Lewis Group Ltd

UNAUDITED INTERIM RESULTS for the six months ended 30 September 2017

MERCHANDISE SALES	GROSS MARGIN EXPANDED	DEBTOR COSTS REDUCED	HEADLINE EARNINGS PER SHARE	INTERIM DIVIDEND MAINTAINED AT	BALANCE SHEET
UP 5%	TO 40.9%	BY 11.5%	15.8% LOWER	100 cents PER SHARE	UNGEARED

TRADING AND FINANCIAL PERFORMANCE

The group's performance for the six-month period to 30 September 2017 shows an improving sales growth trend, enhanced gross profit margin, tight expense control and reduced debtor costs in a challenging trading and collections environment.

The group's core lower to middle income customer base continues to be impacted by increasing living costs, high unemployment and limited prospects in the country. Credit sales continue to be restricted by the National Credit Regulator's affordability assessment regulations.

Merchandise sales gained momentum in the latter months of the period and increased by 5%, driven by new merchandise ranges and increased promotional activity across the three trading brands. Comparable store sales grew by 7.3%. Stores outside South Africa contributed 24.3% of merchandise sales. Group credit sales accounted for 68.8% (H1 2017: 63.4%) of total sales.

Revenue was 3.2% lower as other revenue declined by 9.8%. This was mainly as a result of lower credit sales and changes to the insurance offering in prior periods which has limited annuity income.

The group's gross profit margin strengthened by 40 basis points to 40.9% and is at the upper end of management's target range of 38% to 42%. The margin benefited from more competitive pricing on locally sourced product and margin expansion in the furniture categories.

Operating costs, excluding debtor costs, continue to be well managed and increased by 1.8%. The increase in marketing and promotional costs supported sales growth.

The operating margin contracted from 10.0% to 7.2% for the period, within management's guided range. The margin was impacted by the decline in revenue. Headline earnings declined from R173 million to R144 million with headline earnings per share 15.8% lower at 163.9 cents.

Following the repayment of borrowings of R1.4 billion in the last 18 months, the balance sheet is ungeared at the end of the period, compared to gearing of 18.8% in the prior period. The group remains strongly cash-generative. Cash on hand and deposits totalled R684 million at reporting date.

The net asset value per share increased from 6 040 cents to 6 315 cents, highlighting the group's sound financial position.

The group has maintained the interim dividend at 100 cents per share.

DEBTOR MANAGEMENT

The performance of the debtors book is considered satisfactory in a challenging collections environment. Debtor costs declined by 11.5%. Collection rates improved from 74.6% in the first half of the 2017 financial year to 76.2% in the current period. Debtor costs as a percentage of net debtors decreased from 8.6% to 8.0%. The level of satisfactory paid customers at 67.7% is in line with last year's 67.9%.

RETAIL STORE FOOTPRINT

At end September 2017 the group traded out of 744 stores across its three retail brands following the net closure of 17 stores during the period. Trading space reduced by 4.2% as the group continued to open smaller format Lewis stores and close marginal stores. The Lewis brand trades out of 207 smaller format stores in its portfolio of 500 stores. The group's 110 stores outside South Africa account for 15% of the total store base.

SHARE REPURCHASE PROGRAMME

The group implemented a share repurchase programme and bought back 2.9 million shares (3% of the issued share capital at the start of the programme) between 30 May 2017 and 29 September 2017 at a total cost of R94.2 million. At the annual general meeting on 17 October 2017 shareholders granted authority to repurchase a further 5% of the company's issued shares.

ACQUISITION OF UNITED FURNITURE OUTLETS

After the end of the reporting period the group announced the acquisition of United Furniture Outlets ("UFO") for R320 million, subject to approval from the competition authorities. UFO is a cash retailer of luxury household furniture to the higher income market and has a footprint of 30 stores. The acquisition aligns with the group's strategy of diversifying and gaining access to higher income customers and improving its cash-to-credit sales mix. The business is considered to be scalable, offering the opportunity to extend the store footprint across South Africa and into neighbouring countries and will benefit from the group's buying power.

CHANGES TO THE BOARD OF DIRECTORS

During the reporting period the following changes were made to the board of directors. Daphne Motsepe and Adheera Bodasing were appointed as non-executive directors with effect from 1 June 2017. Ben van der Ross retired as a non-executive director at the company's annual general meeting on 17 October 2017. The board welcomes the new directors and thanks Mr Van der Ross for his outstanding contribution to the group over the past 13 years .

PROSPECTS

The trading environment is expected to remain challenging for the rest of the financial year. Management continues to focus on sales growth, managing expenses, and reducing debtor costs.

