Annual Financial Statements 2012

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Company information

Registration number:	2004/009817/06
Registered address:	53A Victoria Road Woodstock 7925
Postal address:	P.O. 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

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Directors' responsibility statement

for the year ended 31 March 2012

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 have 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 2013 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 page 3.

The financial statements of the group and the company for the year ended 31 March 2012, which appear on pages 10 to 55 have been approved by the board of directors and signed on their behalf by:

D M Nurek
Chairman

J Enslin
Chief Executive Officer

Cape Town
23 May 2012

Company secretary's certificate for the year ended 31 March 2012

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

M G McConnell
Company Secretary

23 May 2012

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

for the year ended 31 March 2012

We have audited the consolidated annual financial statements and annual financial statements of Lewis Group Limited which comprise the consolidated and separate balance sheets as at 31 March 2012, the consolidated and separate income statements, the consolidated statement of comprehensive income, the consolidated and separate statements of changes in equity, the consolidated and separate cash flow statements for the year then ended, a summary of significant accounting policies and other explanatory information, the directors' report and Annexure A as set out on pages 4 to 5 and 10 to 55.

Directors' responsibility for the financial statement

The company's directors are responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the consolidated and separate balance sheet of Lewis Group Limited as at 31 March 2012, its consolidated and separate income statements, its consolidated statement of comprehensive income 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.

PricewaterhouseCoopers Inc

PricewaterhouseCoopers Inc.
Director: Z Abrahams
Registered Auditor

Cape Town
23 May 2012

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Directors' report for the year ended 31 March 2012

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 468 Lewis, 118 Best Home and Electric, and 16 My Home 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 brand.

The nature of the business of the subsidiaries is set out on page 55.

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 10 to 55.

Segmental analysis

Segmental information is set out in the segmental report on page 15 of the annual financial statements.

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.

Share capital

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

Treasury chares

The group has purchased 9 216 928 (9.2%) of its own shares on the open market through its subsidiary, Lewis Stores Proprietary Limited. Refer note 8.1 and 8.2 for more detail.

The Lewis Employee Incentive Scheme Trust effectively holds 305 474 shares, all of which will be utilised to cover share awards granted to executives. Details have been set out in note 8 and 17.3 to the financial statements.

Dividends

The following dividends have been declared or proposed for the financial year ended 31 March 2012:

	Dividend per share	Date declared	Payable
Interim – declared	172 cents	14 November 2011	23 January 2012
Final – proposed	270 cents	23 May 2012	23 July 2012
For the year	442 cents		

Notice is hereby given that a final gross cash dividend of 270 cents per share in respect of the year ended 31 March 2012 has been declared payable to holders of ordinary shares.

The dividend has been declared out of income reserves and is subject to a dividend tax of 15%. The STC credits ("Secondary Tax on Companies") utilised in this declaration is R17 969 686. At the time of this declaration, there are 98 057 959 shares in issue and consequently the STC credit per share is 18.32558 cents. Accordingly, the dividend for determining the dividend tax is 251.67442 cents and the dividend tax payable is 37.75116 cents per share for shareholders who are not exempt. The net dividend for shareholders who are not exempt will therefore be 232.24884 cents. The dividend tax rate may be reduced where the shareholder is tax resident in a foreign jurisdiction which has a Double Tax Convention with South Africa and meets the requirements for a reduced rate.

The company's tax reference number is 9551/419/15/4.

The following dates are applicable to this declaration:

Last date to trade "cum" dividend	Friday 13 July 2012
Date trading commences "ex" dividend	Monday 16 July 2012
Record date	Friday 20 July 2012
Date of payment	Monday 23 July 2012

Share certificates may not be dematerialised or rematerialised between Monday 16 July 2012 and Friday 20 July 2012.

Directors

There were no changes to the board of directors this year.

In terms of the articles of association of the company the following will retire and have offered themselves for re-election:

D M Nurek

J Enslin

L A Davies

Company secretary

M G McConnell remained as company secretary throughout the year. The address of the company secretary is that of the registered offices as stated on page 1.

Directors' interests

At 31 March 2012, the directors' beneficial direct and indirect interest in the company's issued shares were as follows:

	2012		2011	
	Direct	Indirect	Direct	Indirect
D M Nurek	–	10 000	–	10 000
H Saven	–	2 940	–	2 940
A J Smart	319 070	–	319 070	–
J Enslin	–	39 848	–	32 616
L A Davies	96 144	34 812	71 144	30 658
	415 214	87 600	390 214	76 214

The following share awards have been made to directors:

J Enslin	291 295
L A Davies	229 765

Full details of the terms and conditions in relation to these share awards are set out in note 17.4 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 Listings 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 17.4 to the financial statements.

Subsidiary companies

Details of the company's subsidiaries are set out on page 55.

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

	2012	2011
	Rm	Rm
Profit	811.5	718.8
Losses	(1.6)	–

Borrowing powers

Borrowings were R1 074.0 million at 31 March 2012 (2011: R1 083.0 million). Borrowings are subject to the treasury policy adopted by the board of directors. In terms of the articles of association, the group has unlimited borrowing powers.

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Audit committee report for the year ended 31 March 2012

The Audit Committee ("the committee") has pleasure in submitting its report for the year ended 31 March 2012 in compliance with section 94(7) of the Companies Act of 2008, as amended.

Introduction

The committee has an independent role with accountability to the board. The committee operates within 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 assigned to it by the board. The Audit Committee executed its duties in terms of the requirements of King III.

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

Objectives

The objectives of the committee are:

- To assist the board to discharge its duties relating to the safeguarding of assets, the operation of adequate systems and controls, overseeing integrated reporting, reviewing of financial information and the preparation of interim and annual financial statements in compliance with all applicable legal requirements and accounting standards.
- To facilitate and promote communication and liaison between the board of directors and the company's management in respect of the matters referred to above.
- To recommend the introduction of measures which the committee believes may enhance the credibility and objectivity of financial statements and reports concerning the affairs of the company.
- To perform their statutory functions under section 94 of the Companies Act.
- To advise on any matter referred to the committee by the board of directors.

Relationship with the Monarch Audit and Risk Committee

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

Membership

The committee comprised the following independent non-executive directors:

H Saven (chairman)

Z Bassa

B J van der Ross

F Abrahams

M S P Marutlulle

Biographical details of the committee members are provided on pages 18 to 19 of the Integrated Report. Fees paid to the committee members are outlined in the table of directors' remuneration in note 17.4 to the annual financial statements.

The chairman of the board, 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.

Committee activities

The committee met four times during the year under review. Attendance of the members has been set out on page 59 of the Integrated Report.

The committee attended to the following material matters:

External auditors

- 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 2012 financial year. The fees paid to the auditors are disclosed in note 20 to the annual financial statements;
- determined the nature and extent of allowable non-audit services and approved the contract terms for the provision of non-audit services. It is the policy of the group that the auditor is restricted from rendering accounting, IT consulting services, company secretarial, internal audit and human resource services;
- reviewed and approved the external audit plan, ensuring that material risk areas were included and that coverage of the significant business processes was acceptable; and

- reviewed the external audit reports and management's response, considered their effect on the financial statements and internal financial control.

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

Internal audit

- reviewed and approved the existing internal audit charter which ensures that the group's internal audit function is independent and has the necessary resources, standing and authority within the organisation to enable it to discharge its duties;
- satisfied as to the credibility, independence and objectivity of the internal audit function;
- internal audit has direct access to the committee, primarily through the committee's chairman;
- reviewed and approved the annual internal audit plan, ensuring that material risk areas were included and that the coverage of significant business processes was acceptable;
- reviewed the quarterly internal audit reports, covering the effectiveness of internal control, material fraud incidents and material non-compliance with group policies and procedures. The committee is advised of all internal control developments and advised of any material losses, with none being reported during the year;
- considering and reviewing 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; and
- considered and, where appropriate, made recommendations on internal financial control.

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

Integrated report

The committee fulfils an oversight role regarding the company's integrated report and the reporting process.

- considered the company's integrated report and has assessed its consistency with operational, financial and other information known to Audit Committee members, and for consistency with the annual financial statements. The committee is satisfied that the integrated report is materially accurate, complete and reliable and consistent with the annual financial statements.
- the committee has, at its meeting held on 21 May 2012, recommended that the integrated report for the year ended 31 March 2012 for approval by the board of directors.

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.

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Audit committee report for the year ended 31 March 2012

Independence of external auditors

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

– confirmation from the external auditors that they, or their immediate family, do not hold any significant direct or indirect financial interest or have any material business relationship with Lewis. The external auditors also confirmed that they have internal monitoring procedures to ensure their independence.

– The auditors do not, other than in their capacity as external auditors or rendering permitted non-audit services, receive any remuneration or other benefits from the group.

– The auditor's independence was not impaired by the non-audit work performed having regard to the quantum of audit fees relative to the total fee base and the nature of the non-audit work undertaken.

– The auditor's independence was not prejudiced as a result of any previous appointment as auditor. In addition, an audit partner rotation process is in place in accordance with the relevant legal and regulatory requirements.

– The criteria specified for independence by the Independent Regulatory Board for Auditors.

– The audit firm and the designated auditor is accredited with the JSE.

The committee confirms it has functioned in accordance with its terms of reference for the 2012 financial year.

