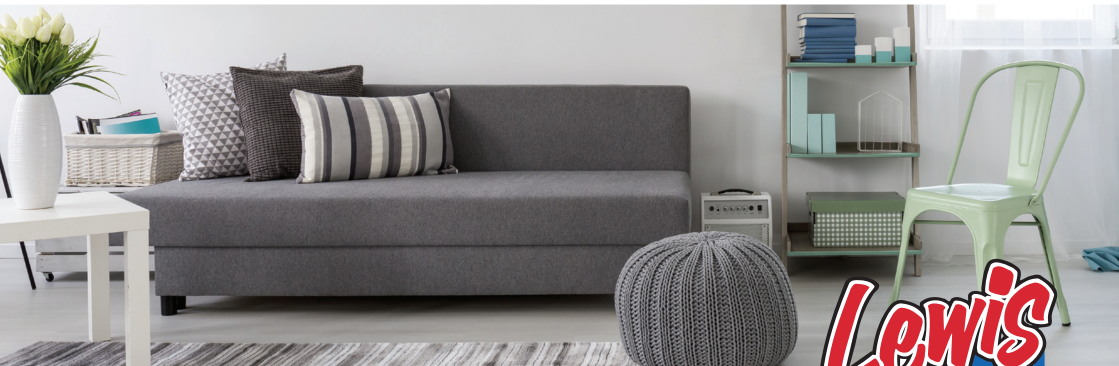
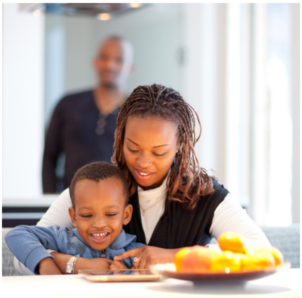
2019

AUDITED SUMMARY CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 March 2019

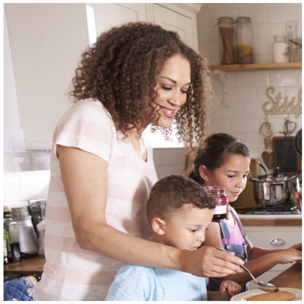


Lewis Group Ltd

Highlights



Revenue
^
10.4%



Merchandise sales
^
22.9%

Gross profit margin

41.2%

Debtor costs reduced by

11.9%

Operating profit
^
16.8%

Headline earnings per share
^
24.3%

Total dividend
^
17%
to 234 cents per share

Commentary

Trading and financial performance

The turnaround in the performance of Lewis Group's traditional retail brands continued to gain momentum, while the group has also started to reap the benefits of its strategy of diversification across market segments and retail channels.

Merchandise sales increased by 22.9% to R3.5 billion, lifted by the acquisition of United Furniture Outlets (UFO) which contributed sales of R478 million in its first full year in the group. INspire, the new omni-channel home shopping retailer, continued to grow month-by-month and generated sales of R27.2 million in its first 10 months since launch. Excluding the sales from UFO and INspire, the group's merchandise sales grew by 7.6%. Comparable store sales increased by 6.9%.

Credit sales increased by 8.1% for the year, with growth of 11.3% in the second half, reflecting the benefits of change in the affordability assessment regulations on the group's traditional retail brands (Lewis, Best Home and Electric, and Beares).

Cash sales increased by 51.1%, supported by UFO which has enabled the group to access higher income customers.

Other revenue, consisting of finance charges and initiation fees, insurance premiums and services rendered, increased by 1.3% (decline of 2.8% after adjustment for interest on credit impaired accounts), mainly due to lower credit sales in prior years which limited annuity income as well as the adverse impact of regulatory capping of credit insurance. Other revenue posted positive growth in the second half and the strengthening trend is expected to continue.

Total revenue, comprising merchandise sales and other revenue, increased by 12.4% (10.4% after adjusting for interest on credit impaired accounts).

The group's gross profit margin was stable at 41.2% (2018: 41.4%) and remains at the upper level of management's target range of 38% to 42%.

