referral and filed a comprehensive answering affidavit disputing the NCR's allegations. The second referral was heard by a tribunal of the NCT on 6 April 2017. Judgement was reserved and has not yet been handed down.

High Court summonses

In February 2016, Lewis was served with a summons issued in the name of 15 plaintiffs and in April 2016 a second summons was served by 13 plaintiffs, all plaintiffs being existing or previous customers of Lewis. The summonses were issued at the direction of Summit Financial Partners. The total quantum of both claims is R85 082 plus interest. The plaintiffs' claims are for damages as a consequence of alleged breaches of the NCA in relation to delivery charges and extended maintenance contracts. Lewis disputes liability on the merits and various other grounds and is contesting the action. The plaintiffs in both matters have applied to the Western Cape High Court for leave to amend their summonses. Lewis is opposing the application which has been set down to be heard on 13 June 2017.

Section 165 of Companies Act

First demand

In May 2016, Mr David Woollam addressed a letter to the Lewis board of directors demanding that Lewis commences with proceedings to declare Johan Enslin, Les Davies, David Nurek and Hilton Saven, delinquent directors in accordance with the provisions of section 165 of the Companies Act. The directors of the Board of Lewis, who had not been made the subject of the demand, considered the demand, and consulted the Group's attorneys. Having done so, the directors were satisfied that the demand of Mr Woollam was frivolous, vexatious and of no merit and they resolved that Lewis launch proceedings in terms of section 165(3) of the Companies Act to set the demand aside.

In October 2016, the Court handed down judgment in Lewis' favour and set aside, in terms of section 165(3) of the Companies Act, Mr Woollam's demand and awarded Lewis costs against Mr Woollam. In November 2016, Mr Woollam filed an application for leave to appeal the judgement. Woollam's application for leave to appeal was refused by the Western Cape High Court. Woollam applied for special leave to appeal to the Supreme Court of Appeal and leave to appeal was granted by the Supreme Court of Appeal on 23 March 2017.

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Notes to the annual financial statements (continued)

for the year ended 31 March 2017

13. Regulatory matters (continued)

Second demand

In August 2016, Mr Woollam addressed a further letter (“the second demand”) to the Lewis board of directors demanding that Lewis commences with proceedings to declare the above mentioned directors, delinquent directors in accordance with the provisions of section 165 of the Companies Act. The directors of the board of Lewis, who had not been made the subject of the second demand, considered such demand, and consulted the group’s attorneys. Having done so, the directors were satisfied that the demand of Mr Woollam was once again frivolous, vexatious and of no merit and they resolved that Lewis launch proceedings in terms of section 165(3) of the Companies Act to set the demand aside.

These proceedings were launched in September 2016. Given that Woollam had no evidence to substantiate his allegations contained in the demand, he sought to withdraw the demand prior to the hearing of the application, and filed a rule 6(5)(d)(iii) notice. The essence of the rule 6(5) notice was that Woollam contended that there was no demand capable of being set aside by the Court pursuant to the application, and that the application was accordingly moot. On 27 February 2017, the Court was required to decide whether Woollam’s demand was capable of being withdrawn. On 1 March 2017, the Court delivered its judgement and made the following order:

1. The withdrawal by Woollam of the demand was noted.
2. Woollam is liable for Lewis’s costs of suit in the application up to 30 January 2017, such costs to include the fees of two counsel where such were engaged, but excluding the costs attendant on the drafting of an affidavit filed by Lewis on 30 January 2017.
3. Lewis is liable for half of Woollam’s costs of suit incurred from 30 January 2017 up to and including the hearing of 27 February 2017, such costs to include the fees of two counsel where such were engaged.

Shareholders will note that Mr. Woollam has been ordered to bear the bulk of the costs relating to the application.