Hilton Saven
Chairman
Audit Committee

23 May 2012

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Income statement for the year ended 31 March 2012

		Group	
	Notes	2012 Rm	2011 Rm
Revenue		4 857.3	4 577.7
Merchandise sales		2 365.4	2 290.3
Finance charges earned		908.2	919.6
Insurance premiums earned	15	868.5	752.4
Ancillary services		715.2	615.4
Cost of merchandise sales	16	(1 446.3)	(1 458.6)
Operating costs		(2 271.9)	(2 066.6)
Employment costs	17	(732.9)	(693.5)
Administration and IT		(220.7)	(208.1)
Debtor costs	18	(522.3)	(458.9)
Marketing		(184.5)	(156.5)
Occupancy costs		(207.3)	(186.1)
Transport and travel		(177.9)	(147.5)
Depreciation		(48.5)	(46.5)
Other operating costs		(177.8)	(169.5)
Operating profit	20	1 139.1	1 052.5
Investment income	21	91.9	82.0
Profit before finance costs		1 231.0	1 134.5
Net finance costs		(63.2)	(91.9)
Interest paid	22.1	(82.2)	(87.1)
Interest received	22.2	3.8	3.2
Forward exchange contracts	22.3	15.2	(8.0)
Profit before taxation		1 167.8	1 042.6
Taxation	23	(367.2)	(330.7)
Net profit attributable to ordinary shareholders		800.6	711.9
Earnings per share (cents)	24	905.0	807.2
Diluted earnings per share (cents)	24	895.1	798.2

Statement of comprehensive income for the year ended 31 March 2012

	Group	
	2012 Rm	2011 Rm
Net profit for the year	800.6	711.9
Fair value adjustments of available-for-sale investments	72.9	38.1
Fair value adjustments of available-for-sale investments	87.2	42.8
Tax effect	(14.3)	(4.7)
Disposal of available-for-sale investments recognised	(17.2)	(17.8)
Disposal of available-for-sale investments	(19.1)	(19.2)
Tax effect	1.9	1.4
Foreign currency translation reserve	1.5	(4.1)
Total comprehensive income for the year attributable to equity shareholders	857.8	728.1

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Balance sheet for the year ended 31 March 2012

		Group	
	Notes	2012 Rm	2011 Rm
Assets			
Non-current assets			
Property, plant and equipment	4	311.9	278.7
Deferred taxation	12	16.1	20.1
Insurance investments	5	1 005.3	857.1
		1 333.3	1 155.9
Current assets			
Inventories	6	281.4	256.3
Trade and other receivables	7	4 064.5	3 835.0
Insurance investments	5	373.3	240.2
Cash on hand and deposits		77.9	84.3
		4 797.1	4 415.8
Total assets		6 130.4	5 571.7
Equity and liabilities			
Capital and reserves			
Share capital and premium	8	95.4	93.5
Other reserves	9	277.9	207.1
Retained earnings	10	3 901.3	3 427.5
		4 274.6	3 728.1
Non-current liabilities			
Long-term interest-bearing borrowings	11	650.0	400.0
Deferred taxation	12	111.4	85.1
Retirement benefits	13	63.6	59.4
		825.0	544.5
Current liabilities			
Trade and other payables	14	585.8	567.0
Taxation		21.0	49.1
Short-term interest-bearing borrowings	11	424.0	683.0
		1 030.8	1 299.1
Total equity and liabilities		6 130.4	5 571.7

Statement of changes in equity for the year ended 31 March 2012

	Notes	Group 2012 Rm	Group 2011 Rm
Share capital and premium	8		
Opening balance		93.5	93.5
Share awards to employees		1.9	–
		95.4	93.5
Other reserves	9		
Opening balance		207.1	171.3
Other comprehensive income:			
Fair value adjustments of available-for-sale investments		72.9	38.1
Disposal of available-for-sale investments recognised		(17.2)	(17.8)
Foreign currency translation reserve		1.5	(4.1)
Share-based payment		19.0	18.4
Transfer of share-based payment reserve to retained income on vesting		(6.5)	(8.4)
Transfer to contingency reserve		1.1	9.6
		277.9	207.1
Retained earnings	10		
Opening balance		3 427.5	3 008.9
Net profit attributable to ordinary shareholders		800.6	711.9
Distribution to shareholders	25	(335.5)	(295.6)
Profit on sale of own shares		5.2	3.5
Transfer of share-based payment reserve to retained income on vesting		6.5	8.4
Transfer to contingency reserve		(1.1)	(9.6)
Share awards to employees		(1.9)	–
		3 901.3	3 427.5
Balance as 31 March 2012		4 274.6	3 728.1
Dividends paid per share (cents)			
Final dividend 2011 (2010)		207.0	179.0
Interim dividend 2012 (2011)		172.0	156.0
		379.0	335.0
Dividends declared per share (cents)			
Interim dividend 2012 (2011)		172.0	156.0
Final dividend 2012 (2011)		270.0	207.0
		442.0	363.0

Cash flow statement for the year ended 31 March 2012

	Notes	Group 2012 Rm	Group 2011 Rm
Cash flow from operating activities			
Cash flow from trading		1 358.3	1 295.6
Change in working capital		(385.9)	(518.6)
Cash generated from operations	26.1	972.4	777.0
Interest and dividends received		76.6	66.0
Interest paid		(67.0)	(95.1)
Taxation paid	26.2	(377.4)	(328.0)
		604.6	419.9
Cash utilised in investing activities			
Net additions to insurance business investments		(194.1)	(160.4)
Acquisition of property, plant and equipment		(87.8)	(78.6)
Proceeds on disposal of property, plant and equipment		10.2	11.7
		(271.7)	(227.3)
Cash flow from financing activities			
Dividends paid	25	(335.5)	(295.6)
Increase in long-term borrowings		250.0	50.0
Increase/(decrease) in short-term borrowings.		50.0	(50.0)
Proceeds on sale of own shares		5.2	3.5
		(30.3)	(292.1)
Net increase/(decrease) in cash and cash equivalents		302.6	(99.5)
Cash and cash equivalents at the beginning of the year		(348.7)	(249.2)
Cash and cash equivalents at the end of the year		(46.1)	(348.7)
ANALYSIS OF BORROWINGS AND BANKING FACILITIES			
Borrowings			
Long-term		650.0	400.0
Short-term		300.0	250.0
		950.0	650.0
Cash and cash equivalents			
Short-term facilities utilised		124.0	433.0
Cash on hand		(77.9)	(84.3)
		46.1	348.7
Net borrowings		996.1	998.7
Unutilised facilities		753.9	451.3
Total banking facilities		1 750.0	1 450.0

Segmental report for the year ended 31 March 2012

Reportable segment	Lewis	Best Home and Electric	My Home	Group
	Rm	Rm	Rm	Rm
2012				
Segment income statement				
Total revenue to external customers				
Merchandise sales	1 971.0	318.0	76.4	2 365.4
Other revenue	2 112.8	335.5	43.6	2 491.9
	4 083.8	653.5	120.0	4 857.3
Cost of merchandise sales	(1 196.3)	(203.1)	(46.9)	(1 446.3)
Operating costs	(1 902.4)	(304.8)	(64.7)	(2 271.9)
Segment operating profit	985.1	145.6	8.4	1 139.1
Segment operating margin	24.1%	22.3%	7.0%	23.5%
Segment assets (1)	3 624.5	535.5	104.6	4 264.4
Capital expenditure	75.9	10.7	1.2	87.8
Depreciation	43.4	4.2	0.9	48.5
2011				
Segment income statement				
Total revenue to external customers				
Merchandise sales	1 901.9	287.4	101.0	2 290.3
Other revenue	1 951.6	301.1	34.7	2 287.4
	3 853.5	588.5	135.7	4 577.7
Cost of merchandise sales	(1 217.5)	(187.0)	(54.1)	(1 458.6)
Operating costs	(1 716.3)	(275.5)	(74.8)	(2 066.6)
Segment operating profit	919.7	126.0	6.8	1 052.5
Segment operating margin	23.9%	21.4%	5.0%	23.0%
Segment assets (1)	3 422.3	491.5	102.3	4 016.1
Capital expenditure	66.3	9.1	3.3	78.7
Depreciation	41.1	4.4	1.0	46.5

(1) Segment assets include net instalment sale and loan receivables of R3 983.0 million (2011: R3 759.8 million) and inventory of R281.4 million (2011: R256.3 million).

Geographical	South Africa	BLNS*	Total
	Rm	Rm	Rm
2012			
Revenue	4 265.3	592.0	4 857.3
Capital expenditure	81.6	6.2	87.8
2011			
Revenue	4 038.7	539.0	4 577.7
Capital expenditure	72.8	5.9	78.7

* Botswana, Lesotho, Namibia and Swaziland

Annual financial statements

Notes to the annual financial statements for the year ended 31 March 2012

1. Summary of accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

1.1 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and under the historical cost convention, as modified by available-for-sale assets and financial assets and financial liabilities at fair value through profit and loss.

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 in note 3.

Changes to accounting policies and disclosures arising from the adoption of new standards, amendments and interpretations to standards effective for the current year are disclosed in note 2.

1.2 Basis of consolidation

The consolidated annual financial statements incorporate the financial statements of the company and its subsidiaries. Subsidiaries are entities in which the group has the power to govern the financial and operating policies generally accompanying an ownership interest of more than one half of the voting rights. The results of the subsidiaries are included from the effective date of control to the date that control ceases to be exercised by the group. The accounting policies and year-ends of all subsidiaries are consistent throughout the group. Intergroup transactions and balances, including unrealised gains and losses, are eliminated on consolidation.