Following the acquisition of UFO, the group will be well positioned to service customers across all market segments.

The important festive trading season will be supported by strong promotional activity and new merchandise ranges.

DIVIDEND DECLARATION

Notice is hereby given that a final gross cash dividend of 100 cents per share in respect of the six months ended 30 September 2017 has been declared payable to holders of ordinary shares. The number of shares in issue as of the date of declaration is 95 116 220. 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 rate. The company's tax reference number is 9551/419/15/4.

The following dates are applicable to this declaration:

Last date of trade "*cum*" dividend
Tuesday, 23 January 2018

Date trading commences "*ex*" dividend
Wednesday, 24 January 2018

Record date
Friday, 26 January 2018

Date of payment
Monday, 29 January 2018

Share certificates may not be dematerialised or rematerialised between Wednesday, 24 January 2018 and Friday 26 January 2018, both days inclusive.

For and on behalf of the Board

David Nurek	**Johan Enslin**	**Les Davies**
Independent Non-executive chairman	*Chief executive officer*	*Chief financial officer*

Cape Town
13 November 2017

INCOME STATEMENT

	Notes	Unaudited Six months ended 30 Sept 2017 Rm	Unaudited Six months ended 30 Sept 2016 Rm	Audited 12 months ended 31 March 2017 Rm
Revenue		2 658.6	2 745.8	5 592.1
Merchandise sales	6	1 294.8	1 233.0	2 607.9
Finance charges and initiation fees earned		678.5	731.9	1 451.8
Insurance revenue		356.4	420.3	822.3
Ancillary services		328.9	360.6	710.1
Cost of merchandise sales	6	(765.8)	(733.9)	(1 522.4)
Operating costs		(1 701.0)	(1 736.9)	(3 504.9)
Debtor costs	2.2	(444.3)	(502.1)	(1 065.5)
Employment costs		(513.8)	(498.0)	(987.0)
Occupancy costs		(183.4)	(183.1)	(370.8)
Administration and IT		(164.3)	(156.5)	(318.4)
Transport and travel		(99.1)	(101.7)	(202.8)
Marketing		(123.0)	(112.9)	(199.9)
Depreciation and amortisation		(43.6)	(48.5)	(90.1)
Other operating costs		(129.5)	(134.1)	(270.4)
Operating profit before investment income		191.8	275.0	564.8
Investment income	3.2	32.8	58.0	104.9
Profit before finance costs		224.6	333.0	669.7
Net finance costs		(15.7)	(80.5)	(148.4)
Interest paid		(37.7)	(96.9)	(174.3)
Interest received		21.3	25.9	39.4
Forward exchange contracts		0.7	(9.5)	(13.5)
Profit before taxation		208.9	252.5	521.3
Taxation	7	(65.5)	(78.2)	(163.3)
Net profit attributable to ordinary shareholders		143.4	174.3	358.0
Earnings per share (cents)		163.7	196.6	403.5
Diluted earnings per share (cents)		162.6	196.3	399.1

EARNINGS AND DIVIDENDS PER SHARE

	Unaudited Six months ended 30 Sept 2017 Rm	Unaudited Six months ended 30 Sept 2016 Rm	Audited 12 months ended 31 March 2017 Rm
Weighted average number of shares			
Weighted average	87 613	88 671	88 730
Diluted weighted average	88 167	88 776	89 699
Headline earnings (Rm)			
Attributable earnings	143.4	174.3	358.0
Disposal of fixed assets	1.0	(0.4)	(1.6)
Profit on disposal of available-for-sale investments	(0.8)	–	(0.2)
Gain on acquisition of Beares	–	(1.2)	(1.2)
	143.6	172.7	355.0
Earnings per share (cents)			
Earnings per share	163.7	196.6	403.5
Diluted earnings per share	162.6	196.3	399.1
Headline earnings per share (cents)			
Headline earnings per share	163.9	194.8	400.1
Diluted headline earnings per share	162.9	194.5	395.8
Dividends per share			
Dividends paid per share (cents)			
Final dividend 2017 (2016)	100.0	302.0	302.0
Interim dividend 2018 (2017)	–	–	100.0
	100.0	302.0	402.0
Dividends declared per share (cents)			
Interim dividend 2018 (2017)	100.0	100.0	100.0
Final dividend 2018 (2017)	–	–	100.0
	100.0	100.0	200.0