14. Financial instruments

i) Categories

	Loans and Receivables Rm	Available- for-sale Rm	Amortised Cost Rm	Total Rm
Assets				
2017				
Insurance investments	–	750.8	–	750.8
Trade and other receivables	4 225.8	–	–	4 225.8
Cash on hand and on deposit	–	–	788.6	788.6
2016				
Insurance investments	–	1 668.5	–	1 668.5
Trade and other receivables	4 514.3	–	–	4 514.3
Cash on hand and on deposit	–	–	587.2	587.2
Liabilities				
2017				
Trade payables			78.9	78.9
Borrowings			947.3	947.3
Insurance and reinsurance liabilities			618.8	618.8
2016				
Trade payables			75.1	75.1
Borrowings			1 975.0	1 975.0
Insurance and reinsurance liabilities			1 550.4	1 550.4

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Notes to the annual financial statements (continued)

for the year ended 31 March 2017

ii) Maturity profile of financial liabilities

The maturity profiles of undiscounted financial liabilities are as follows:

	0 – 12 months Rm	2 – 5 years Rm	>5 years Rm	Total Rm
2017				
Borrowings	(247.3)	(700.0)	–	(947.3)
Interest on borrowings to maturity	(7.5)	(114.7)	–	(122.2)
Trade payables	(78.9)	–	–	(78.9)
Insurance and reinsurance liabilities	(426.6)	(192.2)	–	(618.8)
	(760.3)	(1 006.9)	–	(1 767.2)
2016				
Borrowings	(600.0)	(1 375.0)	–	(1 975.0)
Interest on borrowings to maturity	(30.6)	(304.5)	–	(335.1)
Trade payables	(75.1)	–	–	(75.1)
Insurance and reinsurance liabilities	(806.1)	(744.3)	–	(1 550.4)
	(1 511.8)	(2 423.8)	–	(3 935.6)

The fair value of trade payables and borrowings approximate their carrying values.

iii) Interest rate profile

The interest rate profiles of financial instruments are as follows:

	Term of Investment	Average Closing Effective Interest Rate %	Floating or Fixed	Carrying Value Rm's
2017				
Assets				
Gross instalment sale and loan receivables	Up to 3 years	22.5%	Fixed	6 107.1
Fixed income securities	Varies	8.1%	Fixed	455.9
Money Market investments	Up to 12 months	7.0%	Floating	294.9
Liabilities				
Long-term interest-bearing borrowings	Varies (refer to note 6)	9.6%	Floating	700.0
Short-term interest-bearing borrowings	Varies (refer to note 6)	9.6%	Floating	225.0
2016				
Assets				
Gross instalment sale and loan receivables	Up to 3 years	22.2%	Fixed	6 482.6
Fixed income securities	Varies	7.0%	Fixed	432.0
Money Market investments	Up to 12 months	7.4%	Floating	1 236.5
Liabilities				
Long-term interest-bearing borrowings	Varies (refer to note 6)	9.5%	Floating	1 375.0
Short-term interest-bearing borrowings	Varies (refer to note 6)	9.2%	Floating	600.0

Accounting policy

Set off

Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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for the year ended 31 March 2017

15. Property, plant and equipment

	Land and Buildings Rm	Vehicles, Furniture, Fixtures and Equipment Rm	Total Rm
Group			
As at 31 March 2017			
Opening net carrying value	110.6	259.8	370.4
Additions	0.2	64.4	64.6
Disposals	–	(5.0)	(5.0)
Depreciation	(1.1)	(85.4)	(86.5)
Closing net carrying value	109.7	233.8	343.5
Cost	123.9	792.2	916.1
Accumulated depreciation	(14.2)	(558.4)	(572.6)
As at 31 March 2016			
Opening net carrying value	111.6	241.3	352.9
Additions	–	107.4	107.4
Disposals	–	(9.0)	(9.0)
Depreciation	(1.0)	(79.9)	(80.9)
Closing net carrying value	110.6	259.8	370.4
Cost	123.7	747.6	871.3
Accumulated depreciation	(13.1)	(487.8)	(500.9)

A register of the Group's land and buildings is available for inspection at the Company's registered office.

Accounting policy

Property, plant and equipment is carried at cost less accumulated depreciation. The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at each balance sheet date.

Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are capitalised when it is probable that future economic benefits will arise and the cost can be measured reliably. All other expenditure is recognised through profit and loss.

Assets are depreciated to their residual value, on a straight-line basis, over their estimated useful lives.

Gains and losses on disposals of property, plant and equipment are determined by comparing the proceeds to the carrying amount and are recognised in the income statement.

Significant accounting estimates and judgements

The estimated useful lives and residual values are reviewed at each balance sheet date taking cognisance of historical trends for that class of asset and the commercial and economic realities at the time.