The growth in operating costs, excluding debtor costs, was contained well below the growth in sales and increased by 13.7%. Marketing and promotional costs were increased to support sales growth, including the launch of INspire. Expenses in the traditional retail segment increased by 7.2%.

Operating profit increased by 16.8% to R443.0 million and the group's operating margin increased to 7.2%, within management's guided range of 5% to 10%. The traditional retail segment contributed profit of R429.4 million and UFO R40.5 million. INspire posted a start-up loss of R26.9 million.

Finance costs were R19.7 million lower owing mainly to gains on forward exchange contracts covering merchandise imports.

Headline earnings increased by 18.4% to R308.4 million (2018: R260.5 million), with headline earnings per share 24.3% higher at 376.2 cents (2018: 302.6 cents).

The balance sheet remained ungeared at year end and the group has no borrowings. The group remains highly cash generative with cash and cash equivalents totalling R205 million at year end.

The group increased its total dividend by 17% to 234 cents per share (2018: 200 cents).

Debtor management

Collection rates improved from 74.9% to 76.3% and resulted in an encouraging improvement in the group's debtor book despite the weak consumer credit environment. Debtor costs continued to decline and reduced by 11.9% (23.4% after adjustment for interest on credit impaired accounts).

Debtor costs as a percentage of net debtors decreased from 17.2% to 13.3%. The level of satisfactory paid customers improved to 71.4% from 68.4% last year.

Debtor impairment

IFRS 9 – Financial Instruments is effective for the group for the year ending 31 March 2019, replacing IAS 39 – Financial Instruments: Recognition and Measurements. The most significant impact of IFRS 9 on the group relates to the implementation of the forward-looking expected credit loss impairment model on the measurement of debtors. IAS 39 applied the incurred loss model. Refer to note 1.2 for further detail on the transition to IFRS 9.

The adoption of IFRS 9 does not impact on the group's credit management practices and business model and these will continue to be consistently applied as in the past.

Expanding retail presence

The group's store base increased to 784 following the opening of 30 stores and closure of 19 stores during the year. Lewis continues to open smaller format stores which now account for 44% of the brand's stores. During the year, 121 stores across the portfolio were refurbished.

UFO opened 8 stores and closed 3, bringing the store footprint to 36. While the availability of retail space in upmarket shopping malls is proving to be a challenge to expanding the chain, 5 to 10 new stores are planned for the 2020 financial year.

The store network outside South Africa increased to 120 with the opening of 10 stores in Namibia, including the first 7 Best Home and Electric stores in the country.

Share repurchase programme

The group repurchased 3.2 million shares during the financial year, at an average market price of R30.30 per share. At the annual general meeting in October 2018, shareholders granted management the authority to repurchase up to a further 10% of the issued share capital.

Outlook

The strong sales growth trend experienced in the second half is expected to continue into the new financial year.

The changes in the affordability assessment regulations, which enabled self-employed and informally employed individuals to again apply for credit, will continue to benefit sales into the new year.

Other revenue is expected to recover in line with the turnaround in the performance of the traditional business. Management expects the growth rate in other revenue to move closer to the growth in credit sales over the next two to three years.

The group's diversification strategy is expected to continue to support sales growth. UFO is proving to be a sound acquisition, with new stores trading well and extensive expansion opportunities. INspire is gaining traction and is anticipated to reach break-even point in the forthcoming financial year.

Dividend declaration

Notice is hereby given that a final gross cash dividend of 129 cents per share in respect of the year ended 31 March 2019, has been declared payable to holders of ordinary shares. The number of shares in issue as of the date of declaration is 80 296 046. The dividend has been declared out of income reserves and is subject to a dividend tax of 20%. The dividend for determining the dividend tax is 129 cents and the dividend tax payable is 25.8 cents for shareholders who are not exempt. The net dividend for shareholders who are not exempt will therefore be 103.2 cents. The dividend tax rate may be reduced where the shareholder is tax resident in a foreign jurisdiction which has a Double Tax Convention with South Africa and meets the requirements for a reduced rate. The company's tax reference number is 9551/419/15/4.