STATEMENT OF COMPREHENSIVE INCOME

	Unaudited Six months ended 30 Sept 2017 Rm	Unaudited Six months ended 30 Sept 2016 Rm	Audited 12 months ended 31 March 2017 Rm
Net profit for the year	143.4	174.3	358.0
Items that may be subsequently reclassified to income statement:			
Movement in other reserves	6.0	2.3	(2.4)
Fair value adjustment to available-for-sale investments	4.6	13.3	9.6
Disposal of available-for-sale investments	(0.8)	–	(0.2)
Foreign currency translation reserve	2.2	(11.0)	(11.8)
Items that may not be subsequently reclassified to income statement:			
Retirement benefit remeasurements	–	–	1.2
Other comprehensive income	6.0	2.3	(1.2)
Total comprehensive income for the year attributable to equity shareholders	149.4	176.6	356.8

CASH FLOW STATEMENT

	Unaudited Six months ended 30 Sept 2017 Rm	Unaudited Six months ended 30 Sept 2016 Rm	Audited 12 months ended 31 March 2017 Rm
Cash flow from operating activities			
Cash flow from trading	286.3	352.8	540.9
Operating profit before investment income	191.8	275.0	564.8
Adjusted for:			
Share-based payments	7.8	5.1	(4.0)
Depreciation and amortisation	43.6	48.5	90.1
Movement in debtors impairment provision	64.9	86.4	27.0
Movement in other provisions	(28.2)	(67.7)	(144.7)
Other movements	6.4	5.5	7.7
Changes in working capital:	88.8	274.8	573.9
(Increase)/decrease in inventories	(89.0)	15.9	11.6
(Increase)/decrease in trade and other receivables	(40.6)	17.7	322.8
Increase in trade payables	180.6	172.9	143.8
Decrease in insurance premiums in advance	202.9	446.3	782.2
Decrease in reinsurance asset	54.6	127.5	245.1
Decrease in reinsurance and insurance liabilities	(219.7)	(505.5)	(931.6)
Cash generated from operations	375.1	627.6	1 114.8
Interest received	54.1	83.9	144.0
Interest paid	(37.0)	(106.4)	(187.8)
Taxation paid	(38.6)	(230.4)	(254.8)
	353.6	374.7	816.2
Cash utilised in investing activities			
Net disposals of insurance business investments	55.4	419.0	931.1
Purchase of insurance investments	(22.5)	(1 992.1)	(2 253.8)
Disposals of insurance investments	77.9	2 411.1	3 184.9
Acquisition of property, plant and equipment	(20.8)	(38.3)	(61.3)
Purchase of businesses (refer note 9)	–	(111.0)	(107.6)
Proceeds on disposal of property, plant and equipment	1.5	3.7	7.6
	36.1	273.4	769.8
Cash flow from financing activities			
Dividends paid	(87.4)	(268.1)	(356.9)
Repayments of borrowings	(347.3)	(150.0)	(1 027.7)
Purchase of own shares	(94.2)	–	–
	(528.9)	(418.1)	(1 384.6)
Net (decrease)/increase in cash and cash equivalents	(139.2)	230.0	201.4
Cash and cash equivalents at the beginning of the year	788.6	587.2	587.2
Cash and cash equivalents at the end of year	649.4	817.2	788.6

BALANCE SHEET

	Notes	Unaudited Six months ended 30 Sept 2017 Rm	Unaudited Six months ended 30 Sept 2016 Rm	Audited 12 months ended 31 March 2017 Rm
ASSETS				
Non-current assets				
Property, plant and equipment		319.7	362.5	343.5
Trademarks		64.4	68.3	66.2
Goodwill		5.5	8.9	5.5
Deferred taxation		26.4	61.5	48.9
Retirement benefit asset		55.0	63.0	55.0
Financial assets – insurance investments	3.1	456.3	449.9	455.9
		927.3	1 014.1	975.0
Current assets				
Inventories		530.8	449.6	454.6
Trade and other receivables	2.1	4 203.7	4 472.3	4 225.8
Reinsurance assets	3.3	97.6	269.8	152.2
Insurance premiums in advance		200.3	739.1	403.2
Taxation		166.0	206.4	181.1
Financial assets – insurance investments	3.1	244.3	818.1	294.9
Cash-on-hand and deposits		684.2	836.3	788.6
		6 126.9	7 791.6	6 500.4
Total assets		7 054.2	8 805.7	7 475.4
EQUITY AND LIABILITIES				
Capital and reserves				
Share capital and premium		14.1	108.0	108.3
Other reserves		20.0	20.0	6.2
Retained earnings		5 386.8	5 235.0	5 330.8
		5 420.9	5 363.0	5 445.3
Non-current liabilities				
Long-term interest-bearing borrowings	4	600.0	1 100.0	700.0
Deferred taxation		81.7	69.3	91.0
Retirement benefit liability		106.8	107.7	101.7
		788.5	1 277.0	892.7
Current liabilities				
Trade and other payables		410.9	376.7	271.3
Reinsurance and insurance liabilities	3.4	399.1	1 044.9	618.8
Short-term interest-bearing borrowings	4	34.8	744.1	247.3
		844.8	2 165.7	1 137.4
Total equity and liabilities		7 054.2	8 805.7	7 475.4

