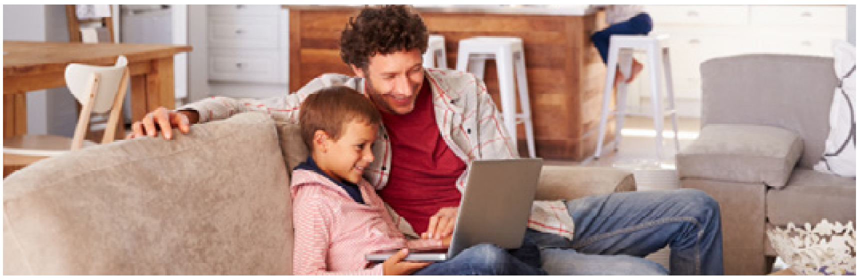

ANNUAL FINANCIAL STATEMENTS
for the year ended 31 March **2018**

Contents

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 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 Limited First National Bank of Africa Limited Investec Bank Limited Standard Bank of South Africa Limited

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 2019 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 3 to 7.

The financial statements of the group and the company for the year ended 31 March 2018, which appear on pages 16 to 84 have been approved by the board of directors and signed on their behalf by:

H Saven
Chairman

J Enslin
Chief Executive Officer

Cape Town
23 May 2018

Preparation and presentation of annual financial statements

The preparation of the annual financial statements was supervised by Mr LA Davies CA(SA) and Mr J Bestbier CA(SA).

Company secretary certificate

In my capacity as company secretary, I hereby confirm to the best of my knowledge and belief that 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 and correct.

PB Croucher
Acting Company Secretary

23 May 2018

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 2018, 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 82 comprise:

- the consolidated and company balance sheets as at 31 March 2018;
- the consolidated and company income statements for the year then ended;
- the consolidated and company statements of comprehensive income for the year then ended;
- the consolidated and company statements of changes in equity for the year then ended;
- the consolidated and company cash flow statements for the year then ended; and
- the notes to the 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).

Our audit approach

Overview

Overall group materiality

- R33.0 million, which represents 5% of the adjusted four-year average net profit before tax.

Group audit scope

- The group operates through seven trading subsidiaries in South Africa, Botswana, Lesotho, Swaziland and Namibia.
- All subsidiaries assessed as financially significant to the group were subjected to full scope audits.

Key audit matters

- Provision for impairment of trade receivables.

Independent auditor's report continued

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 financial statements as a whole.

Overall group materiality	R33.0 million
How we determined it	5% of the adjusted four-year average net profit before tax
Rationale for the materiality benchmark applied	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. Profits during the current and prior year have been adversely affected by low economic growth and the impact of affordability assessment regulations. We therefore chose the four 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 one-off profit realised on the disposal of the available-for-sale investments. We chose 5%, which is consistent with quantitative materiality thresholds used for profit oriented companies in this sector.

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 subsidiaries that have been assessed as financially significant to the group in the five geographical locations were subject to full scope audits by auditors from within the PricewaterhouseCoopers (PwC) network of firms.

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.

Independent auditor's report continued

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 of 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.

Key audit matter	How our audit addressed the key audit matter
Provision for impairment of trade receivables	
At 31 March 2018, the value of trade receivables (instalment sale and loan receivables net of unearned provisions) was R5,477.6 million (representing 80.7% of total assets) against which a provision for impairment of R1,619.5 million was recorded. 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. The Group records 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. 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. 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.	Our audit procedures included understanding and testing of the key controls within the revenue and receivables cycle, including: • the credit granting process, including determining credit limits; • the recording of credit sales transactions; • the identification and write-off of bad debts; and • the data used in the calculation of the provision for impairment of trade receivables. 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. 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. For selected accounts, we tested the key inputs and the calculation of the provision for impairment by: • 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. 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. 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. We compared the results of our independent valuation to management's calculation and, based on the work that we performed, accepted management's provision.

Independent auditor's report continued

Other information

The directors are responsible for the other information. The other information comprises the information included in the *Lewis Group Limited Annual Financial Statements for the year ended 31 March 2018,* which includes the Directors' Report, the Audit Committee Report, and the Company Secretary Certificate as required by the Companies Act of South Africa, which we obtained prior to the date of this auditor's report, and the Lewis Group Limited Integrated Report 2018, 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 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 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 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 27 years.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.

Director: MC Hamman
Registered Auditor

Cape Town
23 May 2018

Audit committee report

for the year ended 31 March 2018

Audit Committee ("the committee") has pleasure in submitting its report for the year ended 31 March 2018 in compliance with the Companies Act No 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 IV.

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; and
  - 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

Currently, the committee consists of three independent non-executive directors:

D Westcott (chairman)
H Saven
AJ Smart

Audit committee report continued

for the year ended 31 March 2018

The changes in the chairman and membership of the committee were as follows:

- BJ van der Ross retired from the board and all its committees at the Annual General Meeting ("AGM") on 17 October 2017. At the AGM on 17 October 2017, H Saven, DM Nurek and AJ Smart were elected to the Audit Committee.
- On 30 November 2017, DM Nurek retired from the board and all its committees. On 1 December 2017, D Westcott was appointed to the board and to the Audit Committee, amongst others.
- With the resignation of DM Nurek, Mr H Saven was elected as Chairman of the board on 1 December 2017. The committee elected Mr D Westcott to succeed Mr H Saven as Chairman of the committee.

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 pages 72 to 73 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.

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 77 of the Corporate Governance Report.

The committee attended to the following material matters:

Financial statements

As required by its terms of reference, the committee performed the following with respect to the financial statements.

- 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.

The following significant matter of judgements were considered by the committee:

Debtor impairment provision

IAS 39 requires that impaired receivables are carried at the net present value of expected cash flows from such accounts, discounted at the original effective rate implicit in the credit agreement. Specific provisions for each customer are created with reference to its expected cash flow based on the lifetime payment rating (refer below) and the effective interest rate of the customer's credit agreements.

The Group operates a payment rating system which assesses customer payment behavior. A payment rating is assigned to each customer, based on the payment performance over the lifetime of the account. The rating system is dynamic with customers assessed each month and ratings improving or deteriorating in accordance with payments. Payment ratings have been in operation for many years and are integral to the calculation of the impairment provision under IAS 39 as it is used to estimate the expected cash flow to be received in the future.

Audit committee report continued

for the year ended 31 March 2018

Our independent auditors, PricewaterhouseCoopers, 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.

The audit results of the independent valuation were compared to management's calculation and management's provision was accepted.

With due consideration of the methodology applied and the independent actuarial valuation performed by PricewaterhouseCoopers, the committee was satisfied that the provisions for impairment of trade receivable as required by IAS 39 is adequate.

New accounting standards

The following standards will be implemented in the 2019 financial year:

- IFRS9 – Financial Instruments
- IFRS15 – Revenue Recognition

Management established a task team to investigate the impact of the above standards. The task team is currently focused on the impact of IFRS9, particularly in the recognition of expected credit losses as opposed to incurred losses. Advisors were appointed and significant progress is being made but the task team is not yet in a position to estimate the outcome.

The committee has also constituted a sub-committee consisting of all members of the Audit Committee to monitor the progress of management's task team and to consider key judgements in implementing IFRS9. The sub-committee has access to the independent auditor and the advisors appointed. Regular meetings of this sub-committee are planned in the upcoming period to implementation date.

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 2018 for approval by the board of directors prior to the issue on 29 June 2018.

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.
- 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 2018 financial year. The fees paid to the auditors are disclosed in note 19.4 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.
- 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.

Audit committee report continued

for the year ended 31 March 2018

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.

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.
- 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.

Audit committee report continued

for the year ended 31 March 2018

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.

During the year, there was a change in the designated auditors as contemplated in paragraph 3.75(c) of the listing requirements. Allison Legge, who was the designated auditor appointed at the Annual General Meeting, resigned from PricewaterhouseCoopers and Thinus Hamman replaced her, after due consideration by the Audit Committee, on 4 December 2017. In considering his appointment on said date, the committee considered the requirements of the section 22(15)(h) of the JSE Listings Requirements.

The committee confirms it has functioned in accordance with its terms of reference for the 2018 financial year.

Duncan Westcott
Chairman, Audit Committee

21 May 2018

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 499, Lewis, 126 Best Home and Electric, 117 Beares and 31 UFO 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.

The store presence outside South Africa now amounts to 110 stores.

On 1 February 2018, Lewis Stores Proprietary Limited ("Lewis Stores"), a wholly-owned subsidiary of the group, obtained control of United Furniture Outlets Proprietary Limited ("UFO"), a cash furniture retailer, by acquiring 100% of the issued ordinary share capital and voting rights and all shareholders´ claims against UFO from the shareholders.

UFO is an independent, cash furniture retailer with a retail footprint of 31 stores. It sells a variety of furniture including lounge, bedroom and dining room products. UFO is recognised as a luxury brand with a value offering to the upper consumer spectrum, namely LSM 9 – 10+. The business was established in 2004 and currently more than half of its stores are located in Gauteng.

The total acquisition consideration was a cash amount of R324.1 million.

The acquisition will enable Lewis Stores to achieve improved economies of scale and provide a platform to penetrate new market sectors through a wider, more exclusive product range. The acquisition will diversify its offering by increasing its exposure to cash furniture retailing and provide access to a higher income customer market segment (LSM 9 – 10+). The UFO brand and business model is scalable and offers an opportunity to extend the UFO footprint across South Africa and into neighbouring Southern African countries.

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 84.

Segmental analysis

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

Share capital

During the financial year, 5 406 097 shares were repurchased in terms of section 48 of the Companies Act. Refer to note 10.4 for more detail. The number of shares in issue at the end of the financial year is 92 651 862. At the date of issue of financial statements, 2 464 358 shares are in the process of being delisted by the JSE.

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.

Directors' report continued
for the year ended 31 March 2018

Dividends

The following dividends have been declared or proposed for the financial year ended 31 March 2018:

	Dividend Per share	Date Declared	Date Payable
Interim – declared	100 cents	13 November 2017	29 January 2018
Final – proposed	100 cents	23 May 2018	23 July 2018
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 2018 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 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 17 July 2018
Date trading commences "ex" dividend	Wednesday 18 July 2018
Record date	Friday 20 July 2018
Date of payment	Monday 23 July 2018

Share certificates may not be dematerialised or rematerialised between Wednesday 18 July 2018 and Friday 20 July 2018, both days inclusive.

Directors

The following changes to the directorate occurred during the year:

- Ben van der Ross retired at the Annual General Meeting ("AGM") held on 17 October 2017.
- David Nurek, the Chairman of the Board, resigned on 30 November 2017 thus creating a vacancy.
- Duncan Westcott was appointed to the Board to fill the vacancy on 1 December 2017.
- Hilton Saven was elected Chairman of the Board on 1 December 2017.