The following dates are applicable to this declaration:

Last date of trade "cum" dividend	Tuesday 16 July 2019
Date trading commences "ex" dividend	Wednesday 17 July 2019
Record date	Friday 19 July 2019
Date of payment	Monday 22 July 2019

Share certificates may not be dematerialised or rematerialised between Wednesday 17 July 2019 and Friday 19 July 2019, both days inclusive.

For and on behalf of the board

Hilton Saven
Independent
Non-executive
Chairman

Johan Enslin
Chief executive officer

Jacques Bestbier
Chief financial officer

Cape Town
22 May 2019

Auditor’s report

on the summary consolidated financial statements

to the shareholders of Lewis Group Limited

Opinion

The summary consolidated financial statements of Lewis Group Limited, set out on pages 5 to 29 of the Audited Summary Consolidated Financial Statements for the year ended 31 March 2019 Booklet, which comprise the summary consolidated balance sheet as at 31 March 2019, the summary consolidated income statement, the summary consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and related notes, are derived from the audited consolidated financial statements of Lewis Group Limited for the year ended 31 March 2019.

In our opinion, the accompanying summary consolidated financial statements are consistent, in all material respects, with the audited consolidated financial statements, in accordance with the JSE Limited’s (JSE) requirements for summary financial statements, as set out in note 1 to the summary consolidated financial statements, and the requirements of the Companies Act of South Africa as applicable to summary financial statements.

Summary consolidated financial statements

The summary consolidated financial statements do not contain all the disclosures required by International Financial Reporting Standards and the requirements of the Companies Act of South Africa as applicable to annual financial statements. Reading the summary consolidated financial statements and the auditor’s report thereon, therefore, is not a substitute for reading the audited consolidated financial statements and the auditor’s report thereon.

The audited consolidated financial statements and our report thereon

We expressed an unmodified audit opinion on the audited consolidated financial statements in our report dated 22 May 2019. That report also includes communication of key audit matters. Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period.

Director’s responsibility for the summary consolidated financial statements

The directors are responsible for the preparation of the summary consolidated financial statements in accordance with the JSE’s requirements for summary financial statements, set out in note 1 to the summary consolidated financial statements, and the requirements of the Companies Act of South Africa as applicable to summary financial statements.

Auditor’s responsibility

Our responsibility is to express an opinion on whether the summary consolidated financial statements are consistent, in all material respects, with the audited consolidated financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810 (Revised), Engagements to Report on Summary Financial Statements.

PricewaterhouseCoopers Inc

PricewaterhouseCoopers Inc.
Director: MC Hamman
Registered Auditor

Cape Town
22 May 2019

Lewis Group Limited: Summary financial statements

Income statement

for the year ended 31 March 2019

	Notes	**2019 Audited Rm**	2018 Audited Rm
Revenue		**6 137.2**	5 556.8
Retail revenue	4	**4 242.3**	3 524.2
Merchandise sales		**3 519.9**	2 865.0
Ancillary services		**722.4**	659.2
Insurance revenue		**647.2**	671.0
Effective interest income		**1 247.7**	1 361.6
Cost of merchandise sales	7	**(2 069.3)**	(1 677.8)
Operating costs		**(3 624.9)**	(3 499.7)
Debtor costs	2.2	**(733.1)**	(957.3)
Employment costs		**(1 149.5)**	(1 059.1)
Occupancy costs		**(444.8)**	(373.2)
Administration and IT		**(348.3)**	(328.8)
Transport and travel		**(241.7)**	(205.0)
Marketing		**(298.3)**	(246.6)
Depreciation and amortisation		**(78.6)**	(85.9)
Other operating costs		**(330.6)**	(243.8)
Operating profit before investment income		**443.0**	379.3
Investment income	3.2	**50.3**	62.4
Profit before finance costs		**493.3**	441.7
Net finance costs		**(29.5)**	(49.2)
Interest paid		**(69.8)**	(87.6)
Interest received		**23.0**	38.9
Forward exchange contracts		**17.3**	(0.5)
Profit before taxation		**463.8**	392.5
Taxation	10	**(154.3)**	(128.4)
Net profit attributable to ordinary shareholders		**309.5**	264.1
Earnings per share (cents)		**377.5**	306.8
Diluted earnings per share (cents)		**368.7**	301.3