STATEMENT OF CHANGES IN EQUITY

	Unaudited Six months ended 30 Sept 2017 Rm	Unaudited Six months ended 30 Sept 2016 Rm	Audited 12 months ended 31 March 2017 Rm
Share capital and premium			
Opening balance	108.3	92.1	92.1
Cost of own shares acquired (treasury shares)	(94.2)	–	–
Share awards to employees	–	15.9	16.2
	14.1	108.0	108.3
Other reserves			
Opening balance	6.2	27.5	27.5
Other comprehensive income for the year	6.0	2.3	(2.4)
Share-based payment	7.8	5.1	(4.0)
Transfer of share-based payment reserve to retained earnings on vesting	–	(14.9)	(14.9)
	20.0	20.0	6.2
Retained earnings			
Opening balance	5 330.8	5 329.8	5 329.8
Net profit attributable to ordinary shareholders	143.4	174.3	358.0
Distribution to shareholders	(87.4)	(268.1)	(356.9)
Share awards to employees	–	(15.9)	(16.2)
Transfer of share-based payment reserve to retained earnings on vesting	–	14.9	14.9
Retirement benefit remeasurements	–	–	1.2
	5 386.8	5 235.0	5 330.8
Balance as at the end of period	5 420.9	5 363.0	5 445.3

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UNAUDITED INTERIM RESULTS

for the six months ended 30 September 2017

Lewis Group Ltd

NOTES TO THE FINANCIAL STATEMENTS

1. BASIS OF REPORTING

The summary consolidated interim financial statements are prepared in accordance with the requirements of the JSE Limited (JSE) for summary financial statements, and the requirements of the Companies Act applicable to summary financial statements. The JSE requires summary financial statements to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS) and SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council and to also, as a minimum, contain the information required by IAS 34 Interim Financial Reporting.

The accounting policies applied in the preparation of these consolidated interim financial statements are in terms of International Financial Reporting Standards and consistent with those applied in the consolidated annual financial statements for the year ended 31 March 2017 ("previous year"). The audited annual financial statements were prepared by the Group's Finance Department under the supervision of the Chief Financial Officer, Mr L A Davies CA(SA).

		Unaudited Six months ended 30 Sept 2017 Rm	Unaudited Six months ended 30 Sept 2016 Rm	Audited 12 months ended 31 March 2017 Rm
2. TRADE AND OTHER RECEIVABLES				
2.1 Trade receivables				
Instalment sale and loan receivables		6 090.2	6 372.6	6 107.1
Unearned provisions		(510.0)	(550.8)	(525.9)
Provision for unearned maintenance income		(304.1)	(338.6)	(320.0)
Provision for unearned finance charges and unearned initiation fees		(205.9)	(212.2)	(205.9)
Net instalment sale and loan receivables		5 580.2	5 821.8	5 581.2
Provision for impairment		(1 625.5)	(1 620.0)	(1 560.6)
		3 954.7	4 201.8	4 020.6
Other receivables		249.0	270.5	205.2
		4 203.7	4 472.3	4 225.8
Debtors' impairment provision as a percentage of net debtors	(%)	29.1	27.8	28.0

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 three to 36 months.

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 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 customers 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 customers 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.