The directors as at 31 March 2018 are as follows:

Mr Hilton Saven
Prof Fatima Abrahams
Mrs Adheera Bodasing
Mr Les Davies
Mr Johan Enslin
Mrs Daphne Motsepe
Mr Alan Smart
Mr Duncan Westcott

On 1 April 2018, Les Davies resigned as Chief Financial Officer and Jacques Bestbier was appointed in his stead.

Directors' report continued

for the year ended 31 March 2018

In terms of the Articles of Association of the company, the following directors have offered themselves for election or re-election:

J Bestbier
J Enslin
H Saven
A Smart
D Westcott

Company secretary

MG McConnell resigned as company secretary on 17 October 2017. PB Croucher was appointed company secretary on a temporary basis until a permanent appointment is made. The address of the company secretary is that of the registered offices as stated on page 1.

Director's interest

At 31 March 2018, the directors' beneficial direct and indirect interest in the company's issued shares were as follows:

	2018		2017	
	Direct	**Indirect**	Direct	Indirect
DM Nurek			–	20 000
H Saven	**–**	**6 440**	–	6 440
AJ Smart	**319 070**	**–**	319 070	–
J Enslin	**176 038**	**17 522**	176 038	17 522
LA Davies	**320 192**	**13 699**	320 192	13 699
	815 300	**37 661**	815 300	57 661

There has been no change in the above directors' interest between the end of the financial year and the date of approval of the annual financial statements.

J Bestbier was appointed a director on 1 April 2018. At the date of his appointment, he had a direct interest of 1 148 shares and an indirect interest of 3 425 shares.

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:

	2018	2017
	Rm	Rm
Profit	**280.4**	404.2
Losses	**(16.3)**	(29.2)

Borrowing powers

Borrowings were R531.6 million at 31 March 2018 (2017: R947.3 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 2018

	Notes	Group 2018 Rm	Group Restated 2017 Rm
Revenue	4	**5 556.8**	5 592.1
Merchandise sales		**2 865.0**	2 607.9
Other revenue		**2 691.8**	2 984.2
Finance charges and initiation fees earned		**1 361.6**	1 451.8
Insurance revenue		**671.0**	822.3
Ancillary services		**659.2**	710.1
Cost of merchandise sales	8	**(1 677.8)**	(1 501.0)
Operating costs		**(3 499.7)**	(3 527.0)
Debtor costs	3.2	**(957.3)**	(1 065.5)
Employment costs	11.1	**(1 059.1)**	(987.0)
Occupancy costs		**(373.2)**	(370.8)
Administration and IT		**(328.8)**	(318.4)
Transport and travel		**(205.0)**	(202.8)
Marketing		**(246.6)**	(222.0)
Depreciation and amortisation		**(85.9)**	(90.1)
Other operating costs		**(243.8)**	(270.4)
Operating profit before investment income		**379.3**	564.1
Investment income	5.2	**62.4**	104.9
Profit before finance costs and taxation		**441.7**	669.0
Net finance costs		**(49.2)**	(148.4)
Interest paid	6.2	**(87.6)**	(174.3)
Interest received	6.2	**38.9**	39.4
Forward exchange contracts	6.2	**(0.5)**	(13.5)
Profit before taxation		**392.5**	520.6
Taxation	12	**(128.4)**	(163.1)
Net profit attributable to ordinary shareholders		**264.1**	357.5
Earnings per share (cents)	10.1	**306.8**	402.9
Diluted earnings per share (cents)	10.1	**301.3**	398.6

Lewis Group Limited
Consolidated Statement of Comprehensive Income

for the year ended 31 March 2018

	Group	
		Restated
	2018	2017
	Rm	Rm
Net profit for the year	**264.1**	357.5
Items that may be subsequently reclassified to income statement:		
Movement in other reserves	**9.9**	(2.4)
Fair value adjustments of available-for-sale investments	**22.8**	9.6
Fair value adjustments of available -for-sale investments	**31.6**	13.4
Tax effect	**(8.8)**	(3.8)
Disposal of available-for-sale investments recognised	**(1.3)**	(0.2)
Disposal of available-for-sale investments	**(1.7)**	(0.3)
Tax effect	**0.4**	0.1
Foreign currency translation reserve	**(11.6)**	(11.8)
Items that may not be subsequently reclassified to income statement:		
Retirement benefit remeasurements	**42.6**	1.2
Remeasurements of the retirement asset and liabilities	**59.1**	1.6
Tax effect	**(16.5)**	(0.4)
Total comprehensive income for the year attributable to ordinary shareholders	**316.6**	356.3

Lewis Group Limited
Consolidated Balance Sheet

at 31 March 2018

	Notes	2018 Rm	Group Restated 2017 Rm	Restated 2016 Rm
Assets				
Non-current assets				
Property, plant and equipment	15	**301.8**	343.5	370.4
Trademarks	16	**117.8**	66.2	61.4
Goodwill	16	**187.6**	5.5	–
Deferred taxation	12	**10.9**	48.9	85.7
Retirement benefit asset	11.5	**91.1**	55.0	63.0
Financial assets – insurance investments	5.1	**471.0**	455.9	432.0
		1 180.2	975.0	1 012.5
Current assets				
Inventories	8	**579.7**	447.7	438.4
Trade and other receivables	3.1	**4 068.9**	4 225.8	4 514.3
Reinsurance assets	5.3	**–**	152.2	397.3
Insurance premiums in advance		**75.6**	403.2	1 185.4
Taxation		**136.5**	181.1	28.3
Financial assets – insurance investments	5.1	**135.4**	294.9	1 236.5
Cash-on-hand and deposits	6.1	**608.4**	788.6	587.2
		5 604.5	6 493.5	8 387.4
Total assets		**6 784.7**	7 468.5	9 399.9
Equity and liabilities				
Capital and reserves				
Share capital and premium	10.4	**425.0**	588.5	588.5
Treasury shares	10.4	**(480.2)**	(480.2)	(496.4)
Other reserves	10.5	**42.6**	6.2	27.5
Retained earnings	10.6	**5 461.1**	5 325.9	5 325.4
		5 448.5	5 440.4	5 445.0
Non-current liabilities				
Long-term interest-bearing borrowings	6.1	**–**	700.0	1 375.0
Deferred taxation	12	**121.0**	89.0	59.1
Retirement benefit liability	11.5	**89.8**	101.7	100.2
		210.8	890.7	1 534.3
Current liabilities				
Trade and other payables	9.1	**417.0**	271.3	270.2
Reinsurance and insurance liabilities	5.4	**176.8**	618.8	1 550.4
Short-term interest-bearing borrowings	6.1	**531.6**	247.3	600.0
		1 125.4	1 137.4	2 420.6
Total equity and liabilities		**6 784.7**	7 468.5	9 399.9

Lewis Group Limited
Consolidated Statement of Changes in Equity

for the year ended 31 March 2018

	Notes	Group 2018 Rm	Group Restated 2017 Rm
Share capital and premium	10.4		
Opening balance		**588.5**	588.5
Cost of own shares acquired (treasury shares)		**(163.5)**	–
		425.0	588.5
Treasury shares	10.4		
Opening balance		**(480.2)**	(496.4)
Share awards to employees		**–**	16.2
		(480.2)	(480.2)
Other reserves	10.5		
Opening balance		**6.2**	27.5
Other comprehensive income:			
Fair value adjustments of available-for-sale investments		**22.8**	9.6
Disposal of available-for-sale investments recognised		**(1.3)**	(0.2)
Foreign currency translation reserve		**(11.6)**	(11.8)
Share-based payment		**26.5**	(4.0)
Transfer of share-based payment reserve to retained earnings on vesting		**–**	(14.9)
		42.6	6.2
Retained earnings	10.6		
Opening balance		**5 325.9**	5 325.4
Net profit attributable to ordinary shareholders		**264.1**	357.5
Distribution to shareholders	10.2	**(171.5)**	(356.9)
Transfer of share-based payment reserve to retained earnings on vesting		**–**	14.9
Retirement Benefit Remeasurements		**42.6**	1.2
Share awards to employees		**–**	(16.2)
		5 461.1	5 325.9
Balance at 31 March		**5 448.5**	5 440.4

Lewis Group Limited
Consolidated Cash Flow Statement

for the year ended 31 March 2018

	Notes	Group 2018 Rm	Restated 2017 Rm
Cash flow from operating activities			
Cash flow from trading		**606.3**	686.0
Operating profit before investment income		**379.3**	564.1
Adjusted for:			
Share-based payments		**26.5**	(4.0)
Depreciation and amortisation		**85.9**	90.1
Movement in debtors impairment provision		**58.9**	27.0
Movement in other provisions		**47.8**	1.1
Other movements		**7.9**	7.7
Changes in working capital:		**101.9**	428.8
(Increase)/decrease in inventories		**(27.3)**	13.2
Decrease in trade and other receivables		**91.8**	322.8
Increase in trade payables		**(0.4)**	(2.9)
Decrease in insurance premiums in advance		**327.6**	782.2
Decrease in reinsurance asset		**152.2**	245.1
Decrease in reinsurance and insurance liabilities		**(442.0)**	(931.6)
Cash generated from operations		**708.2**	1 114.8
Interest received		**99.5**	144.0
Interest paid		**(88.1)**	(187.8)
Taxation paid	12	**(58.5)**	(254.8)
		661.1	816.2
Cash utilised in investing activities			
Net disposals of insurance business investments		**176.0**	931.1
Purchase of insurance investments		**(81.5)**	(2 253.8)
Disposals of insurance investments		**257.5**	3 184.9
Acquisition of property, plant and equipment		**(44.4)**	(61.3)
Purchase of businesses	17	**(234.6)**	(107.6)
Proceeds on disposal of property, plant and equipment		**12.4**	7.6
		(90.6)	769.8
Cash flow from financing activities			
Dividends paid	10.2	**(171.5)**	(356.9)
Repayments of borrowings		**(422.2)**	(1 050.0)
Purchase of own shares		**(163.5)**	–
		(757.2)	(1 406.9)
Net (decrease)/increase in cash and cash equivalents		**(186.7)**	179.1
Cash and cash equivalents at the beginning of the year		**766.3**	587.2
Cash and cash equivalents at the end of the year		**579.6**	766.3

Lewis Group Limited: Consolidated Financial Statements Notes to the Annual Financial Statements

for the year ended 31 March 2018

1.1 Basis of preparation

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), the IFRS Interpretations Committee interpretations and the SAICA Financial 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 financial statements are prepared under the historical cost convention, as modified by the revaluation of certain financial instruments to fair value. The financial statements are prepared on a going concern basis.

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. The financial results have been consistently prepared on this basis in prior years and each financial year reflects one year's trading performance including the current and comparative year being reported on.

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. Lewis Group presents 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 contents page.)