Statement of comprehensive income

for the year ended 31 March 2019

	2019 Audited Rm	2018 Audited Rm
Net profit for the year	**309.5**	264.1
Items that may be subsequently reclassified to income statement:		
Movement in other reserves	**(10.1)**	9.9
Fair value adjustments	**(15.3)**	22.8
Changes in the fair value of debt instruments at fair value through other comprehensive income FVOCI debt**/available-for-sale* investments	**(21.3)**	31.6
Tax effect	**6.0**	(8.8)
Disposals	**0.2**	(1.3)
Disposal of FVOCI debt/available-for-sale investments	**0.3**	(1.7)
Tax effect	**(0.1)**	0.4
Foreign currency translation reserve	**5.0**	(11.6)
Items that may not be subsequently reclassified to income statement:	**(4.1)**	42.6
Retirement benefit remeasurements	**(5.7)**	59.1
Tax effect	**1.6**	(16.5)
Other comprehensive income	**(14.2)**	52.5
Total comprehensive income for the year attributable to equity shareholders	**295.3**	316.6

* *IAS 39 classification for the previous reporting period.*

** *Fair value through other comprehensive income ("FVOCI") – IFRS 9 Classification for the current reporting period.*

Lewis Group Limited: Summary financial statements

Earnings and dividends per share

for the year ended 31 March 2019

		2019 Audited	2018 Audited
Weighted average number of shares			
Weighted average	('000)	**81 990**	86 073
Diluted weighted average	('000)	**83 950**	87 670
Headline earnings			
Attributable earnings	(Rm)	**309.5**	264.1
Profit on disposal of fixed assets	(Rm)	**(1.1)**	(2.4)
Profit on disposal of available-for-sale investments	(Rm)	**–**	(1.2)
Headline earnings		**308.4**	260.5
Earnings per share			
Earnings per share	(cents)	**377.5**	306.8
Diluted earnings per share	(cents)	**368.7**	301.3
Headline earnings per share			
Headline earnings per share	(cents)	**376.2**	302.6
Diluted headline earnings per share	(cents)	**367.4**	297.1
Dividends per share			
Dividends paid per share			
Final dividend 2018 (2017)	(cents)	**100.0**	100.0
Interim dividend 2019 (2018)	(cents)	**105.0**	100.0
		205.0	200.0
Dividends declared per share			
Interim dividend 2019 (2018)	(cents)	**105.0**	100.0
Final dividend 2019 (2018)	(cents)	**129.0**	100.0
		234.0	200.0

Lewis Group Limited: Summary financial statements

Balance sheet

for the year ended 31 March 2019

	Notes	2019 Audited Rm	2018 Audited Restated Rm
Assets			
Non-current assets			
Property, plant and equipment		**298.9**	301.8
Intangible assets		**122.3**	117.8
Goodwill		**187.6**	187.6
Deferred taxation		**195.4**	10.9
Retirement benefit asset		**79.0**	91.1
Financial assets – insurance investments	3.1	**276.1**	471.0
		1 159.3	1 180.2
Current assets			
Inventories		**665.8**	579.7
Trade and other receivables	2.1	**3 315.6**	4 200.0
Insurance premiums in advance		**–**	75.6
Taxation		**102.9**	136.5
Financial assets – insurance investments	3.1	**340.7**	135.4
Cash-on-hand and deposits		**204.7**	608.4
		4 629.7	5 735.6
Total assets		**5 789.0**	6 915.8
Equity and liabilities			
Capital and reserves			
Share capital and premium		**0.9**	425.0
Treasury shares	9	**(0.5)**	(480.2)
Other reserves		**48.4**	42.6
Retained earnings		**4 827.3**	5 461.1
		4 876.1	5 448.5
Non-current liabilities			
Long-term interest-bearing borrowings	5	**–**	–
Deferred taxation		**43.2**	121.0
Retirement benefit liability		**87.2**	89.8
		130.4	210.8
Current liabilities			
Trade and other payables		**521.8**	379.2
Payments in advance		**158.0**	168.9
Reinsurance and insurance liabilities		**102.7**	176.8
Short-term interest-bearing borrowings	5	**–**	531.6
		782.5	1 256.5
Total equity and liabilities		**5 789.0**	6 915.8