Debtors analysis

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				Number of customers	Gross receivables	Impairment provision	Total arrears	Instalments in arrears				
	Customer grouping	Period		Total	R'000	R'000	R'000	1 R'000	2 R'000	3 R'000	4 R'000	> 4 R'000
Satisfactory paid	Customers who have paid 70% or more of amounts due over the contract period. The provision in this category results from *in duplum* provision.	Sept 2017	Number	409 445	3 457 430	20 437	561 863	153 413	107 496	80 648	61 171	159 135
			%	67.7	56.8	1.3						
		Sept 2016	Number	442 103	3 616 595	37 673	629 534	167 576	119 407	89 852	67 936	184 763
			%	67.9	56.9	2.3						
		March 2017	Number	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 who have paid 65% to 70% of amounts due over the contract period. The provision in this category for the current period ranges from 13% to 68% (September 2016: 14% to 66%) of amounts due and includes an *in duplum* provision.	Sept 2017	Number	52 312	522 647	195 250	324 376	37 633	36 471	34 665	32 541	183 066
			%	8.6	8.6	12.0						
		Sept 2016	Number	53 090	540 194	187 597	324 927	36 791	35 727	33 884	31 618	186 907
			%	8.2	8.5	11.6						
		March 2017	Number	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 for the current period ranges from 23% to 79% (September 2016: 24% to 78%) of amounts due.	Sept 2017	Number	45 632	550 218	248 575	359 017	33 350	31 744	30 622	29 533	233 768
			%	7.5	9.0	15.3						
		Sept 2016	Number	49 167	585 809	248 481	372 092	34 396	32 708	31 563	30 298	243 127
			%	7.6	9.1	15.3						
		March 2017	Number	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 for the current period ranges from 34% to 100% (September 2016: 33% to 100%) of amounts due.	Sept 2017	Number	97 792	1 559 939	1 161 281	1 107 034	71 012	69 576	68 415	67 372	830 659
			%	16.2	25.6	71.4						
		Sept 2016	Number	106 643	1 629 870	1 146 198	1 125 994	73 369	72 060	71 016	70 022	839 527
			%	16.3	25.5	70.8						
		March 2017	Number	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						
Gross debtor analysis		Sept 2017		605 181	6 090 234	1 625 543	2 352 290	295 408	245 287	214 350	190 617	1 406 628
		Sept 2016		651 003	6 372 468	1 619 949	2 452 547	312 132	259 902	226 315	199 874	1 454 324
		March 2017		616 247	6 107 102	1 560 559	2 343 026	301 774	249 451	215 624	189 660	1 386 517

	Period	Gross receivables R'000	Unearned provision R'000	Net receivable R'000	Impairment provision R'000	Impairment %
Net debtor analysis	September 2017	6 090 234	(509 994)	5 580 240	1 625 543	29.1
	September 2016	6 372 468	(550 728)	5 821 740	1 619 949	27.8
	March 2017	6 107 102	(525 900)	5 581 202	1 560 559	28.0

An *in duplum* provision of R21.8 million (2016: R39.8 million) has been provided.

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 customers 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.

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.

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 22.6% (2016: 22.3%) and the average term of the sale is 32.9 months (2016: 32.9 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.

		Unaudited Six months ended 30 Sept 2017 Rm	Unaudited Six months ended 30 Sept 2016 Rm	Audited 12 months ended 31 March 2017 Rm
2.2 Debtor costs				
Bad debts, repossession losses and bad debt recoveries		379.4	415.7	1 038.5
Movement in debtors' impairment provision		64.9	86.4	27.0
Closing balance		1 625.5	1 620.0	1 560.6
Opening balance		(1 560.6)	(1 533.6)	(1 533.6)
		444.3	502.1	1 065.5
Debtor costs as a percentage of net instalment sale and loan receivables	(%)	8.0	8.6	19.1

	Unaudited Six months ended 30 Sept 2017 Rm	Unaudited Six months ended 30 Sept 2016 Rm	Audited 12 months ended 31 March 2017 Rm
3. INSURANCE			
3.1 Insurance investments			
Financial assets – insurance investments			
Listed investments			
Fixed income securities – available-for-sale	456.3	449.9	455.9
Unlisted Investments			
Money market – available-for-sale	244.3	818.1	294.9
	700.6	1 268.0	750.8
Analysed as follows:			
Non-current	456.3	449.9	455.9
Current	244.3	818.1	294.9
	700.6	1 268.0	750.8
Movement for the year			
Beginning of the year	750.8	1 668.5	1 668.5
Additions to investments	22.5	1 992.1	2 253.8
Disposals of investments	(77.9)	(2 411.1)	(3 184.6)
Fair value adjustment	5.2	18.5	13.1
End of the year	700.6	1 268.0	750.8

Fair value hierarchy

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

	Level 1 Rm	Level 2 Rm	Total Rm
30 September 2017			
Available-for-sale assets:			
Insurance investments:			
Fixed income securities	–	456.3	456.3
Money market	–	244.3	244.3
	–	700.6	700.6
30 September 2016			
Available-for-sale assets:			
Insurance investments:			
Fixed income securities	–	449.9	449.9
Money market	–	818.1	818.1
	–	1 268.0	1 268.0
31 March 2017			
Available-for-sale assets:			
Insurance investments:			
Fixed income securities	–	455.9	455.9
Money market	–	294.9	294.9
	–	750.8	750.8

The categorisation of the valuation techniques used to value the assets at fair value are as set out in IFRS 13.