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 numbers
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.
• 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
	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	Insurance and reinsurance liabilities	5.4
• Actuarial Risk	Defined benefit Retirement Plans	11.5.3
	Post-Retirement Healthcare Benefits	11.5.4

3. Trade and other receivables and debtor costs

3.1 Trade receivables

	Group 2018 Rm	Group 2017 Rm
Trade and other receivables		
Instalment sale and loan receivables	**5 997.0**	6 107.1
Contractually due within 12 months	**2 325.9**	2 368.6
Contractually due after 12 months	**3 671.1**	3 738.5
Unearned provisions	**(519.4)**	(525.9)
Provision for unearned maintenance income	**(309.1)**	(320.0)
Provision for unearned finance charges and unearned initiation fees	**(210.3)**	(205.9)
Net instalment sale and loan receivables	**5 477.6**	5 581.2
Provision for impairment	**(1 619.5)**	(1 560.6)
	3 858.1	4 020.6
Other receivables	**210.8**	205.2
	4 068.9	4 225.8
Debtors' impairment provision as % of net debtors	**29.6%**	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 6 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 customers 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.

3. Trade and other receivables and debtor costs continued

3.1 Trade receivables continued

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.

3. Trade and other receivables and debtor costs continued

3.1 Trade receivables continued

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. 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. This is correlated with collection statistics and customer payment data produced by the credit risk systems.

Contractual Arrears

The key aspect of the arrear calculation is Lewis' 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 arrear. 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 2018

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.

March 2018			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 who have paid 70% or more of amounts due over the contract period. The provision in this category results from *in duplum* provision.	No	401 183	3 473 979	18 039	549 506	155 673	105 593	77 633	58 003	152 604
		%	68.4%	57.9%	1.1%						
Slow payers	Customers who have paid 65% to 70% of amounts due over the contract period. The provision in this category ranges from 14% to 67% of amounts due and includes an *in duplum* provision.	No	51 311	515 597	196 021	308 975	37 594	36 230	33 546	30 741	170 864
		%	8.7%	8.6%	12.1%						
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 25% to 79% of amounts due.	No	45 940	555 813	262 519	356 918	34 573	32 780	30 928	29 308	229 329
		%	7.8%	9.3%	16.2%						
Non-performing accounts	Customers who have paid 55% or less of amounts due over the contract period. The provision in this category ranges from 35% to 100% of amounts due.	No	88 430	1 451 638	1 142 920	1 062 130	67 452	66 131	64 513	62 792	801 242
		%	15.1%	24.2%	70.6%						
Total			586 864	5 997 027	1 619 499	2 277 529	295 292	240 734	206 620	180 844	1 354 039
Unearned provisions				(519 449)							
Net instalment sale and loan receivables				5 477 578	29.6%						

3. Trade and other receivables and debtor costs continued

3.1 Trade receivables continued

March 2017			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 who have paid 70% or more of amounts due over the contract period. The provision in this category results from *in duplum* 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 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 *in duplum* 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%						

	Group 2018 Rm	Group 2017 Rm
The ageing of satisfactory paid receivables past due but not impaired is as follows:		
Satisfactory paid arrears		
1 instalment in arrear	**155.7**	162.8
2 instalments in arrear	**105.6**	114.4
3 instalments in arrear	**77.6**	86.0
4 instalments in arrear	**58.0**	65.3
5 or more instalments in arrear	**152.6**	167.8
Satisfactory paid receivables past due but not impaired	**549.5**	596.3

3. Trade and other receivables and debtor costs continued

3.1 Trade receivables continued

With regard to Section 103(5) of the National Credit Act (In duplum), Lewis has continued to charge its defaulting credit customers the cost of their monthly credit insurance premium under certain circumstances of default by them, which may potentially be in contravention of section 103(5) of the NCA, based on a Supreme Court of Appeal Judgement. Lewis has engaged with the NCR and made a submission to the Department of Trade and Industry. This matter has been placed on the NCA Policy review framework document and is on the agenda of the Credit Industry forum with regard to section 103(5) and debt counselling. Accordingly an additional provision of R18.8 million (2017: R29.1 million) has been raised accross the categories for satisfactory paid customers and slow payers.

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 22.7% (2017: 22.5%) and the average term of the sale is 32.8 months (2017: 32.6 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	
	2018 Rm	2017 Rm
Bad debts, repossession losses and bad debt recoveries	**898.4**	1 038.5
Movement in debtors' impairment provision	**58.9**	27.0
Closing balance	**1 619.5**	1 560.6
Opening balance	**(1 560.6)**	(1 533.6)
	957.3	1 065.5
Debtor costs as a % of net instalment sale and loan receivables	**17.5%**	19.1%

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 debtors 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.

4. Revenue

		Group	
		2018 **Rm**	2017 Restated Rm
4.1	**Revenue**	**5 556.8**	5 592.1
	Merchandise sales	**2 865.0**	2 607.9
	Finance charges and initiation fees earned	**1 361.6**	1 451.8
	Insurance revenue (refer note 4.2)	**671.0**	822.3
	Ancillary services	**659.2**	710.1

Accounting policy

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:

(a) by instalment sale and loan agreements. Such agreements are subject to credit legislation in the jurisdictions that the group operates.

(b) 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.

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4. Revenue continued

4.2 Insurance revenue

	Group 2018 Rm	Group 2017 Rm
Gross premiums written	**462.5**	205.6
Reinsurance premiums outwards	**(138.9)**	(30.7)
Net premiums written	**323.6**	174.9
Changes in unearned premiums, net of reinsurance	**178.2**	438.5
Net premiums earned	**501.8**	613.4
Reinsurance commission	**169.2**	208.9
Insurance revenue	**671.0**	822.3

5. Insurance

5.1 Insurance investments

	Group 2018 Rm	Group 2017 Rm
Listed investments		
Fixed income securities – available-for-sale	**471.0**	455.9
Unlisted investments		
Money market – available-for-sale	**135.4**	294.9
	606.4	750.8
Analysed as follows:		
Non-current	**471.0**	455.9
Current	**135.4**	294.9
	606.4	750.8
Movement for the year		
Beginning of the year	**750.8**	1 668.5
Additions to investments	**81.5**	2 253.8
Disposals of investments	**(255.7)**	(3 184.6)
Fair value adjustment	**29.8**	13.1
End of the year	**606.4**	750.8

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.

5. Insurance continued

Accounting policy

Financial assets continued

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:

	Credit Rating (as per Moody)		Group	
Financial institutions	Foreign	Local	**2018 Rm**	2017 Rm
FNB	Baa3	P-3	**29.8**	60.8
ABSA	Baa3	P-3	**24.4**	49.0
Nedbank	Baa3	P-3	**22.3**	65.0
Standard Bank	Baa3	P-3	**24.4**	53.0
Investec	Baa3	P-3	**19.4**	53.0
Other			**15.1**	14.1
Total			**135.4**	294.9

Both the foreign and local ratings as at 31 March 2018 are provided. Foreign ratings are heavily influenced by the country's overall credit rating.

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 (Pty) Ltd ("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

5. Insurance continued

5.1 Insurance investments continued

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:

	2018	2017
Modified duration of Monarch's fixed income portfolio	7.1	7.3
Modified duration of the JSE All Bond index	7.6	7.2

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 8.5% (2017: 7.0%). 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:

	2018	2017
+50 basis points	0.6	1.4
-50 basis points	(0.6)	(1.4)

The interest rate on fixed income securities prevailing at year-end was 7.9% (2017: 8.1%). 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:

	2018	2017
+50 basis points	2.7	2.7
-50 basis points	(2.7)	(2.7)

5. Insurance continued

5.1 Insurance investments continued

Fair value hierarchy

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

2018	**Level 2 Rm**	**Total Rm**
Available-for-sale assets:		
Insurance investments:		
Fixed income securities	**471.0**	**471.0**
Money market	**135.4**	**135.4**
	606.4	**606.4**
2017		
Available-for-sale assets:		
Insurance investments:		
Fixed income securities	455.9	455.9
Money market	294.9	294.9
	750.8	750.8

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 arms-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; and
- 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.

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5. Insurance continued

5.2 Investment income

	Group 2018 Rm	Group 2017 Rm
Interest – insurance business	**60.7**	104.6
Realised gain on disposal of insurance investments	**1.7**	0.3
	62.4	104.9

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 2018 Rm	Group 2017 Rm
Reinsurer's share of unearned premiums	**–**	123.8
Opening balance	**123.8**	364.0
Recognised in Income statement	**(100.6)**	(240.2)
Cessation of reinsurance	**(23.2)**	–
Reinsurer's share of insurance provisions	**–**	28.4
Opening balance	**28.4**	33.3
Recognised in Income statement	**(13.5)**	(4.9)
Cessation of reinsurance	**(14.9)**	–
Total reinsurance assets	**–**	152.2

The reinsurance arrangements with Constantia Insurance Company Limited were terminated with effect from 6 April 2018. Related reinsurance assets and liabilities were derecognised at the balance sheet date. The reinsurance arrangements conducted during the financial year are fully reflected in the income statement.

Accounting policy

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.

5. Insurance continued

5.4 Insurance and reinsurance liabilities

	Group 2018 Rm	Group 2017 Rm
Unearned premiums	**133.2**	412.1
Opening balance	**412.1**	1 090.8
Recognised in income statement	**(278.9)**	(678.7)
Due to reinsurers	**0.9**	0.3
Other insurance and reinsurance liabilities	**42.7**	206.4
Opening balance	**206.4**	361.2
Recognised in income statement	**(125.6)**	(154.8)
Cessation of reinsurance	**(38.1)**	–
Total insurance and reinsurance liabilities	**176.8**	618.8
Total insurance liabilities	**175.9**	487.7
Total reinsurance liabilities	**0.9**	131.1

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.

A liability is also recognised for claims events that have occurred but have not yet been reported ("IBNR"). The liability is measured using appropriate statistical techniques with historical data.

5. Insurance continued

5.4 Insurance and reinsurance 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 insurer's 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 principal 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.

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5. Insurance continued

5.5 Insurance cell captive

	Group 2018 Rm	Group 2017 Rm
Investment in insurance cell captive included in other receivables	**18.3**	28.0

The company has an economic interest in cell captives. These “cells” issue contracts that transfer insurance risk. The risks and rewards associated with these contracts are transferred to the company through a cell agreement. The net profit or loss after tax from the cells is accounted for by the company in Insurance revenue in the income statement. The net investment in the cells is shown under other receivables in the balance sheet. In determining the net insurance result from the cell captive contracts, the group insurance accounting policies are applied. The amounts payable to the company in terms of the contract are subject to certain liquidity and solvency requirements of the insurance company.