Lewis Group Limited: Summary financial statements

Statement of changes in equity

for the year ended 31 March 2019

	Notes	2019 Audited Rm	2018 Audited Rm
Share capital and premium			
Opening balance		**425.0**	588.5
Cost of own shares acquired		**(99.0)**	(163.5)
Treasury shares cancelled	9	**(477.7)**	–
Transfer of cost of cancelled shares	9	**152.6**	–
		0.9	425.0
Treasury shares			
Opening balance		**(480.2)**	(480.2)
Share awards to employees		**8.1**	–
Cost of own shares acquired		**(6.1)**	–
Treasury shares cancelled	9	**477.7**	–
		(0.5)	(480.2)
Other reserves			
Opening balance		**42.6**	6.2
Other comprehensive income for the year			
Changes in fair value of FVOCI debt/available-for-sale investments		**(15.3)**	22.8
Disposal of FVOCI debt/available-for-sale investments		**0.2**	(1.3)
Foreign currency translation reserve		**5.0**	(11.6)
Share-based payment		**36.2**	26.5
Transfer of share-based payment reserve to retained earnings on vesting		**(20.3)**	–
		48.4	42.6
Retained earnings			
Opening balance as previously reported		**5 461.1**	5 325.9
IFRS 9 Transitional adjustments		**(604.8)**	–
IFRS 15 Transitional adjustments		**(26.0)**	–
Opening balance (Restated)		**4 830.3**	5 325.9
Net profit attributable to ordinary shareholders		**309.5**	264.1
Distribution to shareholders		**(168.0)**	(171.5)
Transfer of cost of cancelled shares	9	**(152.6)**	–
Transfer of share-based payment reserve to retained earnings on vesting		**20.3**	–
Retirement benefit remeasurements		**(4.1)**	42.6
Share awards to employees		**(8.1)**	–
		4 827.3	5 461.1
Balance as at 31 March		**4 876.1**	5 448.5

Lewis Group Limited: Summary financial statements

Cash flow statement

for the year ended 31 March 2019

	Notes	2019 Audited Rm	2018 Audited Rm
Cash flow from operating activities			
Cash flow from trading	8.1	**501.8**	606.3
Changes in working capital	8.2	**150.7**	101.9
Cash flow from operations		**652.5**	708.2
Interest received other than from trade receivables		**73.0**	99.5
Interest paid		**(69.8)**	(88.1)
Taxation paid		**(128.1)**	(58.5)
		527.6	661.1
Cash utilised in investing activities			
Net disposals of insurance business investments		**(31.1)**	176.0
Purchase of insurance investments		**(293.3)**	(81.5)
Disposals of insurance investments		**262.2**	257.5
Acquisition of property, plant and equipment		**(88.6)**	(44.4)
Purchase of businesses		**(16.5)**	(234.6)
Proceeds on disposal of property, plant and equipment		**9.6**	12.4
		(126.6)	(90.6)
Cash flow from financing activities			
Dividends paid		**(168.0)**	(171.5)
Repayments of borrowings		**(502.8)**	(422.2)
Purchase of own shares		**(105.1)**	(163.5)
		(775.9)	(757.2)
Net decrease in cash and cash equivalents		**(374.9)**	(186.7)
Cash and cash equivalents at the beginning of the year		**579.6**	766.3
Cash and cash equivalents at the end of the year		**204.7**	579.6

Notes to the summary financial statements

for the year ended 31 March 2019

1. Basis of reporting

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

The accounting policies applied in the preparation of the consolidated financial statements from which the summary consolidated financial statements were derived are in terms of IFRS and are consistent with those accounting policies applied in the preparation of the previous consolidated annual financial statements except as disclosed in note 1.2.