The estimated useful lives of the assets in years are:

Buildings	50 years
Furniture, fixtures and equipment	3 to 10 years
Vehicles	4 to 6 years
Land	Not depreciated

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for the year ended 31 March 2017

16. Trademarks

	Group	
	2017 Rm	2016 Rm
Opening net carrying value	61.4	60.1
Additions	8.4	6.0
Disposals	–	–
Amortisation	(3.6)	(4.7)
Closing net carrying value	66.2	61.4
Cost	75.5	67.1
Accumulated amortisation	(9.3)	(5.7)

The Beares and Ellerines trademarks for Namibia and Swaziland were acquired during the year as part of the acquisition of the Beares and Ellerines businesses in Namibia and Swaziland. The acquisition was accounted for under IFRS 3 which requires the identifiable assets acquired and liabilities assumed to be fairly valued and, consequently, the trademarks acquired were valued by an independent valuer at R8.4 million using the relief from royalty method.

In the prior year the Beares and Ellerines trademarks for Botswana and Lesotho were acquired during the year as part of the acquisition of the Beares and Ellerines businesses in Botswana and Lesotho, which was accounted for under IFRS 3, and, consequently, the trademarks acquired were valued by an independent valuer at R6.0 million using the relief from royalty method.

Accounting policy

Separately acquired trademarks are shown at historical cost.

Trademarks acquired in a business combination are recognised at fair value at acquisition date.

Trademarks have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks over their estimated useful lives of 20 years.

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for the year ended 31 March 2017

17. Purchase of businesses

	Group	
	2017 Rm	2016 Rm
Trademarks (refer to note 16)	8.4	6.0
Goodwill	5.5	–
Property, plant and equipment	3.7	3.1
Inventory	23.2	26.5
Trade receivables	73.1	77.5
Accounts payable	(3.5)	(6.2)
Deferred tax	(1.6)	(5.4)
Gain on acquisition of Beares	(1.2)	(0.4)
Total consideration	107.6	101.1

During the current period, the Group's subsidiaries in Namibia and Swaziland have acquired on 8 May 2016 and 8 April 2016 respectively, the businesses trading under the Ellerines and Beares brands from the relevant in-country subsidiaries of Ellerines Services Proprietary Limited (subsidiary of Ellerines Furnishers Proprietary Limited in business rescue). The businesses, which are individually and collectively immaterial, consisted of 26 stores, the Ellerines and Beares brands, trade receivables, inventory and fixed assets. The purchase consideration was paid by cash and assumption of liabilities. The stores will trade either under the Lewis or Beares brands.

In the prior year, the Group's subsidiaries in Lesotho and Botswana have acquired on 8 December 2015 and 8 March 2016 respectively the businesses trading under the Ellerines and Beares brands from the relevant in-country subsidiaries of Ellerines Services Proprietary Limited (subsidiary of Ellerines Furnishers Proprietary Limited in business rescue). The purchase consideration was paid by cash and assumption of liabilities.

18. Group consolidation

Accounting policies

Basis of consolidation

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is applied for business combinations. The consideration for an acquisition is measured as the fair value of the assets transferred, equity instruments issued and liabilities incurred or assumed at the date of the exchange. Acquisition-related costs are expensed as incurred. Identifiable assets acquired, liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the consideration and the amount of the non-controlling interest, over the fair value of the net identifiable assets, is recorded as goodwill. If the amounts are less than the fair value of the net identifiable assets of the subsidiary acquired, the difference is recognised directly in the income statement as a bargain purchase.

The Group recognises a non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the proportionate share of the acquiree's net identifiable assets.

Inter-company transactions, balances and unrealised gains and losses (unless the transaction provides evidence of an impairment of the transferred asset) between Group companies are eliminated.

The accounting policies and the year-ends of material subsidiaries are consistent throughout the Group.

Lewis Group Limited: Consolidated Financial Statements

Notes to the annual financial statements (continued)

for the year ended 31 March 2017

Accounting policies (continued)

Common control transactions are business combinations in which the combining entities are ultimately controlled by the same entity prior to the combination. The assets and liabilities of the combining entities are not adjusted to fair value but reflected at their carrying amounts at the date of the transaction. The difference between the consideration paid/transferred and the net asset value acquired is accounted for in retained earnings. No additional goodwill will be recognised as a result of a common control transaction. Employee share trusts are consolidated. Shares in Lewis Group Limited held by subsidiaries and the share trust are classified as treasury shares.

In the Company's financial statements, investments in subsidiaries are carried at cost less impairment. Cost of investments includes directly attributable costs.