6. Borrowings, cash and net finance costs

6.1 Borrowings, banking facilities and cash

	Group 2018 Rm	Group 2017 Rm
Interest-bearing borrowings		
Long-term		
Banking facilities	**–**	700.0
	–	700.0
Short-term		
Banking facilities	**502.8**	225.0
Bank overdrafts	**28.8**	22.3
	531.6	247.3
Cash on hand and deposits	**(608.4)**	(788.6)
Net borrowings	**(76.8)**	158.7
Unutilised facilities		
Banking facilities	**1 618.4**	2 116.3
Domestic Medium Term Note Programme	**2 000.0**	2 000.0
	3 618.4	4 116.3
Available facilities	**3 541.6**	4 275.0
Interest rate profile		
Interest rate profile of borrowings is as follows:		
Bank borrowings at interest rates linked to 3 month JIBAR. The weighted average interest rate at the end of the reporting period is 9.1 % (2017: 9.6%)	**502.8**	925.0
	502.8	925.0

6. Borrowings, cash and net finance costs continued

6.1. Borrowings, banking facilities and cash continued

Interest-bearing borrowings continued

	Group 2018 Rm	Group 2017 Rm
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	**502.8**	225.0
2 years	**–**	–
3 years	**–**	700.0
4 years	**–**	–
	502.8	925.0

The above borrowings are unsecured. The group has committed facilities with banks and financial institutions of R2 150 million (2017: R2 275 million) and has established a Domestic Medium-Term Note programme ("DMTN") in October 2013, under which the group can issue notes up to R2 billion.

	Group 2018 Rm	Group 2017 Rm
Cash and cash equivalents		
Cash on hand and deposits	**608.4**	788.6
Bank overdrafts	**(28.8)**	(22.3)
	579.6	766.3

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.

	Group 2018 Rm	Group 2017 Rm
Capital management		
Interest-bearing borrowings	**531.6**	947.3
Less: cash and cash equivalents	**(608.4)**	(788.6)
Net debt	**(76.8)**	158.7
Shareholders equity	**5 448.5**	5 440.4
Gearing ratio	**(1.4%)**	2.9%

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6. Borrowings, cash and net finance costs continued

6.1. Borrowings, banking facilities and cash continued

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 2018 financial year, the strategy was to reduce the gearing significantly, which in the current credit conditions is considered to be prudent. This was achieved by reducing interest-bearing borrowings as well as introducing a share repurchase programme.

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 institutions 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 R39.0 million (2017: R85.7 million).

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

			Group	
Financial institutions	Foreign	Local	**2018 Rm**	2017 Rm
FNB	Baa3	P-3	**207.9**	37.3
ABSA	Baa3	P-3	**168.8**	360.7
Investec	Baa3	P-3	**9.0**	193.0
Standard Bank	Baa3	P-3	**10.1**	193.4
RMB	Baa3	P-3	**157.5**	–
Nedbank	Baa3	P-3	**50.1**	–
Other			**5.0**	4.2
Total			**608.4**	788.6

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. Borrowings, cash and net finance costs continued

6.2 Net finance costs

	Group	
	2018 Rm	2017 Rm
Interest paid Bank loans and other	**(87.6)**	(174.3)
Interest received Bank and other	**38.9**	39.4
Forward exchange contracts	**(0.5)**	(13.5)
Net finance costs	**(49.2)**	(148.4)

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.

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; and
- 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.

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6. Borrowings, cash and net finance costs continued

6.2. Net finance costs continued

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:

	2018	2017
Interest increases by 50bp	**2.0**	3.7
Interest decreases by 50bp	**(2.0)**	(3.7)

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, 12.8% (2017: 7.2%) 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
2018					
US dollar	Less than nine months	**Rate at 12.25**	**12.4**	**152.0**	**(1.0)**
2017					
US dollar	Less than nine months	Rate at 13.39	3.9	52.4	(1.9)

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:

	2018	2017
Currency appreciates by 10%	**11.0**	3.8
Currency depreciates by 10%	**(11.0)**	(3.8)

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7. Reportable segments

	Lewis Rm	Best Home and Electric Rm	Beares Rm	UFO[1] Rm	Group Rm
2018					
Segment income statement					
Total revenue from external customers					
Merchandise sales	**1 906.8**	**352.9**	**540.5**	**64.8**	**2 865.0**
Other revenue	**2 043.4**	**379.6**	**267.6**	**1.2**	**2 691.8**
	3 950.2	**732.5**	**808.1**	**66.0**	**5 556.8**
Cost of merchandise sales	**(1 134.7)**	**(212.5)**	**(286.4)**	**(44.2)**	**(1 677.8)**
Operating costs	**(2 635.1)**	**(398.9)**	**(439.7)**	**(26.0)**	**(3 499.7)**
Segment operating profit before investment income	**180.4**	**121.1**	**82.0**	**(4.2)**	**379.3**
Segment operating margin	**4.6%**	**16.5%**	**10.1%**	**(6.4%)**	**6.8%**
Segment assets[2]	**3 115.0**	**575.2**	**637.7**	**110.0**	**4 437.9**
Capital expenditure	**38.7**	**1.7**	**3.5**	**5.4**	**49.3**
Depreciation	**68.1**	**4.4**	**13.0**	**0.4**	**85.9**

(1) Reflects only two months' trading since its acquisition by the group.

	Lewis Rm	Best Home and Electric Rm	Beares Rm	UFO[1] Rm	Group Rm
2017 (Restated)					
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	(1 044.4)	(188.3)	(268.3)	–	(1 501.0)
Operating costs	(2 669.1)	(426.1)	(431.8)	–	(3 527.0)
Segment operating profit before investment income	423.5	111.0	29.6	–	564.1
Segment operating margin	10.2%	15.3%	4.1%	–	10.1%
Segment assets[2]	3 356.6	578.6	539.3	–	4 474.5
Capital expenditure	47.6	2.2	15.2	–	65.0
Depreciation	71.5	5.3	13.3	–	90.1

(2) Segment assets include net instalment sale and loan receivables of R3 858.1 million (2017: R4 020.6 million) and inventory of R579.7 million (2017: R453.8 million).

Geographical	South Africa Rm	Namibia Rm	BLS(*) Rm	Total Rm
2018				
Revenue	**4 551.2**	**497.6**	**508.0**	**5 556.8**
Non-current assets[1]	**331.5**	**21.2**	**10.7**	**363.4**
2017 (Restated)				
Revenue	4 559.0	526.3	506.8	5 592.1
Non-current assets[1]	368.8	22.6	18.3	409.7

(*) Botswana, Lesotho and Swaziland

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

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.

(iv) UFO

UFO is a retailer of luxury furniture to customers in the LSM 9 to 10+ 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.

for the year ended 31 March 2018

8. Gross profit and inventories

	Group	
	2018 **Rm**	2017 Restated Rm
Merchandise sales	**2 865.0**	2 607.9
Cost of merchandise sales	**(1 677.8)**	(1 501.0)
Purchases	**(1 809.8)**	(1 510.3)
Movement in inventory	**132.0**	9.3
Merchandise gross profit	**1 187.2**	1 106.9
Gross profit percentage	**41.4%**	42.4%
Inventories		
Cost of merchandise	**652.1**	507.6
Less: provision for obsolescence	**(72.4)**	(59.9)
	579.7	447.7

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.

Restatement

In terms of IAS 2, the Group now considers whether the goods/services provided to the supplier in exchange for the advertising rebates is distinct from the purchase of the goods/services from the supplier. The Group's advertising rebates result from the process of negotiating the best product price with the supplier and therefore the Group does not provide distinct goods or services to its suppliers in exchange for the rebates.

The group believes that there should be symmetry in the accounting treatment of rebates by suppliers and customers. Therefore if the supplier is treating the rebate as a reduction of revenue, Lewis Group, as the customer, should account for rebates as a reduction in the purchase price of inventory, which will result in a reduction of cost of sales when inventory is sold.

As a result of reconsidering the accounting policy, the group concluded that it previously incorrectly classified these rebates, net of advertising expenses. It was concluded that the Group's inventory accounting policy should be changed in accordance with "IAS 8: Accounting policies, changes in accounting estimates and errors".

Lewis Group Limited:
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for the year ended 31 March 2018

8. Gross profit and inventories continued

	2018	2017			2016		
	Effect of change Rm	Previously reported Rm	Effect of change Rm	Restated Rm	Previously reported Rm	Effect of change Rm	Restated Rm
Impact on balance sheet							
Inventories	**(5.7)**	454.6	(6.9)	447.7	444.5	(6.1)	438.4
Retained earnings	**(4.1)**	5 330.8	(4.9)	5 325.9	5 329.8	(4.4)	5 325.4
Deferred tax liabilities	**(1.6)**	91.0	(2.0)	89.0	60.8	(1.7)	59.1
Impact on income statement							
Cost of sales	**(20.8)**	1 522.4	(21.4)	1 501.0			
Other operating expenses – Marketing	**19.8**	199.9	22.1	222.0			
Attributable profit for the year	**(0.7)**	358.0	(0.5)	357.5			
Total comprehensive income for the year	**(0.7)**	356.8	(0.5)	356.3			
Basic earnings per share (cents)	**(0.8)**	403.5	(0.6)	402.9			
Diluted earnings per share (cents)	**(0.7)**	399.1	(0.5)	398.6			
Basic headline earnings per share (cents)	**(0.8)**	400.1	(0.6)	399.5			
Diluted headline earnings per share (cents)	**(0.8)**	395.8	(0.6)	395.2			
Impact on statement of cash flows							
Cash flow from trading	**(1.2)**	540.9	(1.6)	539.3(*)			
Changes in working capital	**1.2**	573.9	1.6	575.5(*)			
Net movement in cash and cash equivalents	**–**	201.4	–	201.4			

(*) Before reclassification as per note 19.3

9. Trade and other payables

9.1 Trade payables

	Group	
	2018 Rm	2017 Rm
Trade payables	**136.8**	78.9
Employment provisions	**90.5**	63.0
Accruals and other payables	**151.9**	114.6
Income received in advance	**37.8**	14.8
	417.0	271.3

9. Trade and other payables continued

9.1. Trade payables continued

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 payables 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 bonus are recognised as they accrue to employees when there is a legal or constructive obligation to make such payments as a result of past performance. 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

	Group	
	2018 Rm	2017 Rm
Operating lease charged to income statement		
Operating lease payments on a cash flow basis	**278.8**	278.9
Lease adjustment	**3.9**	–
Operating leases on a straight-line basis	**282.7**	278.9
Operating lease commitments		
Payments on a straight-line basis:		
Within one year	**257.0**	193.0
Two to five years	**402.2**	357.6
	659.2	550.6
Payments on a cash flow basis:		
Within one year	**253.0**	191.8
Two to five years	**418.2**	379.5
	671.2	571.3

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.

Leases on properties are contracted for periods of between three and five years with further renewal options for certain stores. Rental escalations vary, but average at a rate of 6.3% p.a.