All government and corporate bonds are categorised as Level 2 based on management's current assessment of all active markets for debt instruments.

		Unaudited Six months ended 30 Sept 2017 Rm	Unaudited Six months ended 30 Sept 2016 Rm	Audited 12 months ended 31 March 2017 Rm
3.2 Investment income				
Interest – insurance business		31.7	58.0	104.6
Realised gain on disposal of insurance investments		1.1	–	0.3
		32.8	58.0	104.9
3.3 Reinsurance assets				
Reinsurer's share of unearned premiums		67.5	234.6	123.8
Opening balance		123.8	364.0	364.0
Recognised in income statement		(56.3)	(129.4)	(240.2)
Reinsurer's share of insurance provisions		30.1	35.2	28.4
Opening balance		28.4	33.3	33.3
Recognised in income statement		1.7	1.9	(4.9)
Total reinsurance assets		97.6	269.8	152.2
3.4 Reinsurance and insurance liabilities				
Unearned premiums		243.5	710.2	412.1
Opening balance		412.1	1 090.8	1 090.8
Recognised in income statement		(168.6)	(380.6)	(678.7)
Due to reinsurers		0.8	50.0	0.3
Other reinsurance and insurance liabilities		154.8	284.7	206.4
Opening balance		206.4	361.2	361.2
Recognised in income statement		(51.6)	(76.5)	(154.8)
Total reinsurance and insurance liabilities		399.1	1 044.9	618.8
4. BORROWINGS, BANKING FACILITIES AND CASH				
Interest-bearing borrowings				
Long-term				
Banking facilities		600.0	1 100.0	700.0
Short-term				
Banking facilities and bond		–	725.0	225.0
Bank overdrafts		34.8	19.1	22.3
		34.8	744.1	247.3
Cash and cash equivalents				
Cash on hand		(684.2)	(836.3)	(788.6)
Net borrowings		(49.4)	1 007.8	158.7
Unutilised facilities				
Banking facilities		2 199.4	1 567.2	2 116.3
Domestic Medium Term Note Programme		2 000.0	1 700.0	2 000.0
		4 199.4	3 267.2	4 116.3
Available facilities		4 150.0	4 275.0	4 275.0
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 9.28% (2016: 9.60%)		600.0	1 825.0	925.0
		600.0	1 825.0	925.0
Capital management				
Net borrowings		(49.4)	1 007.8	158.7
Shareholder's equity		5 420.9	5 363.0	5 445.3
Gearing ratio	(%)	(0.9)	18.8	2.9

	Lewis Rm	Best Home & Electric Rm	Beares Rm	Group Rm
5. REPORTABLE SEGMENTS				
Primary				
For the six months ended 30 September 2017 (Unaudited)				
Revenue	1 930.7	348.5	379.4	2 658.6
Operating profit before investment income	113.9	56.4	21.5	191.8
Operating margin (%)	5.9	16.2	5.7	7.2
Segment assets	3 455.0	581.1	449.4	4 485.5
For the six months ended 30 September 2016 (Unaudited)	2 046.8	353.6	345.4	2 745.8
Operating profit before investment income	217.8	55.2	2.0	275.0
Operating margin (%)	10.6	15.6	0.6	10.0%
Segment assets	3 571.4	605.8	474.2	4 651.4
For the twelve months ended 31 March 2017 (Audited)				
Revenue	4 137.0	725.4	729.7	5 592.1
Operating profit before investment income	424.2	111.0	29.6	564.8
Operating margin (%)	10.3	15.3	4.1	10.1
Segment assets	3 357.2	578.7	539.3	4 475.2

	South Africa Rm	Namibia Rm	BLS* Rm	Group Rm
Geographical				
For the six months ended 30 September 2017 (Unaudited)				
Revenue	2 159.3	258.6	240.7	2 658.6
For the six months ended 30 September 2016 (Unaudited)				
Revenue	2 234.1	267.1	244.6	2 745.8
For the twelve months ended 31 March 2017 (Audited)				
Revenue	4 559.0	526.3	506.8	5 592.1