The group's trading cycle, consistent with prior financial periods, ends on the fifth day after the month being reported on, unless such day falls on a Sunday, in which case it ends on the fourth day. The financial results have been consistently prepared on this basis in prior years and each financial year reflects one year's trading performance, including the current and comparative year being reported on.

These financial statements are a summary of the group's audited annual financial statements for the year ended 31 March 2019. The audited annual financial statements were prepared by the group's Finance Department under the supervision of Mr. J Bestbier CA(SA). A copy of the full set of the audited financial statements is available for inspection at the company's registered office.

1.2 Changes in accounting policies and restatements

1.2.1 Adoption of IFRS 9

The group has adopted IFRS 9 with effect from 1 April 2018. The group has elected not to restate its comparative information as permitted by IFRS 9. Accordingly, the impact of IFRS 9 has been applied retrospectively with an adjustment to the group's opening retained earnings on 1 April 2018. Therefore comparative information in the prior period annual financial statements has not been amended for the impact of IFRS 9.

Notes to the summary financial statements continued

for the year ended 31 March 2019

1.2 Changes in accounting policies and reclassifications continued

1.2.1 Adoption of IFRS 9 continued

The major changes in accounting policies arising from the adoption of IFRS 9 can be summarised as follows:

- The impairment of financial assets has been significantly amended by IFRS 9. The main impact being that IFRS 9 introduces an expected credit loss model when assessing the impairment of financial assets. The group has elected to use the simplified model for trade receivables while the general model applies to all other assets.
- The classification of financial instruments from IAS 39 to IFRS 9 categories. This has had no impact in the opening reserves of the group or the carrying values of the financial instruments.

The adjustment to opening retained earnings for the transition to the expected credit loss model (impairment of trade receivables) as at 1 April 2018 is as follows:

	Rm
Decrease in trade receivables	(841.9)
Attributable deferred tax	237.1
Decrease in retained earnings as at 1 April 2018	(604.8)

Interest income

The following change to the effective interest recognition policy was also required following the adoption of IFRS 9:

Interest income is calculated by applying the effective interest rate to the gross carrying value of financial assets, except for financial assets that have subsequently become credit-impaired (or "stage 3"), for which interest income is calculated by applying the effective interest rate to their amortised cost (i.e. gross carrying value less impairment provision).

1.2.2 Adoption of IFRS 15

The group has adopted IFRS 15 with effect 1 April 2018. In adopting IFRS 15, comparative financial information has not been restated and the impact of transitioning to IFRS 15 is reflected as an adjustment to opening retained earnings as at 1 April 2018.

The following change to the accounting policy was required as a consequence of transitioning to IFRS 15:

Refund obligation

It is a policy to sell goods with the right of return in terms of current consumer legislation. Such sales are cancelled where the right of return is exercised. Under IFRS 15, a refund liability for the expected refunds is recognised as an adjustment to revenue and trade and other payables. The corresponding right to recover the product from the customer is an adjustment to cost of sales and inventory.

The adjustment to opening retained earnings as at 1 April 2018 is as follows:

	Rm
Gross amount	(36.1)
Increase in trade and other payables	(62.6)
Increase in inventory	26.5
Attributable deferred tax	10.1
Decrease in retained earnings as at 1 April 2018	(26.0)

1.2.3 Restatements

The following restatements were made:

Where customers have settled their accounts or where customers have paid in advance of Lewis performing under the maintenance contract, there was a remaining period under the said maintenance contract for which Lewis still had to provide a service. Previously, the gross carrying value of trade receivables was incorrectly reduced to the extent of the remaining unearned maintenance income. This has been restated to payments in advance and disclosed under current liabilities.

Where customers have paid in advance for goods still to be delivered under the sales contract, this was previously included in trade and other payables. This has been restated as payments in advance and diclosed under current liabilities.