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

	Group 2018 Cents	2017 Restated Cents
Earnings per share		
Earnings per share	**306.8**	402.9
Diluted earnings per share	**301.3**	398.6
Headline earnings per share		
Headline earnings per share	**302.6**	399.5
Diluted headline earnings per share	**297.1**	395.2

Headline earnings	Gross Rm	Income tax effect Rm	Net Rm
2018			
Attributable earnings	**264.1**	**–**	**264.1**
Profit on disposal of property, plant and equipment	**(3.3)**	**0.9**	**(2.4)**
Profit on disposal of available-for-sale investments	**(1.7)**	**0.5**	**(1.2)**
Headline earnings	**259.1**	**1.4**	**260.5**
2017 (Restated)			
Attributable earnings	357.5	–	357.5
Profit on disposal of property, plant and equipment	(2.2)	0.6	(1.6)
Profit on disposal of available-for-sale investments	(0.3)	0.1	(0.2)
Gain on acquisition of businesses	(1.2)	–	(1.2)
Headline earnings	353.8	0.7	354.5

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10. Capital management continued

10.2 Dividends

	2018 Cents	2017 Restated Cents
Dividends paid per share (cents)		
Final dividend 2017 (2016)	**100.0**	302.0
Interim dividend 2018 (2017)	**100.0**	100.0
	200.0	402.0
Dividends declared per share (cents)		
Interim dividend 2018 (2017)	**100.0**	100.0
Final dividend 2018 (2017)	**100.0**	100.0
	200.0	200.0

Dividends paid (Rm)	**Rm**	Rm
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
Dividend no. 26 declared on 24 May 2017 and paid on 24 July 2017	**96.6**	
Dividend no. 27 declared on 13 November 2017 and paid on 29 January 2018	**93.4**	
Dividends received on treasury shares:		
Lewis Stores Proprietary Limited	**(18.4)**	(37.1)
Lewis Employee Share Incentive Scheme Trust	**(0.1)**	(0.3)
	171.5	356.9

10.3 Number of shares

Weighted average number of shares	**000's**	000's
Weighted average shares for earnings and headline earnings per share	**86 073**	88 730
Dilution resulting from share awards outstanding	**1 597**	969
Weighted average shares for diluted earnings and headline earnings per share	**87 670**	89 699

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		
Number of shares issued at beginning of year	**98 058**	98 058
Shares repurchased	**(5 406)**	–
Number of shares at end of year	**92 652**	98 058
Treasury shares held by:		
Lewis Stores Proprietary Limited	**(9 217)**	(9 217)
Lewis Employee Share Incentive Scheme Trust Scheme	**(51)**	(51)
Effective number of shares in issue	**83 384**	88 790

10. Capital management continued

10.4 Equity

	Group 2018 Rm	Group 2017 Rm
Share capital and treasury shares		
Share capital	**1.0**	1.0
Share premium	**2 547.1**	2 710.6
Reverse acquisition reserve	**(2 123.1)**	(2 123.1)
	425.0	588.5
Treasury shares	**(480.2)**	(480.2)
Lewis Stores (Pty) Ltd	**(477.7)**	(477.7)
Lewis Employee Share Incentive Scheme Trust	**(2.5)**	(2.5)

During the financial year, shares were repurchased in terms of section 48 of the Companies Act as follows:

	Number of shares repurchased	Average price R	Total value repurchased Rm
In terms of the general authority granted by shareholders at the annual general meeting held on 21 October 2016.	2 941 739	32.01	94.2
In terms of the general authority granted by shareholders at the annual general meeting held on 17 October 2017.	2 464 358	28.13	69.3
	5 406 097		163.5

The shares repurchased above have reverted to authorised but unissued equity securities of the issuer in accordance with section 35(5) of the Companies Act.

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
2018					
Opening balance	**(18.4)**	**11.1**	**12.7**	**0.8**	**6.2**
Fair value adjustments of available-for-sale investments	**22.8**				**22.8**
Disposal of available-for-sale investments recognised	**(1.3)**				**(1.3)**
Movement in foreign currency translation reserve		**(11.6)**			**(11.6)**
Share-based payment			**26.5**		**26.5**
Closing balance	**3.1**	**(0.5)**	**39.2**	**0.8**	**42.6**

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10. Capital management continued

10.5 Other reserves continued

	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

10.6 Retained earnings

	Group 2018 Rm	2017 Rm
Opening balance	**5 325.9**	5 325.4
Net profit attributable to ordinary shareholders	**264.1**	357.5
Distribution to shareholders	**(171.5)**	(356.9)
Transfer of share-based payment reserve to retained earnings on vesting	**–**	14.9
Retirement Benefit Remeasurements	**42.6**	1.2
Share awards to employees	**–**	(16.2)
	5 461.1	5 325.9

Distribution by foreign subsidiaries of all their reserves at balance sheet date will potentially give rise to withholding taxes of R90.8 million (2017: R93.2 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.

Lewis Group Limited: Consolidated Financial Statements Notes to the Annual Financial Statements continued

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11. Directors and employees

11.1 Employee costs

	Group 2018 Rm	Group 2017 Rm
Employment costs		
Salaries, wages, commissions and bonuses	**948.9**	905.9
Retirement benefit costs	**72.1**	68.0
Share based payments	**26.5**	(4.0)
Other employment costs	**11.6**	17.1
	1 059.1	987.0
Remuneration of key executives		
Salary	**13.3**	13.0
Bonus	**–**	–
Retirement and medical contributions	**2.1**	2.2
Gains on share awards vested	**–**	8.7
	15.4	23.9

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

11.2 Directors' emoluments

	Group 2018 R'000	Group 2017 R'000
Non-executive Directors – fees as directors		
DM Nurek (resigned 30 November 2017)		
– company	**640**	918
– for subsidiary	**147**	212
H Saven – company	**835**	740
– for subsidiary	**265**	265
F Abrahams – company	**713**	659
– for subsidiary	**165**	–
A Bodasing	**425**	–
D Motsepe	**474**	–
AJ Smart – company	**626**	609
– for subsidiary	**286**	263
B van der Ross (retired 17 October 2017)	**363**	597
D Westcott (appointed 1 December 2017)		
– company	**257**	–
– for subsidiary	**96**	–
	5 292	4 263

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11. Directors and employees continued

11.2 Directors' emoluments continued

	Executive Director – J Enslin (paid by subsidiary)		Executive Director – LA Davies (paid by subsidiary)	
	2018 R'000	2017 R'000	**2018 R'000**	2017 R'000
Salary	**3 572**	3 443	**2 737**	2 638
Bonuses paid during the year	**–**	–	**–**	–
Contributions to pension scheme	**572**	551	**438**	422
Contribution to medical aid	**140**	127	**107**	97
Gains on share awards	**–**	2 911	**–**	2 267
	4 284	7 032	**3 282**	5 424

	J Enslin		LA Davies	
Gains on share awards – Executive Directors	**2018**	2017	**2018**	2017
Share awards vested	**–**	59 405	**–**	46 269
Offer date	**–**	14 June 2013	**–**	14 June 2013
Date vested	**–**	14 June 2016	**–**	14 June 2016
Market value on date of vesting	**–**	2 911 439	**–**	2 267 644
Gain	**–**	2 911 439	**–**	2 267 644

Outstanding share awards	**2018**		2017	
	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	**14 376**	**11 015**	33 695	25 817
30 June 2015 – Long-term award	**66 000**	**49 500**	120 000	90 000
28 June 2016 – Short-term award	**104 986**	**80 437**	149 980	114 911
1 June 2017 – Short-term award	**219 498**	**168 193**		
Lewis Executive Retention Scheme – New Scheme:				
30 June 2015	**29 700**	**23 220**	29 700	23 220
In terms of the Lewis Executive Retention Scheme, the Trust holds 31 221 shares (2017: 31 221 shares) on behalf of the above directors by virtue of the investment of their bonuses into the scheme.				
Lewis Executive Performance Scheme – Old Scheme:				
14 June 2013: five-year award	**40 000**	**30 000**	80 000	60 000
	474 560	**362 365**	413 375	313 948

Directors' interests

The directors' interests are set out on page 15.

11. Directors and employees continued

11.3 Share-based payments

	Group	
	2018	2017
Value of services provided:	**Rm**	Rm
In respect of share awards granted	**26.5**	(4.0)

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.

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	**44.19**	72.99
Weighted average expected volatility	**64.9%**	58.8%
Weighted average expected dividend yield	**6.0%**	6.7%
Weighted average risk-free rate (bond yield curve at date of grant)	**7.7%**	7.1%

11. Directors and employees continued

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	
2018	**Lewis Executive Retention Scheme**	**Lewis Long-Term and Short-Term Executive Performance**	**Lewis Co-Investment Scheme**	**Lewis Executive Performance**
Beginning of year	**131 839**	**1 944 810**	**–**	**553 333**
Granted	**–**	**1 570 988**	**–**	**–**
Forfeited	**(20 545)**	**(787 869)**	**–**	**(296 666)**
Vested	**–**	**–**	**–**	**–**
End of year	**111 294**	**2 727 929**	**–**	**256 667**
Maximum awards utilised over the life of the scheme	**1 000 000**	**3 500 000**		
Utilised for the scheme to date	**111 294**	**2 727 929**		
Invested shares	**65 660**			

	New Schemes		Old Schemes	
2017	Lewis Executive Retention Scheme	Lewis Long-Term and Short-Term Executive Performance	Lewis Co-Investment Scheme	Lewis Executive Performance
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			

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

11. Directors and employees continued

11.4 Share incentive schemes continued

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.

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.

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11. Directors and employees continued

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.

	Number of employees	
The number of employees on these plans are as follows:	**2018**	2017
Lewis Group Pension Fund	**87**	106
Lewis Stores Retirement Pension Fund	**31**	30
SACCAWU Provident Fund	**2 211**	2 152
Lewis Stores Provident Fund	**3 974**	4 294
Lewis Stores Namibia Orion Pension Fund	**546**	595
Alexander Forbes Botswana Umbrella Pension Fund	**249**	–

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 2018 by a qualified actuary in accordance with the requirements of IAS 19. The group has a commitment to meet these unfunded benefits.