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 over the fair value of the group's share of the identifiable net assets is recorded as goodwill. If this is less than the fair value of the net assets acquired in the case of a bargain purchase, the difference is recognised directly in the income statement.

Investments in subsidiaries are carried at cost less any impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes directly attributable costs of investment.

Employee share trusts are consolidated. Shares in Lewis Group Limited held by subsidiaries and the share trust are classified as treasury shares.

1.3 Goodwill

Goodwill, being the excess of the purchase consideration 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 and written down to the recoverable amount, where impairment has occurred. Impairment losses on goodwill are not reversed. Gains and losses on disposal of an entity include the carrying value of goodwill relating to the entity sold.

Any 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.

1.4 Foreign currency translations

1.4.1 Functional and presentation currency

The financial statements of the subsidiaries are measured in the currency of the primary economic environment of the subsidiary ("the functional currency"). The group and company financial statements are presented in South African Rand, the company's functional currency and the group and company's presentation currency.

1.4.2 Foreign currency transactions and balances

Transactions in foreign currency are converted at the exchange rate ruling at the transaction date. Monetary assets and liabilities are translated at the rate of exchange ruling at the balance sheet date. Exchange profits and losses arising from the translation of monetary assets and liabilities at balance sheet date or on subsequent settlement of these monetary items are recognised in the income statement in the period in which they arise. Translation differences on available-for-sale financial assets are included in other comprehensive income.

1. Summary of accounting policies continued

1.4 Foreign currency translations continued

1.4.3 Foreign entities

The assets and liabilities of foreign subsidiaries (excluding loans which are part of the net investment) are translated at the closing rate, while income, expenditure and cash flow items are translated using the average exchange rate. Differences arising on translation are reflected in a foreign currency translation reserve, a separate component of other comprehensive income. On disposal of a foreign subsidiary, such translation differences are recognised in the income statement as a gain or loss on the sale.

1.5 Financial instruments

1.5.1 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 remeasured at amortised cost using the effective interest rate.

1.5.2 Derivative instruments

Derivative instruments are utilised to hedge exposure to foreign currency and interest rate fluctuations. Derivatives are recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Although the derivative instruments entered into by the group provide an effective economic hedge, these derivative instruments have been classified as fair value through profit and loss and, consequently, changes in the fair value are recognised immediately in the income statement.

1.5.3 Financial assets

Investments are classified into three categories, based on the purpose for which the investment was acquired. The classification is determined on initial recognition. Derivative instruments are accounted for in terms of note 1.5.2.

The investments are classified as follows:

(i) Financial assets designated as fair value through profit and loss. A financial asset is classified as such where the asset is acquired principally for the purpose of selling in the short-term. Assets in this category are classified as current assets where expected to be realised within twelve months of balance sheet date.

(ii) Available-for-sale assets are assets acquired with the intention of being held indefinitely or those assets that cannot be classified in any of the other categories of financial instruments. Available-for-sale financial assets are included in non-current assets, unless management intends to dispose of the investment within twelve months of the balance sheet date.

(iii) Held-to-maturity investments are financial assets with fixed or determinable payments and fixed maturities where management has the positive intention and ability to hold to maturity. Held-to-maturity investments are carried at amortised cost using the effective interest rate method. If the group were to sell these assets, the whole category of such assets would be reclassified as available-for-sale.

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 expensed in the income statement in respect of assets classified as fair value through profit and loss and for other categories, added to their carrying value. Assets designated as fair value through profit and loss and as available-for-sale 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.

Realised and unrealised gains and losses arising from a change in the fair value of financial assets classified as fair value through profit and loss are included in the income statement in the period in which they arise. 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, 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.

At each balance sheet date, an assessment is made as to whether there is objective evidence to impair the financial assets. If any such evidence exists for available-for-sale financial assets, the cumulative impairment loss less any impairments previously recognised is removed from equity and recognised in the income statement.

Notes to the annual financial statements for the year ended 31 March 2012

1. Summary of accounting policies continued

1.5 Financial instruments continued

1.5.4 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or sevices 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. The provision for impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Changes in the provision are recognised in the income statement.

1.5.5 Financial liabilities

(i) 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.

(ii) 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.

1.5.6 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 off-set the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

1.6 Property, plant and equipment

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

Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are capitalised when it is probable that future economic benefits will arise and the cost can be measured reliably. All other expenditure is recognised through profit and loss.

Assets are depreciated to their residual value, on a straight line basis, over their estimated useful lives. The estimated useful lives of the assets in years are:

Buildings	50 years
Leased equipment	3 years
Furniture and equipment	3 to 10 years
Vehicles	4 to 6 years

Land is not depreciated.

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.

1.7 Leased assets

Leases of property, plant and equipment, where the group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lesser of the fair value of the leased assets or the present value of the minimum lease payments. Lease payments are allocated, using the effective interest rate method, between the lease finance cost, which is included in financing costs, and the capital repayment, which reduces the liability to the lessor. Capitalised leased assets are depreciated to their estimated residual value over the shorter of the lease period or their estimated useful lives.

Leases where the lessor retains substantially all 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.

1. Summary of accounting policies continued

1.8 Inventories

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. 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.

1.9 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 may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount may not be recoverable.

1.10 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 directly in equity. In this case, the tax is also recognised 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 periodically 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 all temporary differences between the taxation base of an asset or liability and its carrying value. Deferred tax 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 substantially 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.

1.11 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.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a rate that takes into consideration the time value of money and the risks specific to the obligation.

1.12 Insurance business

1.12.1 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 into by the company 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.

1.12.2 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.

1.12.3 Contingency reserve

A contingency reserve is maintained in terms of the Insurance Act, 1998. Transfers to this reserve are at 10% of premiums written less reinsurance and treated as an appropriation of retained earnings.

1.12.4 Provision for unearned premiums

The provision for unearned premiums and the reinsurer's share of 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.

Notes to the annual financial statements for the year ended 31 March 2012

1. Summary of accounting policies continued

1.12 Insurance business continued

1.12.5 Reinsurance

Income from reinsurance contracts is deferred over the period of the related reinsurance contract and is recognised as a current liability.

The reinsurer's share of 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 liabilities are primarily premiums payable for reinsurance contracts.

1.13 Segmental information

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) My Home
My Home is a retailer of upmarket furniture to customers in the LSM 7 to 8 categories who have a need for in-store credit facilities.

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. 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 (ie. trade receivables and inventory) in accordance with the group's accounting policies. There are no significant inter-segmental transactions.

1.14 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.

1.15 Treasury shares

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.

1. Summary of accounting policies continued

1.16 Employee benefits

1.16.1 Retirement plans

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. Pension costs are assessed annually by a qualified actuary, in terms of IAS 19, using the projected unit credit method.

The liability in respect of defined benefit pension plans is the present value of the defined benefit obligations at the balance sheet date minus the fair value of plan assets, together with adjustments for actuarial gains/losses and any past service cost. The present value of the defined benefit obligation is determined by the estimated future cash outflows using interest rates of government securities which have terms to maturity approximating the terms of the related liability.

To the extent that actuarial gains and losses arising from experience adjustments, changes in actuarial assumptions and amendments to pension plans exceed the greater of 10% of the fund's obligation or plan assets at the end of the previous reporting period, the excess is charged or credited to income over the average remaining service lives of employees. Actuarial surpluses are not accounted for unless the group has a legal right to such surpluses.

The group's contributions to the defined contribution pension plans are charged to the income statement in the year to which they relate and have been included in employment costs.

1.16.2 Post retirement healthcare costs

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 1 August 1997. The post-retirement healthcare costs are assessed annually by a qualified independent actuary using the projected unit credit method. The cost of providing these subsidies and any actuarial gains and losses are recognised in the income statement immediately. The post-retirement healthcare benefit is measured as the present value of the estimated future cash outflows using an appropriate discount rate.

1.16.3 Share-based payments

The group operates a number of equity-settled share incentive schemes. 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 non-market service and performance vesting conditions. Non-market 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.

Share awards granted by the company 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.

1.16.4 Leave pay accrual

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

1.17 Trading cycle

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

Notes to the annual financial statements for the year ended 31 March 2012

1. Summary of accounting policies continued

1.18 Revenue recognition

Revenue is recorded at the fair value of the consideration received or receivable and comprises merchandise sales net of discounts, earned finance charges, earned TV and appliance service 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.

(ii) Finance charges 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 sum-of-digits basis which approximates the effective yield basis.

(iii) Insurance premiums earned
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 cost.

(iv) Ancillary services
Revenue from maintenance contracts is recognised over a 24-month period to ensure a reasonable profit margin. Initiation fees are recognised over the period of the contract on an effective yield basis. Revenue from the provision of other services is recognised when the services are rendered.

(v) Interest and dividends
Interest on investments is recognised on a time proportion basis taking into account the effective yield on the assets. Dividends are recognised when the right to receive payment is established.