Goodwill

Goodwill, being the excess of the purchase consideration and the fair value of the non-controlling interest, over the attributable fair value of the identifiable assets and liabilities, at the date of acquisition, is initially carried at cost. Goodwill is subject to an annual impairment test, or more frequently, if events or changes in circumstances indicate a potential impairment. Goodwill is written down to the recoverable amount, which is the higher of value-in-use and the fair value less costs to sell. This impairment is recognised immediately as an expense. The impairment of goodwill is not reversed. Gains and losses on disposal of an entity include the carrying value of goodwill relating to the entity sold.

A bargain purchase being an excess in the fair value of the identifiable assets and liabilities over the purchase consideration at the date of acquisition, is recognised immediately in the income statement.

Functional and presentation currency

(a) Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated and separate financial statements are presented in South African Rand, which is the Company's and Group's functional and presentation currency.

(b) Group companies

The results and financial position of foreign operations (none of which operate in a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities are translated at the closing rate at the date of the balance sheet;
- income and expenses are translated at average exchange rates; and
- resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are recognised in other comprehensive income. On the sale of a foreign operation, the associated exchange differences are reclassified to the income statement, as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

Lewis Group Limited: Consolidated Financial Statements

Notes to the annual financial statements (continued)

for the year ended 31 March 2017

18. Group consolidation (continued)

Currency risk – net investment in foreign subsidiaries

The currency exposure is limited to the net investment in Botswana of R 197.8 million (2016: R195.5 million), which includes a long-term loan account. The currency exposure is managed by keeping the net investment at a minimum practical level by remitting cash to South Africa on a regular basis through loan repayments and dividends.

Below is a sensitivity analysis of the effect of currency movements of 10% on the year-end value of our net investment in Botswana:

	2017	2016
Currency appreciates by 10%	24.7	22.2
Currency depreciates by 10%	(24.7)	(22.2)

19. Other notes

19.1 Other accounting policies

Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation, but tested annually for impairment. Assets that are subject to amortisation and depreciation are reviewed for impairment whenever circumstances indicate that the carrying amount exceeds its recoverable amount.

The recoverable amount is the higher of an asset's fair value less costs to sell and value-in-use.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Current assets and liabilities

Current assets and liabilities have maturity terms of less than 12 months, except for instalment sale and loan receivables. Instalment sale and loan receivables, which are included in trade and other receivables, have maturity terms of between six and 36 months but are classified as current as they form part of the normal operating cycle.

19.2 New standards and interpretations not yet effective

The following standards and amendments resulting from the Improvements Project and interpretations are not yet effective and have not been adopted by the Group:

IFRS 9: Financial Instruments	A new standard will replace IAS 39: Financial Instruments Recognition and Measurement. This standard becomes effective for years commencing after 1 January 2018. The main impact is that classification of financial assets is now driven by the entity's business model for managing these assets with only two classifications, namely cost and fair value. With respect to impairment, the expected credit loss model has been introduced. It contains a three-stage approach which is based on the change in credit quality since initial recognition. On initial recognition, an expected 12-month loss will need to be recognised on financial assets that are not credit impaired. IFRS 9 also deals with hedging. The overall approach is to align hedge accounting more closely with an entity's risk management policies and approach.
IFRS 15: Revenue from Contracts with Customers	This statement introduces a single comprehensive revenue recognition model for all contracts with customers. In substance, revenue is recognised based on the satisfaction of performance obligations, which occurs when control of goods or services transfer to the customer. This standard becomes effective for years commencing after 1 January 2018.

Lewis Group Limited: Consolidated Financial Statements

Notes to the annual financial statements (continued)