11.5.2 *Effects on comprehensive income*

	Group	
	2018 Rm	2017 Rm
Defined Benefit Retirement Plans (refer note 11.5.3)	**11.2**	9.7
Post-Retirement Healthcare Plans (refer note 11.5.4)	**10.8**	11.3
Defined Contribution plans (refer note 11.5.5)	**50.1**	47.0
Income Statement Charge	**72.1**	68.0
Actuarial gains and losses included in Other Comprehensive Income:		
Defined Benefit Retirement Plans	**(41.6)**	3.9
Post-retirement Healthcare Plans	**(17.5)**	(5.5)
	(59.1)	(1.6)

11. Directors and employees continued

11.5 Retirement benefits continued

11.5.3 *Defined benefit retirement plans*

	Group 2018 Rm	Group 2017 Rm
Amounts recognised in the balance sheet		
Present value of funded obligations	542.1	548.7
Fair value of plan assets	(638.8)	(603.7)
Asset ceiling limit applied in terms of IAS 19	5.6	–
Retirement benefit asset	(91.1)	(55.0)
Present value of unfunded obligations as a liability	2.1	2.5
	(89.0)	(52.5)
Total movement in retirement benefit (asset)/liability		
Present value at the beginning of the year	(52.5)	(60.5)
Income statement charge	11.2	9.7
Current service cost	15.7	15.0
Interest income	(4.5)	(5.3)
Actuarial gains and losses included in other comprehensive income	(41.6)	3.9
Contributions paid during the year	(6.1)	(5.6)
Present value at the end of the year	(89.0)	(52.5)
Total present value of defined benefit obligations		
Beginning of year	551.2	556.4
Current service cost	15.7	15.0
Interest cost	52.8	52.5
Employee contributions	0.9	1.0
Benefit payments	(47.7)	(38.5)
Actuarial gains and losses recognised in other comprehensive income	(28.7)	(35.2)
End of year	544.2	551.2
Fair value of defined benefit plan assets		
Beginning of year	603.7	616.9
Employee contributions	0.9	1.0
Employer contributions	6.1	5.6
Interest income	57.3	57.8
Benefit payments	(47.7)	(38.5)
Actuarial gains and losses recognised in other comprehensive income	18.5	(39.1)
Asset ceiling limit applied in terms of IAS 19	(5.6)	–
End of year	633.2	603.7

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:

	2018 %	2017 %
Cash	**11.4**	12.8
Bonds – Listed	**17.4**	16.0
Equity – Listed	**40.3**	42.8
International equity – Listed	**21.9**	20.2
International bonds – Listed	**1.9**	–
Other	**7.1**	8.2
	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 2018.

The above defined benefit retirement plan asset was 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 effect of the application of the asset ceiling was to reduce the defined retirement plan asset by R5.6 million.

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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11. Directors and employees continued

11.5 Retirement benefits continued

11.5.3 *Defined benefit retirement plans continued*

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:

	2018	2017
Discount rate	**10.60%**	9.60%
Inflation rate	**8.10%**	7.60%
Future salary increases	**9.10%**	8.60%
Future pension increases	**8.10%**	7.60%

The weighted average duration of the actuarial liability is 13.3 years (2017: 14.5 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:

		Change in present value of obligation	
Assumption	Variation	**2018**	2017
Discount rate	+1%	**(11.5%)**	(12.3%)
	-1%	**14.1%**	14.7%
Salary increases	+1%	**3.1%**	3.2%
	-1%	**(2.9%)**	(3.2%)
Pension increases	+1%	**10.5%**	10.7%
	-1%	**(9.1%)**	(9.5%)
Mortality	x+1	**(2.5%)**	(2.6%)
	x-1	**2.4%**	2.2%

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.

	2018	2017
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:		
Male	**13.7 years**	14.2 years
Female	**16.1 years**	16.8 years
Actual return on plan assets	**12.4%**	2.8%

11. Directors and employees continued

11.5 Retirement benefits continued

11.5.3 *Defined benefit retirement plans continued*

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.

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.

		Experience Adjustments Gain/(loss)	
	Obligation	Plan Assets	Plan Liabilities
Trends	Rm	Rm	Rm
2018	**544.2**	**12.9**	**(28.7)**
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)

11.5.4 *Post-retirement Healthcare Benefits*

	Group	
	2018	2017
	Rm	Rm
Present value of Post-Retirement Healthcare Benefits	**87.7**	99.2
Present value of unfunded defined benefit obligation (refer note 11.5.3)	**2.1**	2.5
Retirement benefit liability	**89.8**	101.7
Movement in post-retirement healthcare liability		
Present value of liability at the beginning of the year	**99.2**	97.7
Charged to income statement	**10.8**	11.3
Current service cost	**1.3**	1.4
Interest cost	**9.5**	9.9
Actuarial gains and losses recognised in other comprehensive income	**(17.5)**	(5.5)
Employer benefit payments	**(4.8)**	(4.3)
Post-retirement healthcare benefits liability	**87.7**	99.2

11. Directors and employees continued

11.5 Retirement benefits continued

11.5.4 *Post-retirement Healthcare Benefits continued*

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.

Significant accounting estimates and judgements

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

	2018 Rm	2017 Rm
Principal actuarial assumptions:		
Health Care Inflation Rate	**7.90%**	9.20%
CPI inflation	**5.90%**	7.20%
Discount rate	**9.20%**	9.80%
Average retirement age (years)	**63**	63

The weighted average duration of the actuarial liability is 14.9 years (2017: 14.5 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:

		Change in present value of obligation	
Assumption	Variation	**2018**	2017
Discount rate	+1%	**(10.9%)**	(11.7%)
	-1%	**13.4%**	14.6%
Healthcare cost	+1%	**13.3%**	16.2%
	-1%	**(10.9%)**	(13.1%)
Expected retirement age	x+1%	**(2.1%)**	(2.2%)
	x-1%	**2.0%**	2.2%

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.

11. Directors and employees continued

11.5 Retirement benefits continued

11.5.4 *Post-retirement Healthcare Benefits continued*

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.

Trends

The trends of the present value of the obligation and experience adjustments are as follows:	Obligation	Adjustments (Gain)/loss
2018	**87.7**	**(17.5)**
2017	99.2	(5.5)
2016	97.7	(13.0)
2015	104.7	8.5
2014	90.7	14.3

11.5.5 *Defined contribution plans*

	Group	
	2018 Rm	2017 Rm
Defined contribution plan costs	**50.1**	47.0

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.

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12. Taxation

	Group 2018 Rm	Group 2017 Restated Rm
Taxation per income statement		
South Africa	88.9	126.3
Foreign	39.5	36.8
	128.4	163.1
Comprising:		
Normal taxation		
Current year	93.5	100.3
Prior year	(0.6)	0.8
Deferred taxation		
Current year	29.8	61.1
Prior year	(6.8)	0.9
Withholding tax	12.5	–
	128.4	163.1
Tax rate reconciliation		
Profit before taxation	392.5	520.6
Taxation calculated at a tax rate of 28% (2017: 28%)	109.9	145.8
Differing tax rates in foreign countries	4.5	6.3
Disallowances	22.8	14.5
Exemptions	(13.9)	(5.2)
Prior years	(7.4)	1.7
Withholding tax	12.5	–
Taxation per income statement	128.4	163.1
Effective tax rate	32.7%	31.3%
Taxation paid per cash flow statement		
Amount due at the beginning of the year	181.1	28.3
Amount charged to the income statement	(128.4)	(163.1)
Adjustment for deferred taxation	23.0	61.1
Acquisition	(8.2)	–
Cessation of reinsurance	10.5	–
Amount owing at the end of the year	(136.5)	(181.1)
	(58.5)	(254.8)
Deferred taxation as per balance sheet		
Balance at the beginning of the year	40.1	(26.7)
Movement for the year attributable to:		
Income statement (debit)/credit	29.8	61.1
Prior year adjustment	(6.8)	–
Deferred tax on fair value adjustment in other comprehensive income	8.3	3.7
Acquisition	11.7	1.6
Deferred tax on retirement benefit remeasurements	16.5	0.4
Cessation of reinsurance	10.5	–
Balance at the end of the year	110.1	40.1
This balance comprises:		
Capital allowances	67.5	51.3
Available-for-sale assets	–	(7.1)
Debtors allowances	97.7	84.7
Income and expense recognition	(2.0)	1.8
Assessed loss	(11.7)	(7.0)
Other provisions	(41.4)	(83.6)
Balance at the end of the year	110.1	40.1

12. Taxation continued

	Group	
	2018 **Rm**	2017 Restated Rm
Disclosed as:		
Deferred tax asset	**(10.9)**	(48.9)
Deferred tax liability	**121.0**	89.0
	110.1	40.1

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.

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.

13. Regulatory matters continued

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 judgement 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;
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, discussions between Lewis and the NCR took place and the parties reached agreement that they would seek an order by consent from the High Court setting aside and replacing the judgement of the NCT with an order from the High Court. On 2 May 2018, at the request of the parties the High Court set aside the order by the NCT and substituted the order with the following:

1. Lewis contravened the NCA through the sale of loss of employment insurance to consumers who are retired or self-employed;
2. Save insofar as is permitted by law, Lewis shall not offer or demand that any pensioner or self-employed consumer pay for loss of employment insurance;
3. Lewis shall, within 30 calendar days of the order, pay an amount of R5 000 000 (five million Rand) as a fine;
4. Independent auditors will review PWC's report of factual findings on Lewis' criteria which identified effected customers who are to be refunded. An audit will only be required if the review concludes that there were material irregularities in the methodology adopted by PWC.
5. Lewis will complete the repayment of the premiums paid by the retired and self-employed consumers in respect of Loss of Employment Insurance policies in accordance with the PWC's report or any subsequent audit as referred to in paragraph (4) above and will provide the Regulator with the detail of such repayments, including the names of consumers.
6. Lewis will, in respect of all future credit agreements concluded with pensioners, take reasonable steps to establish that such pensioner has an insurable interest in respect of the cover provided under any policy offered by Lewis.
7. No order as to costs.

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.

13. Regulatory matters continued

On 5 June 2017, in a majority judgement, the NCT found that:

- The National Credit Act ("Act") does not prevent credit providers from offering the services of a club to consumers, provided these services are not part of the "cost of credit". It was found that club fees charged by Lewis do not form part of the cost of credit of any credit agreement between Lewis and its customers.
- The Act provides that Lewis may include the cost of an extended warranty as part of its fees and charges in its credit agreements with consumers and does not prescribe the terms and conditions of the extended warranty offered by Lewis to its consumers.

On 28 June 2017, the NCR filed a notice of appeal to the ruling and the appeal was heard on 17 April 2018 in the High Court of South Africa (Gauteng Division).

On 30th April 2018, the High Court handed down judgement in Lewis' favour with regard to the appeal by the NCR. The matter was dismissed with costs against the NCR. The NCR has one month from 30 April to apply to the Supreme Court of Appeal, for special leave to appeal the judgement.

High Court Summons

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 on the basis of a procedural flaw.

In response, the plaintiffs brought an application for leave to amend their particulars of claim so as to deal with the averments on the procedural matters. On 4 August 2017, the plaintiffs' application for leave to amend their particulars of claim was dismissed, with a costs order being granted in Lewis' favour. As a consequence, the plaintiffs have again sought to amend their particular claim, on 24 August 2017, to which Lewis objected. Accordingly the plaintiffs launched a second application for leave to amend the particulars of claim. The second application will be heard later this year on a date to be arranged with the High Court.

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.