2. Changes in accounting policies and disclosures

The following revisions and amendments to standards and interpretations have become effective for the current financial reporting year, but have had no material impact on the group's results, financial position or disclosure:

IAS 24: Related Party Disclosures (amendments)

IFRIC 14: Prepayments of a Minimum Funding Requirement (amendments)

AC 504: The limit on a defined benefit asset, minimum funding requirements and their interaction in the South African Pension Fund Environment (revisions arising from amendments to IFRIC 14)

Annual improvements to IFRS issued April 2009 for amendments effective 1 July 2010 and 1 January 2011.

3. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the preparation of the financial statements, the following key estimates were made in determining the assets and liabilites of the group:

3.1 Impairment of receivables

A discounted cash flow model using the contractual interest rate on the expected future collections from customers is applied. The cash flows are calculated using the payment ratings of customers at the balance sheet date. 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. Critical accounting estimates and judgements continued

3.2 Bad debts

Customer accounts are written off, once it is assessed that the customer is no longer in a position to service the account.

3.3 Share-based payment

The share-based payment was valued in terms of an option pricing model. Details of the option pricing model and the assumptions used are detailed in note 17.2.

3.4 Normal and deferred taxation

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.

3.5 Retirement benefits

The underlying actuarial assumptions are set out in note 13.

3.6 Useful lives and residual values of fixed assets

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

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Notes to the annual financial statements for the year ended 31 March 2012

	Group		
	Land and buildings	Vehicles and fixtures	Total
	Rm	Rm	Rm
4. Property, plant and equipment			
As at 31 March 2012			
Opening net carrying value	116.0	162.7	278.7
Additions	–	87.8	87.8
Disposals	–	(6.1)	(6.1)
Depreciation	(1.1)	(47.4)	(48.5)
Closing net carrying value	114.9	197.0	311.9
Cost	123.7	506.3	630.0
Accumulated depreciation	(8.8)	(309.3)	(318.1)
As at 31 March 2011			
Opening net carrying value	117.0	134.1	251.1
Additions	–	78.6	78.6
Disposals	–	(4.5)	(4.5)
Depreciation	(1.0)	(45.5)	(46.5)
Closing net carrying value	116.0	162.7	278.7
Cost	123.7	447.8	571.5
Accumulated depreciation	(7.7)	(285.1)	(292.8)

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

	2012 Rm	2011 Rm
5. Insurance investments		
Listed investments		
Listed shares – available-for-sale	442.9	365.2
Fixed income securities – available-for-sale	562.4	491.9
Unlisted investments		
Money market – available-for-sale	373.3	240.2
	1 378.6	1 097.3
Analysed as follows:		
Non-current	1 005.3	857.1
Current	373.3	240.2
	1 378.6	1 097.3
Movement for the year		
Beginning of the year	1 097.3	894.1
Net additions to investments	213.2	179.6
Movement in fair value transferred to equity	68.1	23.6
End of the year	1 378.6	1 097.3

A register of listed investments is available for inspection at the company's registered office. Regular purchases and sales of financial assets are accounted for on the trade date.

	2012 Rm	2011 Rm
6. Inventories		
Cost of merchandise	313.7	284.6
Less: provision for obsolescence	(32.3)	(28.3)
	281.4	256.3

	Group 2012 Rm	Group 2011 Rm
7. Trade and other receivables		
Instalment sale and loan receivables	5 871.1	5 454.7
Provision for unearned finance charges and unearned maintenance income	(280.9)	(271.4)
Provision for unearned initiation fees	(109.8)	(102.6)
Provision for unearned insurance premiums	(622.2)	(562.6)
Unearned insurance premiums	(1 012.3)	(916.6)
Less: reinsurer's share of unearned premiums	390.1	354.0
Net instalment sale and loan receivables	4 858.2	4 518.1
Provision for impairment	(875.2)	(758.3)
	3 983.0	3 759.8
Other receivables	81.5	75.2
	4 064.5	3 835.0

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.

8. Share capital and premium

8.1 Share capital and premium

	2012 Rm	2011 Rm
Share capital	1.0	1.0
Share premium	2 710.6	2 710.6
Reverse acquisition reserve	(2 123.1)	(2 123.1)
	588.5	588.5
Treasury shares:		
Lewis Stores Proprietary Limited	(477.8)	(477.8)
Lewis Employee Share Incentive Scheme Trust	(15.3)	(17.2)
Total share capital and premium	95.4	93.5

The average market price paid for the shares repurchased by the company and the treasury shares held by Lewis Stores Proprietary Limited was R50.45, with the lowest price being R32.99 and the highest R65.90.

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

	2012 000's	2011 000's
8.2 Number of ordinary shares in issue		
Number of shares issued	98 058	98 058
Treasury shares held by:		
Lewis Stores Proprietary Limited	(9 217)	(9 217)
Lewis Employee Share Incentive Scheme Trust	(305)	(604)
Number of shares in issue	88 536	88 237

Annual financial statements

Notes to the annual financial statements for the year ended 31 March 2012

		Group	
		2012 Rm	2011 Rm
9. Other reserves			
Comprising:			
Fair value reserve		197.5	141.8
Foreign currency translation reserve		(20.9)	(22.4)
Share-based payment reserve		40.7	28.2
Statutory insurance contingency reserve		59.8	58.7
Other		0.8	0.8
		277.9	207.1

Detailed movements in the other reserves are disclosed in the statement of changes in equity.

		Group	
		2012 Rm	2011 Rm
10. Retained earnings			
Comprising:			
Company		84.8	76.1
Consolidated subsidiaries		3 816.5	3 351.4
		3 901.3	3 427.5

Distribution by certain foreign subsidiaries will give rise to withholding taxes of R49.6 million (2011: R41.4 million) which may be off-set in certain instances against South African tax.

11. Interest-bearing borrowings

11.1 Long-term

Maturity Date (Financial year)	Interest rate	2012 Rm	2011 Rm
2013	3 month JIBAR plus margins of between 225 and 245 basis points	–	300.0
2014	3 month JIBAR plus 245 basis points	100.0	100.0
2015	3 month JIBAR plus margins of between 195 and 200 basis points	250.0	
2015	Fixed rates varying between 8.00% and 8.15%	300.0	
		650.0	400.0

11.2 Short-term

	2012 Rm	2011 Rm
Current portion of long-term borrowings bearing interest at 3 month JIBAR plus margins of between 225 and 245 basis points (2011: 3 month JIBAR plus margins of between 165 and 300 basis points)	300.0	250.0
Demand loans at short-term money market rates	124.0	433.0
	424.0	683.0

	2012 Rm	2011 Rm
11.3 Total borrowings	1 074.0	1 083.0

The above borrowings are unsecured. The group has committed facilities of R1 750 million.

	Group 2012 Rm	Group 2011 Rm
12. Deferred taxation		
Balance at the beginning of the year	65.0	71.5
Movement for the year attributable to:		
Income statement credit	17.9	(9.8)
Deferred tax on fair value adjustment in equity	12.4	3.3
Balance at the end of the year	95.3	65.0
This balance comprises:		
Capital allowances	58.1	41.6
Debtors' allowances	120.8	100.8
Income and expense recognition	(0.1)	(3.9)
Other provisions	(83.5)	(73.5)
Balance at the end of the year	95.3	65.0
Disclosed as:		
Deferred tax asset	(16.1)	(20.1)
Deferred tax liability	111.4	85.1
	95.3	65.0
13. Retirement benefits		
Amounts recognised in the balance sheet		
Defined benefit retirement plan liability	2.0	4.4
Post-retirement healthcare benefits	61.6	55.0
	63.6	59.4

Retirement plans

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

The number of employees on these plans are as follows:	No. of employees 2012	No. of employees 2011
Lewis Group Pension Fund	193	219
Lewis Stores Retirement Pension Fund	28	30
SACCAWU Provident Fund	1 190	1 026
Lewis Stores Provident Fund	3 547	3 609
Lewis Stores Namibia Provident Fund	170	159

Annual financial statements

Notes to the annual financial statements for the year ended 31 March 2012

	Group	
	2012 Rm	2011 Rm
13. Retirement benefits continued		
Defined benefit plans		
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 2012.		
Amounts recognised in the balance sheet		
Present value of obligations	386.6	352.9
Fair value of plan assets	(395.4)	(374.3)
	(8.8)	(21.4)
Unrecognised actuarial gains	10.8	25.8
Defined benefit retirement plan liability	2.0	4.4
Amounts recognised in the income statement		
Current service cost	10.9	12.4
Interest cost	29.5	27.3
Expected return on plan assets	(35.7)	(30.9)
Net actuarial losses recognised in the year	4.1	7.9
Total included in staff costs	8.8	16.7
Movement in retirement benefit liability		
Present value at the beginning of the year	4.4	8.0
Income statement charge	8.8	16.7
Contributions paid during the year	(11.2)	(20.3)
Present value at the end of the year	2.0	4.4
Present value of defined benefit obligations		
Beginning of the year	352.9	325.9
Current service cost	10.9	12.4
Interest cost	29.5	27.3
Employee contributions	1.5	1.5
Benefit payments	(23.8)	(22.3)
Actuarial loss	15.6	8.1
End of year	386.6	352.9
Fair value of defined benefit plan assets		
Beginning of the year	374.3	325.0
Employee contributions	1.5	1.5
Employer contributions	11.2	20.3
Expected return	35.7	30.9
Benefit payments	(23.8)	(22.3)
Actuarial (loss)/gain	(3.5)	18.9
End of the year	395.4	374.3

	Group 2012	Group 2011
13. Retirement benefits continued		
Principal actuarial assumptions used were as follows:		
Discount rate	9.00%	8.50%
Expected return on plan assets	10.00%	9.50%
Inflation rate	6.50%	5.75%
Future salary increases	7.75%	7.00%
Future pension increases	6.50%	5.75%
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	15.0 years	12.2 years
Female	16.9 years	14.2 years
Actual return on plan assets	10.0%	13.4%

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

The expected return on plan assets (net of tax) is obtained by applying the expected long term rate of return (net of tax) on plan assets to the fair value of plan assets.