for the year ended 31 March 2017

IFRS 16: Leases	This standard requires that lessees should recognise assets and liabilities arising from all leases (with limited exceptions) on the balance sheet.
IFRS 17: Insurance Contracts	IFRS 17 replaces IFRS 4, which currently permits a wide variety of practices. IFRS 17 applies to insurance contracts issued, to all reinsurance contracts and to investment contracts with discretionary participation features if an entity also issues insurance contracts. The standard applies to annual periods beginning on or after 1 January 2021.
IAS 19: Employee Benefits	Amendment to simplify accounting for contributions that do not relate to years of service.
IAS 7: Statement of Cash Flows	This amendment introduces an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.
IAS 12: Income Taxes	The amendments were issued to clarify the requirements for recognising deferred tax assets on unrealised losses where an asset is measured at fair value and that fair value is below the asset's tax base.
IFRS 2: Share-Based Payments	This amendment clarifies the measurement basis for cash-settled, share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. It also introduces an exception to the principles in IFRS 2 that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority.
IFRS 4: Insurance Contracts	<p>These amendments introduce two approaches: an overlay approach and a deferral approach. The amended standard will:</p> <p>Give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts standard is issued; and</p> <p>Give companies whose activities are predominantly connected with insurance an optional exemption from applying IFRS 9 until 2021. The entities that defer the application of IFRS 9 will continue to apply the existing financial instruments standard – IAS 39.</p>
IFRIC 22: Foreign currency transactions and advance consideration	This IFRIC addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payment/receipts are made. The guidance aims to reduce diversity in practice.

Annual improvements to IFRS issued December 2016 for years commencing on or after 1 January 2017 and 2018.

IFRS 9, IFRS 15 and IFRS 16 may have a significant impact on the Group's accounting and management is in the process of investigating and researching with the assistance of advisors the potential impact of these standards.

Lewis Group Limited: Consolidated Financial Statements

Notes to the annual financial statements (continued)

for the year ended 31 March 2017

19.3 Other income statement disclosures

	Group	
	2017 Rm	2016 Rm
Initiation and service fees on accounts receivable	505.4	532.9
Fees payable:		
Investment management fee – insurance investments	3.4	5.0
Outsourcing of IT function	68.6	53.5
	72.0	58.5
Auditors' remuneration		
Audit fees – current year	3.4	2.4
Other services	1.3	1.9
	4.7	4.3
Fair value adjustment – loan	15.0	–

19.4 Contingencies

Bank guarantees given by the Group to third parties.

The directors are of the opinion that no loss will be incurred on these guarantees.

9.0	9.1
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19.5 Capital commitments

Material capital commitments contracted for or authorised and contracted at the end of the year.

–	100.0
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The prior year's capital commitment was the purchase of the Beares and Ellerines businesses in Namibia and Swaziland on 8 May 2016 and 8 April 2016 respectively. (Refer to note 17).

19.6 Post-balance sheet events

There were no significant post-balance sheet events that occurred between the year-end and the date of approval of the financial statements by the directors.

19.7 Approval of financial statements

These accounts have been approved by the board of directors on 24 May 2017.

Lewis Group Limited: Consolidated Financial Statements

Notes to the annual financial statements (continued)

for the year ended 31 March 2017

20. Interest in subsidiary companies

	Nature of Business	2017		2016	
		Carrying Value of Subsidiaries Rm's	% Holding	Carrying Value of Subsidiaries Rm's	% Holding
Directly held					
Lewis Stores Proprietary Limited	F	2 800.0	100%	2 800.0	100%
Indirectly held					
Incorporated in South Africa					
Monarch Insurance Company Limited	I				
Kingtimm Proprietary Limited	D				
Lifestyle Living Proprietary Limited	D				
Incorporated in Botswana					
Lewis Stores (Botswana) Proprietary Limited	F				
Lewis Insurance Services (Botswana) Proprietary Limited	M				
Lewis Management Services (Botswana) Proprietary Limited	D				
Incorporated in Swaziland					
Lewis Stores (Swaziland) Proprietary Limited	F				
Incorporated in Namibia					
Lewis Stores (Namibia) Proprietary Limited	F				
Lewis Management Services (Namibia) Proprietary Limited	D				
Incorporated in Lesotho					
Lewis Stores (Lesotho) Proprietary Limited	F				
Cost of subsidiaries		2 800.0		2 800.0	
Capital contribution in respect of share-based payment		12.7		31.6	
Loans to/(from) subsidiaries:					
Long-term		–		–	
Short-term		–		304.6	
Amounts due to subsidiary		(46.7)		(26.4)	
Interest in subsidiaries		2 766.0		3 109.8	
F	Furniture dealer				
I	Insurance company				
M	Management services company				
D	Dormant company				