** Botswana, Lesotho and Swaziland*

		Unaudited Six months ended 30 Sept 2017 Rm	Unaudited Six months ended 30 Sept 2016 Rm	Audited 12 months ended 31 March 2017 Rm
6. GROSS PROFIT				
Merchandise sales		1 294.8	1 233.0	2 607.9
Cost of merchandise sales		(765.8)	(733.9)	(1 522.4)
Merchandise gross profit		529.0	499.1	1 085.5
Gross profit percentage	(%)	40.9	40.5	41.6
7. TAXATION				
Taxation charge				
Normal taxation				
Current year		53.7	52.4	100.3
Prior year		–	–	0.8
Deferred taxation				
Current year		11.8	25.8	61.3
Prior year		–	–	0.9
Taxation per income statement		65.5	78.2	163.3
Tax rate reconciliation				
Profit before taxation		208.9	252.5	521.3
Taxation calculated at a tax rate of 28% (2016: 28%)		58.5	70.7	146.0
Differing tax rates in foreign countries		3.5	4.2	6.3
Disallowances		3.5	3.3	14.5
Exemptions		–	–	(5.2)
Prior years		–	–	1.7
Taxation per income statement		65.5	78.2	163.3
Effective tax rate	(%)	31.4	31.0	31.3

8. REGULATORY MATTERS

8.1 Pending matters

The group has the following pending matters. The details and history of these matters has been set out in note 13 to the annual financial statements for the year ended 31 March 2017.

Referrals by National Credit Regulator to the National Consumer Tribunal ("NCT"):

First referral (July 2015): in relation to the sale of loss of employment insurance and disability cover to customers who were pensioners or self-employed persons.

Second referral (April 2016): relating to club fees and extended maintenance contracts charged to customers

High Court summonses (February/April 2016):

These were summonses issued at the direction of Summit Financial Partners by 28 plaintiffs, being existing or previous customers of Lewis, relating to delivery charges and extended maintenance contracts.

Section 165 of Companies Act:

First demand (May 2016): Mr Woollam addressed a letter to the Lewis Board demanding that Lewis commence proceedings to declare certain directors delinquent.

8.2 Progress

Since issuing the financial statements for the year ended 31 March 2017, the following progress has been made:

Second referral: On 25 May 2017, the NCT issued its ruling in Lewis's favour dismissing the referral. The NCR have appealed the ruling and the appeal is due to be heard on 17 April 2018.

High Court summonses: On 4 August 2017, the plaintiff's application for leave to amend particulars of their claim was dismissed with a cost order being granted in favour of Lewis. The plaintiffs have again sought to amend the particulars of their claim and Lewis has objected thereto. Accordingly, the plaintiffs second application for leave to amend will be heard in due course.

First demand: The heads of argument for the appeal have been filed. No date for the hearing has been allocated.

	Unaudited Six months ended 30 Sept 2017 Rm	Unaudited Six months ended 30 Sept 2016 Rm	Audited 12 months ended 31 March 2017 Rm
9. PURCHASE OF BUSINESSES			
Trademarks	–	8.4	8.4
Goodwill	–	8.9	5.5
Property, plant and equipment	–	3.7	3.7
Inventory	–	23.2	23.2
Trade receivables	–	73.1	73.1
Accounts payable	–	(3.5)	(3.5)
Deferred tax	–	(1.6)	(1.6)
Gain on acquisition of Beares	–	(1.2)	(1.2)
Total consideration	–	111.0	107.6

In the prior year, 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 are trading under the Lewis or Beares brands.

10. POST-BALANCE SHEET EVENTS

On 18 October 2017, Lewis Stores Proprietary Limited ("Lewis Stores"), a wholly-owned subsidiary of the group, has concluded an agreement with the shareholders ("Vendors") of United Furniture Outlets Proprietary Limited ("UFO") in terms of which, amongst other things, Lewis Stores will acquire the entire issued ordinary share capital and all shareholders' claims against UFO from the Vendors ("Acquisition").

The Acquisition consideration ("Consideration") is a cash amount of R320 million (plus interest if applicable). R16 million of the Consideration will be deferred subject to confirmation of the net asset value of UFO at the effective date.

The Acquisition is subject to the fulfilment (or waiver where applicable) by no later than 90 business days after the signature date, of certain conditions precedent (which are usual for a transaction of this nature), including:

- the approval of the Competition Tribunal of the Acquisition;
- the approval of the Takeover Regulation Panel of the Acquisition; and
- certain of UFO´s lessors and third party funders providing consent to the change in ownership of UFO.

11. STANDARDS NOT YET EFFECTIVE

11.1 IFRS 9 Financial Instruments

IFRS 9 (Financial Instruments) replaces IAS 39 (Financial Instruments: Recognition and Measurement) will become effective for the group for the year ending 31 March 2019. The impact of IFRS 9 on the group will be in respect of:

- revised requirements for classification and measurement of financial instruments; and
- an expected credit loss impairment model for financial instruments.