Plan assets

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

	2012 %	2011 %
Cash	23.3	18.0
Bonds	13.5	17.2
Equity	40.2	46.9
International equity	13.2	16.5
International bonds	8.3	0.5
Property	0.3	0.4
Other	1.2	0.5
	100.0	100.0

		Experience adjustments Gain/(loss)	
Trends	Obligation Rm	Plan assets Rm	Plan liabilities Rm
2012	386.6	(3.5)	(15.6)
2011	352.9	18.9	(8.1)
2010	325.9	23.8	(26.7)
2009	331.0	(50.8)	20.1
2008	345.8	24.4	(22.3)
2007	303.2	35.4	(22.8)

Defined contribution plans	2012 Rm	2011 Rm
For defined contribution plans, the group pays contributions to the funds on a contractual basis. Once the contributions have been paid, the group has no further payment obligations.		
Defined contribution plan costs	28.0	24.8

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	Group 2012 Rm	Group 2011 Rm
13. Retirement benefits continued		
Post-retirement healthcare benefits		
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 2012 by a qualified actuary in accordance with the requirements of IAS 19. The group has a commitment to meet these unfunded benefits.		
Amounts recognised in the income statement		
Current service cost	0.8	0.8
Interest cost	4.5	3.7
Actuarial loss	4.3	9.0
Income statement charge	9.6	13.5
Movement in post-retirement healthcare liability		
Present value of liability at the beginning of the year	55.0	43.8
Charged to income statement	9.6	13.5
Employer benefit payments	(3.0)	(2.3)
Post-retirement healthcare benefits liability	61.6	55.0
Present value of post-retirement healthcare obligations		
Beginning of the year	55.0	43.8
Current service cost	0.8	0.8
Interest cost	4.5	3.7
Benefit payments	(3.0)	(2.3)
Actuarial gain	4.3	9.0
End of the year	61.6	55.0
Principal actuarial assumptions used were as follows:		
Healthcare inflation rate	6.00%	5.75%
CPI inflation	6.00%	5.75%
Discount rate	8.50%	9.00%
Average retirement age (years)	63	63

Sensitivity

The effects of a 1% movement in the assumed medical aid inflation rate were as follows:

	Increase	Decrease
Effect on aggregate of the current service and interest cost	1.0	(0.7)
Effect on defined benefit obligation	8.2	(6.8)

Trends

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

	Obligation	Experience adjustments Gain/(loss)
2012	61.6	(1.0)
2011	55.0	(7.8)
2010	43.8	1.1
2009	42.7	0.2
2008	40.8	0.2
2007	40.5	2.4
2006	41.2	4.9

	Group 2012 Rm	Group 2011 Rm
14. Trade and other payables		
Trade payables	71.1	72.7
Accruals and other payables	166.0	178.1
Due to reinsurers	147.2	144.8
Insurance provisions	201.5	171.4
	585.8	567.0
15. Insurance premiums earned		
Gross insurance premiums	946.1	855.3
Reinsurance commission	287.4	255.4
Reinsurance premiums	(365.0)	(358.3)
	868.5	752.4
16. Cost of merchandise sales		
Purchases	1 471.4	1 504.9
Movement in inventory	(25.1)	(46.3)
Cost of merchandise sales	1 446.3	1 458.6
Merchandise gross profit	919.1	831.7
17. Directors and employees		
17.1 Employment costs		
Salaries, wages, commissions and bonuses	662.4	612.9
Retirement benefit costs	46.5	55.0
Share-based payments	19.0	18.4
Other employment costs	5.0	7.2
	732.9	693.5

17.2 Share-based payments

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 and options granted. The fair value of such options and shares is measured at the grant date using the Black-Scholes model. In terms of IFRS 2, share-based payments are required to be expensed over the vesting period. Any accelerated vesting of the awards and options requires immediate recognition of the unrecognised portion.

	2012 Rm	2011 Rm
Value of services provided:		
In respect of share awards and options granted subsequent to date of listing (refer note 17.3)	19.0	18.4
	R	R
Significant assumptions used were:		
Weighted average share price	58.89	50.42
Weighted average expected volatility	64.1%	64.3%
Weighted average expected dividend yield	5.8%	6.7%
Weighted average risk-free rate (bond yield curve at date of grant)	7.6%	8.4%

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17. Directors and employees continued

17.3 Share incentive schemes

The employee share incentive schemes are in operation for employees, executives and directors holding salaried employment office. The aggregate number of shares which may be utilised for these schemes shall not exceed 10% of the issued share capital of the company.

	Group	
	2012	2011
Lewis All Employee Share Scheme	No. of shares and options	
In terms of the rules of the share scheme, participants are granted an award to receive shares for no consideration. Participants will only receive their share award if they remain in the employ of the group until vesting date. Share awards under this scheme usually vest between two and four years.		
Beginning of the year		6 080
Vested and exercised by payment of consideration		(6 080)
End of the year		–
Lewis Executive Performance 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 shares will vest after three years and is conditional upon the executive still being in the employ of the company other than in the event of death, ill-health, retirement or retrenchment.		
The performance targets are set by the Remuneration and Nomination Committee and are approved by the board. These targets will be set at the beginning of each of the three years and a proportionate number of the shares granted will be allocated to each year.		
No performance shares will accrue if the group achieves less than 90% of target. Any achievement between 90% and 100% of target will result in a proportionate accrual of shares weighted towards 100% of target.		
Beginning of the year	1 371 091	1 241 116
Granted	204 517	269 786
Forfeited	(146 146)	(37 124)
Vested	(186 054)	(102 687)
End of the year	1 243 408	1 371 091
Lewis Co-investment Scheme		
Senior executives are eligible for an annual bonus based on achievement of performance targets. These eligible executives can elect to invest all or part of their net bonus in the group's shares ("invested shares").		
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.		
The grant in respect of the matching share option is as follows:		
Beginning of the year	198 983	138 919
Granted	107 051	99 187
Forfeited	(42 157)	–
Vested	(50 214)	(39 123)
End of the year	213 663	198 983

Invested shares paid for through the investment of executives net bonuses amounted to 127 941 shares (2011: 119 388 shares). These shares are held by the Trust on the executives' behalf.

17. Directors and employees continued

17.4 Directors' emoluments

	Group 2012 Rm	Group 2011 Rm
Non-executive directors – fees as directors		
D M Nurek	715 000	645 000
H Saven	578 000	535 000
B van der Ross	475 000	425 000
F Abrahams	490 000	394 000
M S P Marutlulle	425 000	318 000
Z Bassa	425 000	354 000
A J Smart	425 000	418 500
	3 533 000	3 089 500
Executive director – J Enslin (paid by subsidiary)		
Salary	2 524 128	2 257 728
Bonuses paid during the year	2 258 000	1 393 000
Contributions to pension scheme	403 860	361 236
Contribution to medical aid	80 678	68 379
Gains on share awards	3 529 085	1 764 426
	8 795 751	5 844 769
Executive director – L A Davies (paid by subsidiary)		
Salary	2 022 696	1 850 280
Bonuses paid during the year	1 850 000	1 258 000
Contributions to pension scheme	323 631	296 045
Contribution to medical aid	83 373	62 640
Gains on share awards	3 529 085	1 668 808
	7 808 785	5 135 773
Executive director – A J Smart (paid by subsidiary)		
Salary		–
Bonuses paid during the year		995 000
Contributions to pension scheme		–
Contribution to medical aid		–
Other material benefits		–
Gains on share awards		1 304 168
		2 299 168

Notes to the annual financial statements for the year ended 31 March 2012

	Group	
	2012 Rm	2011 Rm
17. Directors and employees continued		
17.4 Directors' emoluments continued		
Gains on share awards – executive directors		
J Enslin		
Share awards vested	44 391	29 017
Offer date	24 June 2008	11/19 June 2007
Date vested	24 June 2011	11/19 June 2010
Market value on date of vesting	3 529 085	1 764 426
Gain	3 529 085	1 764 426
L A Davies		
Share awards vested	44 391	27 479
Offer date	24 June 2008	11/19 June 2007
Date vested	24 June 2011	11/19 June 2010
Market value on date of vesting	3 529 085	1 668 808
Gain	3 529 085	1 668 808
A J Smart		
Share awards vested		21 989
Offer date		11 June 2007
Date vested		11 June 2010
Market value on date of vesting		1 304 168
Gain		1 304 168

	2012		2011	
	J Enslin	L A Davies	J Enslin	L A Davies
17. Directors and employees continued				
17.4 Directors' emoluments continued				
Outstanding share awards				
Lewis Executive Performance Scheme:				
24 June 2008			35 057	35 057
10 June 2009	34 669	34 782	34 669	34 782
17 September 2009	120 000	80 000	120 000	80 000
7 June 2010	38 429	31 494	38 429	31 494
20 June 2011	31 782	25 468		
Lewis Co-investment Scheme – matching scheme options:				
24 June 2008			16 345	16 345
10 June 2009	13 924	12 995	13 924	12 995
7 June 2010	24 092	21 757	24 092	21 757
20 June 2011	28 399	23 269		
	291 295	229 765	282 516	232 430

In terms of the Lewis Co-investment Scheme, the Trust holds 74 660 shares (2011: 63 274 shares) on behalf of the above directors by virtue of the investment of their bonuses into the scheme.