Lewis Group Limited: Consolidated Financial Statements

Notes to the annual financial statements (continued)

for the year ended 31 March 2017

21. Shareholders information

	Number of Shareholders Total	%	Number of Shares Total	%
Shareholders spread as at 31 March 2017:				
1 – 1 000 shares	984	58.05	348 994	0.36
1 001 – 10 000 shares	443	26.14	1 551 665	1.58
10 001 – 100 000 shares	188	11.09	6 163 844	6.28
100 001 – 1 000 000 shares	60	3.54	18 012 643	18.37
1 000 001 shares and over	20	1.18	71 980 813	73.41
Total	1 695	100.00	98 057 959	100.00

Distribution of shareholders as at 31 March 2017:

Public:	1 686	99.47	87 832 283	89.57
Unit Trusts/Mutual Funds			43 411 859	44.26
Pension Funds			18 974 865	19.35
Other			25 445 559	25.96
Non-public:	9	0.53	10 225 676	10.43
Lewis Stores Proprietary Limited	1	0.06	9 216 928	9.40
Lewis Employee Incentive Scheme Trust	1	0.06	51 312	0.05
Directors:				
Lewis Group Limited	5	0.29	872 961	0.89
Lewis Stores Proprietary Limited	2	0.12	84 475	0.09
	1 695	100.00	98 057 959	100.00

Major shareholdings as at 31 March 2017:

According to the Company's register of disclosures of beneficial interests made by registered shareholders acting in a nominee capacity, and the disclosures made by fund managers in terms of section 56 of the Companies Act of 2008, the following entities owned in excess of 3% of the Company's shares as at 31 March 2017:

	Number of Shares Total	%
Beneficial shareholders:		
Trimark Global Endeavour Fund	13 602 644	13.87
Lewis Stores Proprietary Limited	9 216 928	9.40
Government Employee Pension Fund	8 241 450	8.40
Trimark Global Balanced Fund	4 429 514	4.52
MMI Group Limited	4 170 014	4.25
Pyramis Group Trust Employee Benefit Plan	2 962 184	3.02

Lewis Group Limited: Consolidated Financial Statements

Notes to the annual financial statements (continued)

for the year ended 31 March 2017

21. Shareholders information (continued)

By Fund Manager:

Invesco Limited	18 088 579	18.45
Public Investment Corporation	7 621 300	7.77
Allan Gray Investment Council	7 385 261	7.53
FMR LLC	7 010 207	7.15
Dimensional Fund Advisors	4 929 077	5.03
Stonehage Trust Holdings (Jersey)	4 454 810	4.54
Momentum Asset Management	4 170 014	4.25
LSV Asset Management	3 197 278	3.26

Geographical analysis of shareholders:

Beneficial shareholders:

South Africa	46.15
North America	40.07
Rest of World	13.78
	100.00

By Fund Manager:

South Africa	43.62
North America	40.47
Rest of World	15.91
	100.00

Lewis Group Limited: Company Financial Statements

Company statement of comprehensive income

for the year ended 31 March 2017

	Notes	2017 Rm	2016 Rm
Revenue	2	409.5	531.0
Operating costs	3	(17.0)	(7.1)
Interest paid to note holders under DMTN program		(15.1)	(23.8)
Profit before taxation		377.4	500.1
Taxation	4	(0.1)	(0.1)
Net profit and comprehensive income attributable to ordinary shareholders		377.3	500.0

Company balance sheet

at 31 March 2017

	Notes	2017 Rm	2016 Rm
Assets			
Non-current assets			
Interest in subsidiaries	5	2 812.7	2 831.6
Current assets			
Loan to subsidiary	6	–	304.6
Deposits at bank		–	0.3
Total assets		2 812.7	3 136.5
Equity and liabilities			
Capital and reserves			
Share capital and premium	7	2 711.6	2 711.6
Share-based payment reserve		12.7	31.6
Retained earnings		39.5	56.4
		2 763.8	2 799.6
Current liabilities			
Trade and other payables		2.2	5.9
Short-term interest-bearing borrowings	8	–	304.6
Amounts due to subsidiary		46.7	26.4
		48.9	336.9
Total equity and liabilities		2 812.7	3 136.5