On 29 January 2018, Mr Woollam withdrew his appeal before the Supreme Court of Appeal in relation to his first demand in terms of Section 165(2) of the Companies Act.

Referral by Summit Financial Partners to National Consumer Tribunal

Summit Financial Partners ("Summit") alleged that delivery fees charged by Lewis in contravention of Section 102 of the National Credit Act and lodged a complaint with the NCR. The NCR, after investigation, declined to refer the matter to the NCT. The NCR has issued Summit with a Notice of Non-Referral with regard to the complaint. Summit has decided to launch an application to self-refer the matter to the NCT. Lewis is opposing the application. The NCT is still to finally confirm a date for the hearing of the application.

Lewis Group Limited: Consolidated Financial Statements Notes to the Annual Financial Statements continued

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14. Financial instruments

i) Categories

Assets	Loans and Receivables Rm	Available-for-sale Rm	Amortised Cost Rm	Total Rm
2018				
Insurance investments	**–**	**606.4**	**–**	**606.4**
Trade and other receivables	**4 068.9**	**–**	**–**	**4 068.9**
Cash on hand and on deposit	**–**	**–**	**608.4**	**608.4**
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
Liabilities				
2018				
Trade payables			**136.8**	**136.8**
Borrowings			**531.6**	**531.6**
Insurance and reinsurance liabilities			**176.8**	**176.8**
2017				
Trade payables			78.9	78.9
Borrowings			947.3	947.3
Insurance and reinsurance liabilities			618.8	618.8

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
2018				
Borrowings	**(531.6)**	**–**	**–**	**(531.6)**
Interest on borrowings to maturity	**(34.0)**	**–**	**–**	**(34.0)**
Trade payables	**(136.8)**	**–**	**–**	**(136.8)**
Insurance and reinsurance liabilities	**(143.6)**	**(33.2)**	**–**	**(176.8)**
	(846.0)	**(33.2)**	**–**	**(879.2)**
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)

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

Lewis Group Limited:
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for the year ended 31 March 2018

14. Financial instruments continued

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
2018				
Assets				
Gross instalment sale and loan receivables	**Up to three years**	**22.7%**	**Fixed**	**5 997.0**
Fixed income securities	**Varies**	**7.9%**	**Fixed**	**471.0**
Money Market investments	**Up to 12 months**	**8.5%**	**Floating**	**135.4**
Liabilities				
Long-term interest-bearing borrowings	**Varies (refer note 6)**	**–**	**Floating**	**–**
Short-term interest-bearing borrowings	**Varies (refer note 6)**	**9.2%**	**Floating**	**502.8**
2017 (Restated)				
Assets				
Gross instalment sale and loan receivables	Up to three 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 note 6)	9.6%	Floating	700.0
Short-term interest-bearing borrowings	Varies (refer note 6)	9.6%	Floating	225.0

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.

15. Property, plant and equipment

	Land and Buildings Rm	Vehicles Rm	Furniture, fixtures and equipment Rm	Total Rm
Group				
As at 31 March 2018				
Opening net carrying value	**109.7**	**128.7**	**105.1**	**343.5**
Additions	**0.2**	**18.2**	**31.1**	**49.5**
Disposals	**(0.8)**	**(5.9)**	**(2.7)**	**(9.4)**
Depreciation	**(1.1)**	**(32.1)**	**(48.6)**	**(81.8)**
Closing net carrying value	**108.0**	**108.9**	**84.9**	**301.8**
Cost	**123.1**	**282.8**	**522.9**	**928.8**
Accumulated depreciation	**(15.1)**	**(173.9)**	**(438.0)**	**(627.0)**
As at 31 March 2017				
Opening net carrying value	110.6	145.9	113.9	370.4
Additions	0.2	24.2	40.2	64.6
Disposals	–	(4.9)	(0.1)	(5.0)
Depreciation	(1.1)	(36.5)	(48.9)	(86.5)
Closing net carrying value	109.7	128.7	105.1	343.5
Cost	123.9	294.2	498.0	916.1
Accumulated depreciation	(14.2)	(165.5)	(392.9)	(572.6)

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 and impairment losses. 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

16. Intangible assets

	Group	
Trademarks	**2018 Rm**	2017 Rm
Opening net carrying value	**66.2**	61.4
Additions	**55.7**	8.4
Disposals	**–**	–
Amortisation	**(4.1)**	(3.6)
Closing net carrying value	**117.8**	66.2
Cost	**131.2**	75.5
Accumulated amortisation	**(13.4)**	(9.3)

The UFO trademark was acquired during the year as part of the acquisition of the UFO business. The acquisition was accounted for under IFRS 3 which requires the identifiable assets acquired and liabilities assumed to be fairly valued and, consequently, the trademark acquired was valued by an independent valuer at R55.7 million using the relief from royalty method.

In the prior year 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.

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.

	Group	
Goodwill	**2018 Rm**	2017 Rm
Opening net carrying value	**5.5**	–
Additions	**182.4**	5.5
Other	**(0.3)**	–
Closing net carrying value	**187.6**	5.5
Cost	**187.6**	5.5
Accumulated impairment	**–**	–

Goodwill was recognised during the year as part of the acquisition of the UFO business, as the excess of the purchase consideration over the attributable fair value of the identifiable assets and liabilities, at the date of acquisition (refer to note 17).

In the prior year goodwill was recognised as part of the acquisition of the Beares and Ellerines businesses in Namibia, as the excess of the purchase consideration over the attributable fair value of the identifiable assets and liabilities, at the date of acquisition (refer to note 17).

16. Intangible assets continued

Accounting policy

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.

17. Purchase of businesses

	Group	
	2018 Rm	2017 Rm
Identifiable assets acquired and liabilities assumed		
Trademarks (refer note 16)	**55.7**	8.4
Goodwill (refer note 16)	**182.4**	5.5
Property, plant and equipment	**4.9**	3.7
Inventory	**116.4**	23.2
Trade receivables	**–**	73.1
Other receivables	**5.4**	–
Cash and cash equivalents	**73.0**	–
Short-term borrowings	**(0.3)**	–
Taxation	**(8.2)**	–
Trade and other payables	**(93.5)**	(3.5)
Deferred tax	**(11.7)**	(1.6)
Gain on acquisition of Beares	**–**	(1.2)
Total consideration	**324.1**	107.6
Outflow of cash to acquire subsidiary, net of cash acquired		
Cash consideration	**324.1**	107.6
Less: Cash balances acquired	**(73.0)**	–
Less: Deferred purchase consideration	**(16.5)**	–
Net outflow of cash – investing activities	**234.6**	107.6

17. Purchase of businesses continued

Purchase of United Furniture Outlets (2018)

On 1 February 2018, Lewis Stores Proprietary Limited ("Lewis Stores"), a wholly-owned subsidiary of the group, obtained control of United Furniture Outlets Proprietary Limited ("UFO"), a cash furniture retailer, by acquiring 100% of the issued ordinary share capital and voting rights and all shareholders´ claims against UFO from the shareholders.

UFO is an independent, cash furniture retailer with a retail footprint of 31 stores. It sells a variety of furniture including lounge, bedroom and dining room products. UFO is recognised as a luxury brand with a value offering to the upper consumer spectrum, namely LSM 9 – 10+. The business was established in 2004 and currently more than half of its stores are located in Gauteng.

The total acquisition consideration was a cash amount of R324.1 million.

The acquisition will enable Lewis Stores to achieve improved economies of scale and provide a platform to penetrate new market sectors through a wider, more exclusive product range. The acquisition will diversify its offering by increasing its exposure to cash furniture retailing and provide access to a higher income customer market segment (LSM 9 – 10+). The UFO brand and business model is scalable and offers an opportunity to extend the UFO footprint across South Africa and into neighbouring Southern African countries.

The goodwill arising on acquisition is attributable to current earnings and future earnings growth in the existing business which are internally funded as a consequence of its cash retailing business model and diversification benefits of a cash furniture retailer. As required by IFRS 3, the valuation of goodwill at date of acquisition does not include the future opportunities to extend the UFO footprint across South Africa and into neighbouring Southern African countries as a consequence of its acquisition by the group.

For the period 1 February 2018 to 31 March 2018, UFO had revenue of R66.0 million and earned an attributable profit of R0.1 million and these results were consolidated into the group for the two months.

If UFO was consolidated from 1 April 2017, the group's annualised revenue would have increased by R444.5 million and group annualised profit would have increased by R25.1 million.

Purchase of Ellerines and Beares businesses (2017)

In the prior 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.

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 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.

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.

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.

18. Group consolidation continued

(b) Group companies

The results and financial position of foreign operations (none of which operate in a hyperinflationary 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.

Currency Risk – Net Investment in foreign subsidiaries

The currency exposure is limited to the net investment in Botswana of R184.8 million (2017: R197.8 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:

	2018	2017
Currency appreciates by 10%	**16.6**	24.7
Currency depreciates by 10%	**(16.6)**	(24.7)

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 6 to 36 months but are classified as current as they form part of the normal operating cycle.

19. Other notes continued

19.2 New Standards and Interpretations not yet effective

19.2.1 *IFRS 9 Financial Instruments*

IFRS 9 (Financial Instruments) replaces IAS 39 (Financial Instruments: Recognition and Measurement) and 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

- an expected credit loss impairment model replaces the incurred loss model under IAS 39.

With respect to classification and measurement of financial instruments, the group does not expect a significant impact on the results and financial position, with regards to insurance investments.

With respect to the impairment of receivables in terms of IFRS 9, the group has the option to select the general model which consists of three stages or the simplified model which consists of two stages to determine its expected credit losses (“ECL”) with regard to receivables. The group will adopt the simplified model which recognises the expected credit losses over the lifetime of trade receivables on initial recognition. This eliminates the need to calculate a 12-month ECL provision.

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. The adoption of the standard is also expected to impact the recognition of revenue. Stage 2 receivables will not be materially affected and interest income will continue to be accounted for on the gross amount of the receivable. However, credit impaired stage 3 receivables will be accounted for at the gross carrying amount net of loss allowance (amortised cost), resulting in lower interest income which will be offset by the appropriately lower impairment charge for these stage 3 credit impaired accounts.

The group has established an implementation committee with representation from all relevant departments which reports directly into the audit committee. 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 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.

IFRS 9 does not require restatement of prior periods. An entity is only permitted to restate prior periods if it is able to do so without the use of hindsight. Where prior periods are not restated, any difference between previously reported carrying amounts and new carrying amounts at the beginning of the annual reporting period must be recognised in opening retained earnings.

19.2.2 *IFRS 15*

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.

19. Other notes continued

19.2.3 *IFRS 16*

IFRS 16 (Leases) replaces IAS 17 with effect from the year ending 31 March 2020. IFRS 16 will result in most leases being recognised in the statement of financial position, as the distinction between operating and finance leases has been removed. Under the new standard, an asset representing the right to use the leased item and a financial liability, to pay rentals, will be recognised. The only exceptions are short-term and low-value leases.