	Group	
	2012 Rm	2011 Rm
17.5 Remuneration of key executives		
Salary	9.6	8.8
Bonus	7.8	5.0
Retirement and medical contributions	1.5	1.4
Other benefits	0.4	0.3
Gains on share awards vested	13.4	6.8
	32.7	22.3

Key executives comprise the directors of Lewis Stores (Proprietaty) Limited, the main operating subsidiary.

18. Debtor costs

	2012 Rm	2011 Rm
Bad debts, repossession losses and bad debt recoveries	405.4	336.0
Movement in doubtful debts provision	116.9	122.9
	522.3	458.9

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	Group 2012 Rm	Group 2011 Rm
19. Lease commitments		
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.		
Payments on a cash flow basis:		
Within one year	116.1	107.7
Two to five years	292.3	175.0
Over five years	–	–
	408.4	282.7
Payments on a straight-line basis:		
Within one year	119.2	104.9
Two to five years	275.8	163.2
Over five years	–	–
	395.0	268.1
20. Operating profit is stated after		
Initiation and service fees on accounts receivable	342.0	311.9
Surplus on disposal of property, plant and equipment	4.1	7.2
Depreciation – owned assets	48.5	46.5
Fees payable:		
Investment management fee – insurance investments	3.2	2.7
Outsourcing of IT function	34.1	30.8
	37.3	33.5
Operating lease payments on a cash flow basis	155.7	142.3
Lease adjustment	(0.8)	(1.7)
Operating leases on a straight-line basis	154.9	140.6
Auditors' remuneration		
Audit fees – current year	1.8	1.7
Other services	0.6	0.5
	2.4	2.2
21. Investment income		
Interest – insurance business	60.8	52.3
Dividends from listed investments – insurance business	12.0	10.5
Realised profit on disposal of insurance investments	19.1	19.2
	91.9	82.0

	Group 2012 Rm	Group 2011 Rm
22. Net finance costs		
22.1 Interest paid		
Bank loans and other	82.2	87.1
22.2 Interest received		
Bank and other	(3.8)	(3.2)
22.3 Forward exchange contracts		
Realised	(13.1)	7.0
Unrealised	(2.1)	1.0
	(15.2)	8.0
22.4 Net finance costs	63.2	91.9
23. Taxation		
23.1 Taxation charge		
South Africa	328.7	299.0
Foreign	38.5	31.7
Taxation per income statement	367.2	330.7
Comprising:		
Normal taxation		
Current year	316.4	302.7
Prior year	0.2	8.7
Deferred taxation		
Current year	17.6	(3.3)
Prior year	0.3	(6.5)
Secondary tax on companies ("STC")	32.7	29.1
Taxation per income statement	367.2	330.7
23.2 The rate of taxation on profit is reconciled as follows:		
Profit before taxation	1 167.8	1 042.6
Taxation calculated at a tax rate of 28% (2011: 28%)	327.0	291.9
Differing tax rates in foreign countries	7.2	4.4
Disallowances and exemptions	(0.2)	3.1
Prior years	0.5	2.2
	334.5	301.6
STC	32.7	29.1
Taxation per income statement	367.2	330.7
Tax rate, excluding STC	28.6%	28.9%
Effective tax rate	31.4%	31.7%

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	Group	
	2012 000's	2011 000's
24. Earnings per share		
24.1 Weighted average number of shares		
Weighted average shares for earnings and headline earnings per share	88 463	88 194
Dilution resulting from share awards outstanding	983	991
Weighted average shares for diluted earnings and headline earnings per share	89 446	89 185

Diluted earnings and 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.

	2012	2011
	Rm	Rm
24.2 Headline earnings		
Attributable earnings	800.6	711.9
Profit on disposal of property, plant and equipment	(4.1)	(7.2)
Profit on disposal of available-for-sale investments	(19.1)	(19.2)
Tax effect	3.3	3.4
Headline earnings	780.7	688.9
	Cents	Cents
24.3 Earnings per share		
Earnings per share	905.0	807.2
Diluted earnings per share	895.1	798.2
24.4 Headline earnings per share		
Headline earnings per share	882.5	781.1
Diluted headline earnings per share	872.8	772.4
	Rm	Rm
25. Dividends paid		
Dividend no. 12 declared on 19 May 2010 and paid on 26 July 2010		175.5
Dividend no. 13 declared on 8 November 2010 and paid on 24 January 2011		153.0
Dividend no. 14 declared on 23 May 2011 and paid on 25 July 2011	203.0	
Dividend no. 15 declared on 14 November 2011 and paid on 23 January 2012	168.7	
Dividends received on treasury shares:		
Lewis Stores (Proprietary) Limited	(35.0)	(30.9)
Lewis Employee Share Incentive Scheme Trust	(1.2)	(2.0)
	335.5	295.6

26. Notes to the cash flow statements

26.1 Cash generated from operations

	Group 2012 Rm	Group 2011 Rm
Operating profit	1 139.1	1 052.5
Adjusted for:		
Share-based payments	19.0	18.4
Depreciation	48.5	46.5
Surplus on disposal of property, plant and equipment	(4.1)	(7.2)
Movement in debtors impairment provision	116.9	122.9
Movement in retirement benefits provision	4.2	7.6
Movement in other provisions	34.7	54.9
	1 358.3	1 295.6
Changes in working capital:	(385.9)	(518.6)
(Increase)/decrease in inventories	(28.8)	(51.0)
Increase in trade and other receivables	(344.9)	(534.4)
(Decrease)/increase in trade and other payables	(12.2)	66.8
	972.4	777.0

26.2 Taxation paid

	Group 2012 Rm	Group 2011 Rm
Amount due at the beginning of the year	(49.1)	(36.6)
Amount charged to the income statement	(367.2)	(330.7)
Adjustment for deferred taxation	17.9	(9.8)
Amount owing at the end of the year	21.0	49.1
	(377.4)	(328.0)

Notes to the annual financial statements for the year ended 31 March 2012

27. Financial risk management

Risk management is the identification of actual and potential areas of risk, followed by a process of risk mitigation. Responsibility for this process of risk management is with the Risk Working Group ("RWG"), a committee consisting of the members of the Executive Committee and the company secretary. The RWG formally reports to the Risk Committee on a quarterly basis.

The Risk Working Group is responsible for identifying, evaluating and monitoring all significant risks facing the business. Members of the RWG are responsible for integrating risk management into the day-to-day activities of the business and ensuring that the staff are aware and accountable for managing risk and maintaining internal control.

The group is exposed to financial risks being credit risk, market risk (including currency, interest rate and price risks), and liquidity risk. The group manages the overall risk by focusing on minimising the potential adverse effects of these risks on the group's financial performance.

The group's primary business is that of a credit retailer. As such, credit risk features as the dominant financial risk. It provides the foundation of the group's profitability, yet the mismanagement of credit risk will threaten the ongoing sustainability of the business.

Due to its pervasive and strategic importance, credit policies are continually evaluated by the Executive Committee to ensure that they are in line with prudent lending practices, yet maintain the group's overall profitability and return on assets. The responsibility for the implementation of these policies rests with the chief operating officer, credit risk executive and their teams.

27.1 Credit risk

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. The maximum credit exposure is that of accounts receivable, fixed income securities and deposits.

(i) Accounts receivable
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 bureaux 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 bureaux and third-party information.
  - for existing customers, behaviourial 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 which is done annually.
- 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 dynamic basis.

27. Financial risk management continued

27.1 Credit risk continued

(i) Accounts receivable continued

The group manages its risk effectively by assessing the borrower'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.

In addition, a payment rating system manages the customer's payment profile. A payment rating is applied to each customer individually and is based on the customer's payment history relative to their contractual arrangements. This payment rating is integral to the calculation of the debtor's impairment provision in terms of IAS 39. IAS 39 requires that all impaired receivables are carried at their net present value of the expected cash flows from such accounts, discounted at the original effective rate implicit in the credit agreement

	Group	
	2012 Rm	2011 Rm
The total net receivable balance can be analysed as follows:		
Receivables satisfactory paid	**3 503.6**	3 367.8
Slow paying and non-performing receivables which have been impaired	**1 354.6**	1 150.3
	4 858.2	4 518.1

The payment ratings categorise individual customers into 13 distinct categories which have been summarised into four main groupings:

		No. of customers		Impairment provision %	
		2012	2011	**2012**	2011
Satisfactory paid:					
Customers fully up to date including those who have paid 70% or more of amounts due over the contract period	No. %	**491 478** **72.1%**	521 304 74.5%	**1%**	1%
Slow payers:					
Customers fully up to date including those who have paid 65% to 70% of amounts due over the contract period	No. %	**55 791** **8.2%**	55 439 7.9%	**26%**	27%
Non-performing customers					
Customers who have paid 55% to 65% of amounts due over the period of the contract	No. %	**45 978** **6.7%**	44 436 6.4%	**42%**	44%
Non-performing customers					
Customers who have paid 55% or less of amounts due over the period of the contract	No. %	**88 265** **13.0%**	78 174 11.2%	**95%**	98%
Total		681 512	699 353	**18.0%**	16.8%

	2012	2011
The ageing of satisfactory paid receivables past due but not impaired as a percentage of satisfactory paid receivables is as follows:		
1 instalment in arrear	**4.4%**	4.2%
2 instalments in arrear	**2.9%**	2.8%
3 instalments in arrear	**2.1%**	1.9%
4 instalments in arrear	**1.5%**	1.4%
5 or more instalments in arrear	**3.5%**	3.3%
	14.4%	13.6%

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27. Financial risk management continued

27.1 Credit risk continued

(ii) Fixed income securities and deposits

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 R4.6 million (2011: R10.0 million).