With respect to classification and measurement of financial instruments, the group does not expect a significant impact on the results and financial position, although it will ultimately depend on the composition of financial instruments on the balance sheet at the date of initial adoption.

In terms of IFRS 9, the group has the option to select the general model or the simplified model to determine its expected credit losses ("ECL"). The group is likely to adopt the simplified model which recognises the expected credit losses over the lifetime of trade receivables on initial recognition.

The IFRS 9 ECL impairment model is expected to increase the level of balance sheet impairments that are currently held in terms of IAS 39. Revenue recognition policies may be impacted by the adoption of IFRS 9 as certain revenue streams may have to be accounted as part of the effective interest rate on a yield to maturity basis.

The group has established an implementation committee with representation from all relevant departments. The key focus of the committee is on considering impairment methodologies, predictive credit quality and cash flow models and output validation, testing and analysis.

The impact of the IFRS 9 ECL requirements can be only reliably determined on the date of transition to IFRS 9. This impact is primarily dependent on the finalisation of the group's impairment methodologies, conclusion of external audit procedures, credit quality and size of the group's trade receivables and the forward-looking economic expectations, on adoption of the standard.

11.2 IFRS 15 and IFRS 16

IFRS 15 (Revenue from Contracts with Customers) replaces IAS 18 (Revenue) and will be effective for the group for the year ending 31 March 2019. The current analysis indicates that the adoption of IFRS 15 is not expected to have a significant impact on the group's results or financial position.

IFRS 16 (Leases) replaces IAS 17 (Leases) with respect to lessees and is effective for the group for the year ending 31 March 2020. The current analysis is that IFRS 16 will result in the recognition on the balance sheet of a right of use asset and a corresponding liability for the expected future lease payments.

The final impact for the above standards can only be reliably determined on their adoption.

11.3 IFRS 17

IFRS 17 which replaces IFRS 4, applies to insurance contracts and reinsurance contracts. The standard will apply to the group for the year ending 31 March 2022. Management has not yet performed an assessment of the potential impact of the implementation of this new standard.

KEY RATIOS

		Unaudited Six months ended 30 Sept 2017	Unaudited Six months ended 30 Sept 2016	Audited 12 months ended 31 March 2017
Operating efficiency ratios				
Gross profit margin	(%)	40.9	40.5	41.6
Operating profit margin	(%)	7.2	10.0	10.1
Number of stores		744	780	761
Number of permanent employees	(average)	8 180	8 767	8 619
Trading space	(sqm)	237 728	260 934	248 271
Inventory turn		2.9	3.6	3.3
Current ratios		7.3	3.6	5.7
Credit ratios				
Credit sales	(%)	68.8	63.4	65.2
Debtor costs as % of the net debtors	(%)	8.0	8.6	19.1
Debtors' impairment provision as a percentage of net debtors	(%)	29.1	27.8	28.0
Arrear instalments on satisfactory accounts as % of gross debtors	(%)	9.2	9.9	9.8
Arrear instalments on slow-paying and non-performing accounts as a percentage of gross debtors	(%)	29.4	28.6	28.6
Credit applications decline rate	(%)	37.4	40.5	38.7
Shareholder ratios				
Net asset value per share	(cents)	6 315	6 040	6 133
Gearing ratio	(%)	(0.9)	18.8	2.9
Dividend payout ratio	(%)	66.3	55.0	54.7
Return on average equity (after-tax)	(%)	5.2	6.4	6.6
Return on average capital employed (after-tax)	(%)	5.0	6.4	6.7
Return on average assets managed (pre-tax)	(%)	6.4	7.6	8.3

Notes 1. All ratios are based on figures at the end of the year unless otherwise disclosed
2. The net asset value has been calculated using 85 848 000 shares in issue (2016: 88 499 000).
3. Total assets exclude the deferred tax asset and the reinsurance asset.

Executive directors: J Enslin *(Chief executive officer)*, LA Davies *(Chief financial officer)*. Independent non-executive directors: DM Nurek *(Chairman)*, H Saven, Professor F Abrahams, AJ Smart, D Motsepe, A Bodasing Company secretary: PB Croucher Transfer secretaries: Computershare Investor Services (Pty) Ltd; 70 Marshall Street, Johannesburg, 2001; PO Box 61051, Marshalltown, 2107. Auditors: PricewaterhouseCoopers Inc. Sponsor: UBS South Africa (Pty) Ltd. Registered office: 53A Victoria Road, Woodstock, 7925. Registration number: 2004/009817/06. Share code: LEW ISIN: ZAE000058236

These results are also available on our website: **www.lewisgroup.co.za**