The restatements have the following impact on trade receivables, trade and other payables and payments in advance for the year ending 31 March 2018:

	Trade receivables	Trade payables	Payments in advance
March 2018 – previously reported	4 068.9	417.0	–
March 2018 – effect of change	131.1	(37.8)	168.9
March 2018 – restated	4 200.0	379.2	168.9

Notes to the summary financial statements continued

for the year ended 31 March 2019

		2019 Audited Rm	2018 Audited Restated Rm
2. Trade and other receivables			
2.1 Trade receivables			
Trade receivables		**5 527.8**	5 608.7
Provision for impairment		**(2 323.1)**	(1 619.5)
Trade receivables (net)		**3 204.7**	3 989.2
Due within 12 months		**2 012.9**	2 571.8
Due after 12 months		**1 191.8**	1 417.4
Other receivables		**110.9**	210.8
Total trade and other receivables		**3 315.6**	4 200.0
Debtors' impairment provision as percentage of net debtors	(%)	**42.0**	28.9

Amounts due from trade receivables after one year are reflected as current, as they form part of the normal operating cycle. The credit terms of trade receivables range from 6 to 36 months.

Credit risk of trade receivables

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

Credit granting

The group has developed advanced credit-granting systems to properly assess the credit worthiness of customers. The credit underwriting process flows through the following stages:

- Credit scoring: this involves the gathering of appropriate information from the client, use of credit bureaus and third parties such as employers. These input variables are run through the various credit scorecards. Lewis deals with its new customers and existing customers differently when credit scoring takes place. The process is as follows:
  - for new customers, application risk scorecards predict the risk with the emphasis for such an evaluation on information from credit bureaus and third-party information.

- for existing customers, behavioural scorecards have been developed to assess the risk through predictive behaviour with the emphasis on the customer's payment record with Lewis, bureau and other information being considered.

- Assessing client affordability: this process involves collecting information regarding the customer's income levels, expenses and current debt obligations. Lewis has its own priority expense model based on surveys conducted with customers in addition to the National Credit Regulator's expense table.
- Determining the credit limit for the customer: the customer's risk score determined by the scorecard together with the affordability 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 continuously monitors any variances from the level of risk that has been adopted.

The group manages its risk effectively by assessing the customer's ability to service the proposed monthly instalment.

Impairment provision

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

In accordance with IFRS 9, the group has elected to measure the impairment allowance equal to the lifetime expected credit losses ("ECL"). The lifetime ECL is calculated by determining cash flows on a probability weighted basis and discounting these at the effective interest rate in the contract, including initiation fees. The discounted cash flow is compared to the balance owing at point of assessment to determine the ECL.

The probability weighted cash flows are calculated using the debtor book population's payment behaviour in combination with a transition matrix. The transition matrix and payment performance for each payment state has been developed utilising customer payment history. The transition matrix predicts the population's payment behaviour and probability of the account being in a particular payment state and transitioning into future payment states. The key states in the transitional matrix are the customer's lifetime payment rating, time on book and contractual term. For modelling purposes, cash flows are forecast until the account is written off or settled.

Notes to the summary financial statements continued

for the year ended 31 March 2019

2. **Trade and other receivables** continued

2.1 **Trade receivables** continued

Impairment provision continued

The impairment provision applicable to each payment rating and the trending thereof, is evaluated with collection rates and customer payment data produced by the credit risk information systems.

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

- Number of satisfactorily paid customers. The key operational objective is to have as many satisfactory paid customers as possible as it is the group's expectation that these customers will settle their accounts, albeit that certain categories of satisfactory paid customers may settle past their contractual term. Satisfactory paid customers are the source of future repeat business which is one of the core strengths of the business model.
- The level of impairment provision applicable to each payment rating and the trend thereof. The impairment calculation is performed on a monthly basis taking into account the payment behaviour of the debtors book having regard to the customer's lifetime payment rating, time on book and contractual term.