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

27.2 Market risk

Treasury management is carried out by the chief financial officer and senior members of the finance team under policies approved by the Audit Committee ("the committee"). The committee provides written treasury policies covering cash management, foreign exchange management, interest rate management and investment risk.

The group's attitude to treasury risk can be summarised as follows:

- investment risk: maximise returns at an acceptable level of risk;
- foreign exchange risk: eliminate transaction risk and net investment risk as far as practically possible; and
- interest rate risk: manage short-term volatility.

(i) Foreign exchange risk management

Foreign exchange risk is present in respect of imports of merchandise and the net investment in Botswana.

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 to nine months purchase commitments.

During the year, 25.6% (2011: 21.7%) of the purchases were in foreign denominated currencies. Below is a summary of the amounts payable under forward contracts:

	Term	Rate	Foreign currency	Rand equivalent	Fair value (gain)/loss
			FC 'm	R'm	R'm
2012					
US dollar	Less than 4 months	Rates vary from R7.53 to R8.02	**7.5**	**58.5**	**(2.1)**
2011					
US dollar	Less than 3 months	Rates vary from R6.75 to R7.03	9.9	67.6	1.0

Below is a sensitivity analysis of the effect of currency movements of 5% and 10% respectively on the above forward exchange rates:

	-10%	-5%	+5%	+10%
2012				
Effect on (profit)/loss	**4.4**	**2.2**	**(2.2)**	**(4.4)**
(Increase)/Decrease in equity	**4.4**	**2.2**	**(2.2)**	**(4.4)**
2011				
Effect on (profit)/loss	4.9	2.4	(2.4)	(4.9)
(Increase)/Decrease in equity	4.9	2.4	(2.4)	(4.9)

27. Financial risk management continued

27.2 Market risk continued

Net investment in foreign entities

The currency exposure is limited to the net investment in Botswana of R72.4 million (2011: R76.7 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 5% and 10% on the year-end value of our net investment in Botswana:

	-10%	-5%	+5%	+10%
2012				
(Increase)/Decrease in equity	**5.0**	**2.5**	**(2.5)**	**(5.0)**
2011				
(Increase)/Decrease in equity	5.4	2.7	(2.7)	(5.4)

There is no impact on profit or loss for both years.

(ii) 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.

Borrowings

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.

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 is set out below, assuming the current level of borrowings at year-end is maintained throughout the year:

	+50bp	-50bp
2012		
Effect on (profit)/loss	**4.2**	**(4.2)**
(Increase)/Decrease in equity	**4.2**	**(4.2)**
2011		
Effect on (profit)/loss	4.2	(4.2)
(Increase)/Decrease in equity	4.2	(4.2)

Accounts receivable

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.

Due to the business model of Lewis Group, the fair value of instalment and loan receivables would have no impact on management's decision-making and for this reason, fair value was not determined.

The average effective interest rate on instalment sale and loan receivables is 22.3% (2011: 24.1%) and the average term of the sale is 28.3 months (2011: 27.9 months).

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Notes to the annual financial statements for the year ended 31 March 2012

27. Financial risk management continued

27.2 Market risk continued

(ii) Interest rate risk continued

Interest rate profile

The interest rate profiles of financial instruments are as follows:

	Term of investment	Average closing effective interest rate %	Floating or fixed	Carrying value Rm's
2012				
Assets				
Gross instalment sale and loan receivables	Up to three years	22.3%	Fixed	5 871.1
Fixed income securities	Varies	9.0%	Fixed	562.4
Money market investments	Up to six months	5.5%	Floating	373.3
Liabilities				
Long-term interest-bearing borrowings	Varies (refer note 11)	7.9%	Floating	650.0
Short-term interest-bearing borrowings	Varies (refer note 11)	7.7%	Floating	300.0
2011				
Assets				
Gross instalment sale and loan receivables	Up to three years	24.1%	Fixed	5 454.7
Fixed income securities	Varies	9.1%	Fixed	491.9
Money market investments	Up to six months	5.3%	Floating	240.2
Liabilities				
Long-term interest-bearing borrowings	Varies (refer note 11)	8.0%	Floating	400.0
Short-term interest-bearing borrowings	Varies (refer note 11)	7.3%	Floating	683.0

(iii) 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 (Proprietaty) Limited ("Sanlam") on Monarch's behalf.

27. Financial risk management continued

27.2 Market risk continued

(iii) Price risk continued

The overall management objectives of the portfolio are:

- preservation of capital over the long-term;
- managing market risk over the short to medium-term;
- to ensure the portfolio is adequately diversified.

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

- current market conditions and future expectations;
- asset allocations considering the above;
- returns under each asset category;
- detailed reviews of the equity portfolio and 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:

	2012	2011
Modified duration of Monarch's fixed income portfolio	5.4	5.7
Modified duration of the JSE All Bond Index	5.8	5.9
The market risk of the equity portfolio is monitored through the portfolio's sectoral allocation and beta. The respective measures for the portfolio at year-end can be summarised as follows:		
Portfolio sectorial analysis:		
Resources	12.4%	16.7%
Financials	28.4%	28.5%
Industrial	59.2%	54.8%
Beta of portfolio relative to JSE index	0.88	0.86
Beta of portfolio relative to JSE index, excluding resources	0.99	0.99

Beta measures the portfolio volatility relative to the market index, which by definition has a beta of 1.0.

27.3 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.

Below is a summary of the committed facilities and the utilisation thereof at year-end:

	2012 Rm	2011 Rm
Total banking facilities	1 750.0	1 450.0
Less: drawn portion of facility	(1 074.0)	(1 083.0)
Plus cash on hand	77.9	84.3
Available cash resources and facilities	753.9	451.3

The maturity profile of financial liabilities has been set out in note 29.

Notes to the annual financial statements for the year ended 31 March 2012

28. Insurance risk

The risks covered under insurance contracts entered into with customers by the group's insurer, Monarch Insurance Company ("Monarch"), are as follows:

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

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

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

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

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

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 approximate 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.

	2012 Rm	2011 Rm
Movement in provisions:		
(i) Unearned premium reserve		
Opening balance	562.6	438.2
Movement during year	59.6	124.4
Closing balance	622.2	562.6
Comprising:		
Unearned premiums	1 012.3	916.6
Less: reinsurers share of provision	(390.1)	(354.0)
Net balance	622.2	562.6
(ii) Insurance provisions		
Insurance provisions include outstanding claims, IBNR reserve and deferred reinsurance acquisition reserve.		
Opening balance	171.4	130.4
Movement during year	30.1	41.0
Closing balance	201.5	171.4

28. Insurance risk continued

Regulatory requirements

The group's insurer, Monarch Insurance Company Limited ("Monarch"), is required to maintain certain insurance liabilities and have a minimum solvency margin of 15% as set out in the Short-term Insurance Act of 1998. Furthermore, Monarch is required to hold certain prescribed assets to meet its insurance liabilities and solvency margins. These assets are subject to various limits in order to ensure an adequate spread and diversification of assets.

Monarch has met all the requirements of the Short-term Insurance Act regarding its insurance liabilities, solvency margins, prescribed assets and asset spread.

29. Financial instruments

(i) Categories

	Loans and receivables	Available-for-sale	Amortised cost	Total
Assets				
2012				
Insurance investments		1 378.6		1 378.6
Trade and other receivables	4 064.5			4 064.5
Cash on hand and on deposit			77.9	77.9
2011				
Insurance investments		1 097.3		1 097.3
Trade and other receivables	3 835.0			3 835.0
Cash on hand and on deposit			84.3	84.3
Liabilities				
2012				
Trade payables			71.1	71.1
Borrowings			1 074.0	1 074.0
2011				
Trade payables			72.7	72.7
Borrowings			1 083.0	1 083.0

(ii) Maturity profile of financial liabilities

The maturity profiles of financial liabilities are as follows:

	0 – 12 years	2 – 5 years	>5 years	Total
2012				
Borrowings	(424.0)	(650.0)		(1 074.0)
Trade payables	(71.7)	–	–	(71.7)
	(495.7)	(650.0)	–	(1 145.7)
2011				
Borrowings	(683.0)	(400.0)	–	(1 083.0)
Trade payables	(72.7)	–	–	(72.7)
	(755.7)	(400.0)	–	(1 155.7)

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

Notes to the annual financial statements for the year ended 31 March 2012

29. Financial instruments continued

(iii) Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted prices at the balance sheet. The quoted market price used is the current bid price.

The fair value of interest swaps and collars is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts is determined using quoted forward exchange rates at the balance sheet dates.