Lewis Group Limited: Company Financial Statements

Company statement of changes in equity

for the year ended 31 March 2017

	Share Capital and Premium Rm	Share-Based Payment Reserve Rm	Retained Earnings Rm	Total Rm
Balance as at 1 April 2015	2 711.6	39.8	63.3	2 814.7
Net profit attributable to ordinary shareholders			500.0	500.0
Dividends paid			(506.9)	(506.9)
Capital contribution in respect of share-based payment		(8.2)		(8.2)
Balance as 31 March 2016	2 711.6	31.6	56.4	2 799.6
Net profit attributable to ordinary shareholders			377.3	377.3
Dividends paid			(394.2)	(394.2)
Capital contribution in respect of share-based payment		(18.9)		(18.9)
Balance as 31 March 2017	2 711.6	12.7	39.5	2 763.8

Company cash flow statement

for the year ended 31 March 2017

	Notes	2017 Rm	2016 Rm
Cash flow from operating activities			
Cash utilised in operations	9	(20.5)	(6.4)
Dividends received		394.4	507.2
Taxation paid		(0.1)	(0.1)
		373.8	500.7
Cash flow from investment activities			
Loan repayment received from subsidiary		304.6	–
		304.6	–
Cash flow from financing activities			
Dividends paid		(394.2)	(506.9)
Repayment of borrowings		(304.6)	–
Increase in amounts due to subsidiary		20.3	6.5
		(678.5)	(500.4)
Net (decrease)/increase in cash and cash equivalents		(0.1)	0.3
Cash and cash equivalents at the beginning of the year		0.3	–
Cash and cash equivalents at the end of the year		0.2	0.3

Lewis Group Limited: Company Financial Statements

Notes to the annual financial statements (continued)

for the year ended 31 March 2017

1. Accounting policies

The financial statements have been prepared on the historical cost basis and in accordance with International Financial Reporting Standards ("IFRS") and the requirements of the Companies Act. The accounting policies used in the preparation of these financial statements are set out as follows:

	Notes
Revenue	4
Taxation	12
Interest in subsidiaries	20
Borrowings	6.1
Share capital and premium	10.4

2. Revenue	2017 Rm	2016 Rm
Dividends received from subsidiary – Lewis Stores Proprietary Limited	394.2	507.0
Interest received from subsidiary – Lewis Stores Proprietary Limited	15.1	23.8
Interest received – banks	0.2	0.2
	409.5	531.0

3. Operating profit	R'000	R'000
Stated after:		
Audit fees – current year	60	60
Directors fees (refer to note 11.2 to the Group financial statements)	3 499	3 385

4. Taxation	Rm	Rm
Taxation	0.1	0.1
The rate of taxation on profit is reconciled as follows:		
Profit before taxation	377.4	500.1
Taxation calculated at a tax rate of 28% (2016: 28%)	105.7	140.0
Exempt income	–	(139.9)
Taxation per income statement	105.7	0.1

5. Interest in subsidiaries		
Shares at cost	2 800.0	2 800.0
Capital contribution for share-based payment	12.7	31.6
	2 812.7	2 831.6

Refer to note 20 to the Group financial statements

6. Loan to subsidiary

The following loans are made to Lewis Stores Proprietary Limited:

Short-term	–	304.6
	–	304.6

The commercial terms of all the above loans will mirror the applicable terms of the notes issued under the Domestic Medium-Term Note program. Refer to note 8.

No impairment of the loan to the subsidiary, Lewis Stores Proprietary Limited is required, as the subsidiary has sufficient reserves and liquidity to settle the loan. The carrying value approximates fair value.

Lewis Group Limited: Company Financial Statements

Notes to the annual financial statements (continued)

for the year ended 31 March 2017

	2017	2016
	Rm	Rm
7. Share capital and premium		
Authorised		
150 000 000 ordinary shares of 1c each	1.5	1.5
Issued		
98 057 959 (2016:98 057 959) ordinary shares of 1c each	1.0	1.0
Share premium	2 710.6	2 710.6
Total share capital and premium	<u>2 711.6</u>	<u>2 711.6</u>
8. Borrowings		
Three-year floating note issued under the Group's Domestic Medium-Term Note program at 158 basis points above the three-month JIBAR	–	304.6
	<u>–</u>	<u>304.6</u>
The Group has established a Domestic Medium-Term Note program in October 2013, under which the Group can issue notes up to R2 billion. For further details, refer to note 6.1 in the Group annual financial statements.		
The carrying value approximates fair value.		
9. Cash utilised in operations		
Profit before taxation	377.4	500.1
Dividends received	(394.2)	(507.2)
(Decrease)/Increase in trade and other payables	(3.7)	0.7
	<u>(20.5)</u>	<u>(6.4)</u>