The new standard will primarily affect the accounting for operating leases relating to retail stores. As at the reporting date the group has non-cancellable operating lease commitments of R671.2 million (refer to note 9.2). The group has not yet determined the extent of the right of use asset nor the liability for future payments and how this will affect profit and classification of cash flows.

19.2.4 *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.

19.2.5 *Other Standards and Interpretations not yet effective*

In addition to the above, following standards, amendments resulting from the Improvements Project and interpretations are not yet effective and have not been adopted by the group:

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	These amendments introduce two approaches: an overlay approach and a deferral approach. The amended standard will: 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 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.
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.
IFRIC 23: Uncertainty over income tax treatments	IFRIC 23 provides a framework to consider, recognise and measure the accounting impact of tax uncertainties. The Interpretation provides specific guidance in several areas where previously IAS 12 was silent. The Interpretation also explains when to reconsider the accounting for a tax uncertainty.

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

Lewis Group Limited:
Consolidated Financial Statements
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for the year ended 31 March 2018

19. Other notes continued

19.3 Reclassifications to the cash flow statement

The following reclassifications to the cash flow statement were made:

- Movements in insurance and re-insurance premiums were incorrectly included in cash flows from trading. These have been reclassified to changes in working capital under cash flow generated from operations in the cash flow statement.
- Bank overdrafts were incorrectly included as part of borrowings when it should have been part of cash and cash equivalents. The bank overdrafts have been reclassified to cash and cash equivalents.

The effect of the above reclassifications are as follows:

	2017 Previously reported Rm	2017 Effect of change Rm	2017 Restated Rm
Cash flow from trading –Movement in other provisions	539.3(*)	146.7	686.0
Changes in working capital –Increase in trade payables	575.5(*)	(146.7)	428.8
Repayment of borrowings	1 027.7	22.3	1 050.0
Cash and cash equivalents	788.6	(22.3)	766.3

(*) After restatement as per note 8

19.4 Other Income statement disclosures

	2018 Rm	2017 Rm
Initiation and service fees on accounts receivable	**486.8**	505.4
Fees payable:		
Investment management fee – insurance investments	**2.1**	3.4
Outsourcing of IT function	**81.9**	68.6
	84.0	72.0
Auditors' remuneration		
Audit fees – current year	**3.1**	3.4
Other services – Audit-related	**1.8**	0.2
– Non-Audit related	**1.5**	1.1
	6.4	4.7
Fair value adjustment – loan	**(2.0)**	15.0

19.5 Contingencies

	2018 Rm	2017 Rm
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**	9.0

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 23 May 2018.

for the year ended 31 March 2018

20. Interest in subsidiary companies

	Nature of business	2018 Carrying value of subsidiaries Rm	2018 % Holding	2017 Carrying value of subsidiaries Rm	2017 % 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				
United Furniture Outlets (Pty) Ltd	F				
Incorporated in Botswana					
Lewis Stores (Botswana) (Pty) Ltd	F				
Lewis Insurance Services (Botswana) (Pty) Ltd	M				
Lewis Management Services (Botswana) (Pty) Ltd	D				
Incorporated in Swaziland					
Lewis Stores (Swaziland) (Pty) Ltd	F				
Incorporated in Namibia					
Lewis Stores (Namibia) (Pty) Ltd	F				
Lewis Management Services (Namibia) (Pty) Ltd	D				
Incorporated in Lesotho					
Lewis Stores (Lesotho) (Pty) Ltd	F				
Cost of subsidiaries		**2 800.0**		2 800.0	
Capital contribution in respect of share-based payment		**39.5**		12.7	
Loans to/(from) subsidiaries:					
Long-term		**–**		–	
Short-term		**–**		–	
Amounts due to subsidiary		**(52.1)**		(46.7)	
Interest in subsidiaries		**2 787.4**		2 766.0	

F Furniture dealer
I Insurance company
M Management services company
D Dormant company

Lewis Group Limited
Company Statement of Comprehensive Income

for the year ended 31 March 2018

	Notes	2018 Rm	2017 Rm
Revenue	2	**397.6**	409.5
Operating costs	3	**(9.5)**	(17.0)
Interest paid to note holders under DMTN programme		**–**	(15.1)
Profit before taxation		**388.1**	377.4
Taxation	4	**(0.4)**	(0.1)
Net profit and comprehensive income attributable to ordinary shareholders		**387.7**	377.3

Company Balance Sheet

at 31 March 2018

	Notes	2018 Rm	2017 Rm
Assets			
Non-current assets			
Interest in subsidiaries	5	**2 839.2**	2 812.7
Current assets			
Deposits at bank		**35.7**	–
Taxation		**0.6**	–
Total assets		**2 875.5**	2 812.7
Equity and liabilities			
Capital and reserves			
Share capital and premium	6	**2 548.1**	2 711.6
Share-based payment reserve		**39.2**	12.7
Retained earnings		**234.6**	39.5
		2 821.9	2 763.8
Current liabilities			
Trade and other payables		**1.5**	2.2
Amounts due to subsidiary		**52.1**	46.7
		53.6	48.9
Total equity and liabilities		**2 875.5**	2 812.7

Lewis Group Limited
Company Statement of Changes in Equity

for the year ended 31 March 2018

	Share capital and premium Rm	Share-based payment reserve Rm	Retained earnings Rm	Total Rm
Balance as at 1 April 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**
Net profit attributable to ordinary shareholders			**387.7**	**387.7**
Dividends paid			**(192.6)**	**(192.6)**
Capital contribution in respect of share-based payment		**26.5**		**26.5**
Share repurchase	**(163.5)**			**(163.5)**
Balance as 31 March 2018	**2 548.1**	**39.2**	**234.6**	**2 821.9**

Company Cash Flow Statement

for the year ended 31 March 2018

	Note	2018 Rm	2017 Rm
Cash flow from operating activities			
Cash utilised in operations	7	**(8.7)**	(20.5)
Dividends received		**396.1**	394.2
Taxation paid		**(1.0)**	(0.1)
		386.4	373.6
Cash flow from investment activities			
Loan repayment received from subsidiary		–	304.6
		–	304.6
Cash flow from financing activities			
Dividends paid		**(192.6)**	(394.2)
Repayment of borrowings		–	(304.6)
Increase in amounts due to subsidiary		**5.4**	20.3
Share repurchase		**(163.5)**	–
		(350.7)	(678.5)
Net increase/(decrease) in cash and cash equivalents		**35.7**	(0.3)
Cash and cash equivalents at the beginning of the year		–	0.3
Cash and cash equivalents at the end of the year		**35.7**	–

Lewis Group Limited
Notes to the Company Financial Statements

for the year ended 31 March 2018

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

	2018 Rm	2017 Rm
Dividends received from subsidiary – Lewis Stores Proprietary Limited	**396.1**	394.2
Interest received from subsidiary – Lewis Stores Proprietary Limited	**–**	15.1
Interest received – banks	**1.5**	0.2
	397.6	409.5

3. Operating profit

	R'000	R'000
Stated after:		
Audit fees – current year	**60**	60
Directors fees (refer note 11.2 to the group financial statements)	**4 334**	3 499

4. Taxation

	2018 Rm	2017 Rm
Taxation	**0.4**	0.1
	0.4	0.1
The rate of taxation on profit is reconciled as follows:		
Profit before taxation	**388.1**	377.4
Taxation calculated at a tax rate of 28% (2017: 28%)	**108.7**	105.7
Exempt income	**(108.3)**	(105.6)
Taxation per income statement	**0.4**	0.1

Lewis Group Limited
Notes to the Company Financial Statements continued

for the year ended 31 March 2018

5. Interest in subsidiaries

	2018 Rm	2017 Rm
Shares at cost	**2 800.0**	2 800.0
Capital contribution for share-based payment	**39.2**	12.7
	2 839.2	2 812.7

Refer note 20 to the group financial statements

6. Share capital and premium

	2018 Rm	2017 Rm
Authorised		
150 000 000 ordinary shares of 1 cent each	**1.5**	1.5
Issued		
92 651 862 (2017: 98 057 959) ordinary shares of 1 cent each	**1.0**	1.0
Share premium	**2 547.1**	2 710.6
Total share capital and premium	**2 548.1**	2 711.6

7. Cash utilised in operations

	2018 Rm	2017 Rm
Profit before taxation	**388.1**	377.4
Dividends received	**(396.1)**	(394.2)
Decrease in trade and other payables	**(0.7)**	(3.7)
	(8.7)	(20.5)

Lewis Group Limited
Shareholder's information

Shareholders spread as at 31 March 2018:

	Number of shareholders		Number of shares	
	Total	%	Total	%
1 – 1 000 shares	1 043	60.18	369 426	0.40
1 001 – 10 000 shares	483	27.87	1 537 622	1.66
10 001 – 100 000 shares	133	7.67	4 368 491	4.71
100 001 – 1 000 000 shares	53	3.06	15 766 288	17.02
1 000 001 shares and over	20	1.22	70 610 035	76.21
Total	1 732	100.00	92 651 862	100.00

Distribution of shareholders as at 31 March 2018:

	Number of shareholders		Number of shares	
	Total	%	Total	%
Public:	1 723	99.48	82 441 613	88.97
Unit Trusts/Mutual Funds			40 600 038	43.82
Pension Funds			15 054 401	16.25
Other			26 787 174	28.90
Non-public:	9	0.52	10 210 249	11.03
Lewis Stores Proprietary Limited	1	0.06	9 216 928	9.95
Lewis Employee Incentive Scheme Trust	1	0.06	51 312	0.06
Directors:				
Lewis Group Limited	4	0.23	852 961	0.92
Lewis Stores Proprietary Limited	3	0.17	89 048	0.10
	1 732	100.00	92 651 862	100.00

Major shareholdings as at 31 March 2018:

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 5% of the company's shares as at 31 March 2018:

	Number of shares	
Beneficial shareholders:	Total	%
Trimark Global Endeavour Fund	13 792 644	14.89
Government Employee Pension Fund	9 383 757	10.13
Lewis Stores Proprietary Limited	9 216 928	9.95
Trimark Global Balanced Fund	5 787 498	6.25
By Fund Manager:		
Invesco Limited	19 580 142	21.13
Public Investment Corporation	8 403 237	9.07
Dimensional Fund Advisors	5 069 303	5.47
Stonehage Trust Holdings (Jersey)	4 926 867	5.32

Lewis Group Limited
Shareholder's information continued

	Number of shares %
Geographical analysis of shareholders:	
Beneficial shareholders:	
South Africa	48.86
North America	39.26
Rest of World	11.88
	100.00
By Fund Manager:	
South Africa	46.14
North America	41.32
Rest of World	12.54
	100.00