(iv) Fair value hierarchy

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

	Level 1	Level 2	Total
2012			
Available-for-sale assets:			
Insurance investments:			
Equities	442.9		442.9
Fixed income securities	562.4		562.4
Money market		373.3	373.3
Forward exchange contracts		2.1	2.1
	1 005.3	375.4	1 380.7
2011			
Available-for-sale assets:			
Insurance investments:			
Equities	365.2		365.2
Fixed income securities	491.9		491.9
Money market		240.2	240.2
Forward exchange contracts		(1.0)	(1.0)
	857.1	239.2	1 096.3

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

Level 1:
Financial instruments valued with reference to quoted prices in active markets where the quoted price is readily available and the price represents actual and recurring market transactions on an arm's length basis. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.

Level 2:
Financial instruments valued using inputs other than quoted prices as described for Level 1, but which are observable for the asset or liability, either directly or indirectly, such as:

– quoted prices for similar assets/liabilities in an active market

– quoted prices for identical or similar assets/liabilities in inactive markets

– valuation model using observable inputs

– valuation model using inputs derived from/corroborated by observable market data.

Level 3:
Financial instruments valued using inputs that are not based on observable market data. The group does not have any assets or liabilites that fall into this category.

30. Capital risk management

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.

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.

During the 2012 financial year, the strategy was to maintain the gearing below 30%, which in the current credit conditions is considered to be prudent. The gearing rates at 31 March 2012 and 31 March 2011 were as follows:

	Group	
	2012 Rm	2011 Rm
Interest-bearing borrowings	1 074.0	1 083.0
Less: cash and cash equivalents	(77.9)	(84.3)
Net debt	996.1	998.7
Shareholders' equity	4 274.6	3 728.1
Gearing ratio	23.3%	26.8%

31. Contingencies

Bank guarantees given by the group to third parties. The directors are of the opinion that no loss will be incurred on these guarantees.	8.4	8.4

32. Capital commitments

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

Notes to the annual financial statements for the year ended 31 March 2012

33. New standards and interpretations not yet effective

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

IFRS 7: Financial Instruments: Disclosures	Amendment regarding the risks the group faces with derecognised receivables and other financial assets.
IFRS 7: Financial Instruments: Offsetting Financial assets and financial liabilities	Additional disclosures regarding offsetting of financial assets and liabilities.
IFRS 9: Financial instruments	New standard that forms part of a three-phase project to replace IAS 39 Financial Instruments: Recognition and Measurement. To date, only the classification and measurement of financial assets and liabilities has been dealt with. The main impact is that classification of financial assets is now driven by the entity's business model for managing these assets. Impairment and Hedging aspects have been issued as exposure drafts.
IFRS 10: Consolidated financial statements	This is a new standard which consolidates all previous statements, guidance and intepretations on consolidated financial statements.
IFRS 12: Disclosure of interest in other entities	New statement which sets out additional disclosures regarding interests in entities such as subsidiaries.
IFRS 13: Fair value measurement	A new standard which focuses on the measurement of fair value and enhancing disclosures in this area.
IAS 1:	Amendment to classify items in other comprehensive income as to whether they are recycled or not to profit or loss.
IAS 12: Income taxes	Amendment of the statement to introduce an exception to the existing measurement principles with respect to investment properties measured at fair value.
IAS 19: Employee benefits	Significant amendments to the standard – eliminating the corridor method, actuarial gains and losses in other comprehensive income, revised measurement of pension expense, treatment of plan expenses and additional disclosure items.
IAS 32: Financial instrument disclosure	Amendment dealing with the offsetting of financial assets and liabilities.

Annual improvements to IFRS issued May 2010 for amendments effective 1 July 2010 and 1 January 2011.

Management has not performed an assessment of the potential impact, if any, that the implementation of these standards and interpretations will have on the consolidated financial statements.

It should be noted that IFRS 9 introduces new requirements for classifying and measuring financial assets. This standard will be developed further and new requirements for classifying and measuring financial liabilities, derecognition of financial instruments, impairment and hedge accounting. No investigation of the impact has been made since the statement is still evolving. However, it is very likely that the complete standard will have a significant impact on the group's accounting.

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Company income statement at 31 March 2012

	Notes	Company 2012 Rm	Company 2011 Rm
Revenue	2	389.6	328.5
Operating costs	3	(9.3)	(6.9)
Profit before taxation		380.3	321.6
Taxation	4	–	–
Net profit attributable to ordinary shareholders		380.3	321.6

Company balance sheet for the year ended 31 March 2012

	Notes	Company 2012 Rm	Company 2011 Rm
Assets			
Non-current assets			
Interest in subsidiaries	5	2 838.7	2 817.7
Current assets			
Deposits at bank		–	–
Total assets		2 838.7	2 817.7
Equity and liabilities			
Capital and reserves			
Share capital and premium	6	2 711.6	2 711.6
Share-based payment reserve		40.7	28.2
Retained earnings		84.8	76.1
		2 837.1	2 815.9
Current liabilities			
Trade and other payables		1.6	1.8
Total equity and liabilities		2 838.7	2 817.7

Company statement of changes in equity for the year ended 31 March 2012

	Share capital and premium Rm	Other reserves Rm	Retained earnings Rm	Total Rm
Balance as at 1 April 2010	2 711.6	–	83.0	2 794.6
Net profit attributable to ordinary shareholders			321.6	321.6
Dividends paid			(328.5)	(328.5)
Capital contribution in respect of share-based payment		28.2	–	28.2
Balance as 31 March 2011	2 711.6	28.2	76.1	2 815.9
Net profit attributable to ordinary shareholders			380.3	380.3
Dividends paid			(371.6)	(371.6)
Capital contribution in respect of share-based payment		12.5		12.5
Balance as 31 March 2012	2 711.6	40.7	84.8	2 837.1

Company cash flow statement for the year ended 31 March 2012

		Company	
	Notes	2012 Rm	2011 Rm
Cash flow from operating activities			
Cash generated from operations	7	(9.5)	(6.8)
Dividends received		389.6	328.5
		380.1	321.7
Cash utilised in investing activities			
Loans from subsidiary companies		(8.5)	6.8
		(8.5)	6.8
Cash flow from financing activities			
Dividends paid		(371.6)	(328.5)
		(371.6)	(328.5)
Net decrease in cash and cash equivalents		–	–
Cash and cash equivalents at the end of the year		–	–
Cash and cash equivalents at the end of the year		–	–

Annual financial statements

Notes to the annual financial statements for the year ended 31 March 2012

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 on pages 16 to 22.

	Company	
	2012 Rm	2011 Rm
2. Revenue		
Dividends received from subsidiary	389.6	328.5
	R	R
3. Operating profit		
Stated after:		
Audit fees – current year	50 000	50 000
Other services	–	9 000
	50 000	59 000
	Rm	Rm
4. Taxation		
Taxation	–	–
	–	–
The rate of taxation on profit is reconciled as follows:		
Profit before taxation	380.3	321.6
Taxation calculated at a tax rate of 28% (2011: 28%)	106.5	90.0
(Exempt income)/Disallowed expenditure	(106.5)	(90.0)
Taxation per income statement	–	–
5. Interest in subsidiaries		
Shares at cost	2 800.0	2 800.0
Capital contribution for share-based payment	40.7	28.2
Indebtness	(2.0)	(10.5)
	2 838.7	2 817.7
6. Share capital and premium		
Authorised		
150 000 000 ordinary shares of 1c each	1.5	1.5
Issued		
98 057 959 (2011: 98 057 959) ordinary shares of 1c each	1.0	1.0
Share premium	2 710.6	2 710.6
Total share capital and premium	2 711.6	2 711.6
7. Cash generated from operations		
Profit before taxation	380.3	321.6
Dividends received	(389.6)	(328.5)
(Decrease)/Increase in trade and other payables	(0.2)	0.1
	(9.5)	(6.8)

Annexure A: Interest in subsidiary companies for the year ended 31 March 2012

		2012		2011	
	Nature of business	Carrying value of subsidiaries Rm 's	% holding	Carrying value of subsidiaries Rm 's	% holding
Directly held					
Lewis Stores Proprietary Limited	F	2 800.0		2 800.0	100%
Indirectly held					
Incorporated in South Africa					
Monarch Insurance Company Limited	I				100%
Kingtimm Proprietary Limited	L				100%
Lifestyle Living Proprietary Limited	F				100%
Incorporated in Botswana					
Lewis Stores (Botswana) (Proprietary) Limited	F				100%
Lewis Insurance Services (Botswana) (Proprietary) Limited	M				100%
Lewis Management Services (Botswana) (Proprietary) Limited	D				100%
Incorporated in Swaziland					
Lewis Stores (Swaziland) (Proprietary) Limited	F				100%
Incorporated in Namibia					
Lewis Stores (Namibia) (Proprietary) Limited	F				100%
Lewis Management Services (Namibia) (Proprietary) Limited	M				100%
Incorporated in Lesotho					
Lewis Stores (Lesotho) (Proprietary) Limited	F				100%
Cost of subsidiaries		2 800.0		2 800.0	
Capital contribution in respect of share-based payment		40.7		28.2	
Amounts due to subsidiaries					
Lewis Stores (Proprietary) Limited		(2.0)		(10.5)	
Interest in subsidiaries		2 838.7		2 817.7	

F Furniture dealer

I Insurance company

M Management services company

L Company holding property leases