Contractual arrears

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

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

Combined impairment and contractual arrears table

The table reflects the following:

- A summary of the main groupings of payment ratings describing payment behaviour.
- For each of the main groupings of payment ratings, the following is disclosed:
  - Number of customers;
  - Gross receivables or gross carrying value;
  - Impairment provision allocated to each grouping; and
  - Contractual arrears for each grouping have been categorised by number of instalments in arrears.

The table referred to above is set out on the following page:

Debtor analysis 31 March 2019

Customer grouping		Number of customers Total	Gross carrying value R'000	Impairment provision R'000	Impairment provision %	Total arrears R'000	Instalments in arrears 1 R'000	2 R'000	3 R'000	>3 R'000
Satisfactory paid Customers who have paid 70% or more of amounts due over the contract period.		418 355	3 282 938	593 578	18.1	534 435	156 625	105 396	76 314	196 100
	%	71.4	59.4	25.6						
Slow payers Customers who have paid 55% to 70% of amounts due over the contract period.		88 969	959 418	612 172	63.8	606 735	68 541	65 290	60 511	412 393
	%	15.2	17.4	26.4						
Non-performing accounts Customers who have paid less than 55% of amounts due over the contract period.		78 426	1 285 439	1 117 328	86.9	987 580	63 762	62 451	60 902	800 465
	%	13.4	23.3	48.1						
Gross debtor analysis		585 750	5 527 795	2 323 078	42.0	2 128 750	288 928	233 137	197 727	1 408 958

Credit impaired debtors as at 31 March 2019

Credit impaired categories	Non-performing accounts R'000	*In duplum* Satisfactory R'000	*In duplum* Slow pay R'000	Debt counselling Satisfactory R'000	Debt counselling Slow pay R'000	No payment in 3 consecutive months Satisfactory R'000	No payment in 3 consecutive months Slow pay R'000	Total R'000
Gross carrying value as at 31 March 2019	1 285 439	13 182	43 748	35 277	70 006	45 259	70 650	1 563 561
Impairment provision	(1 117 328)	(5 578)	(30 605)	(7 661)	(39 764)	(9 842)	(39 900)	(1 250 678)
Amortised cost	168 111	7 604	13 143	27 616	30 242	35 417	30 750	312 883

2. Trade and other receivables continued

2.1 Trade receivables continued

1 April 2018 (transition to IFRS 9)

Customer grouping		Number of customers Total	Gross carrying value R'000	Impairment provision R'000	Impairment provision %	Total arrears R'000	Instalments in arrears 1 R'000	Instalments in arrears 2 R'000	Instalments in arrears 3 R'000	Instalments in arrears >3 R'000
Satisfactory paid Customers who have paid 70% or more of amounts due over the contract period.		401 183	3 063 886	675 971	22.1	549 506	155 673	105 593	77 633	210 607
	%	68.4	55.0	27.9		24.1				
Slow payers Customers who have paid 55% to 70% of amounts due over the contract period.		97 251	1 049 782	608 716	58.0	665 893	72 167	69 010	64 474	460 242
	%	16.5	18.9	25.1		29.2				
Non-performing accounts Customers who have paid less than 55% of amounts due over the contract period.		88 430	1 455 670	1 137 347	78.1	1 062 130	67 452	66 131	64 513	864 034
	%	15.1	26.1	47.0		46.6				
Gross debtor analysis		586 864	5 569 338	2 422 034	43.5	2 277 529	295 292	240 734	206 620	1 534 883

Credit impaired debtors as at 1 April 2018

Credit impaired categories	Non-performing accounts R'000	*In duplum* Satisfactory R'000	*In duplum* Slow pay R'000	Debt counselling Satisfactory R'000	Debt counselling Slow pay R'000	No payment in 3 consecutive months Satisfactory R'000	No payment in 3 consecutive months Slow pay R'000	Total R'000
Gross carrying value as at 1 April 2018	1 455 670	5 378	26 244	32 567	75 005	52 448	83 327	1 730 639
Impairment provision	(1 137 347)	(3 184)	(16 341)	(10 364)	(43 978)	(14 204)	(45 155)	(1 270 573)
Amortised cost	318 323	2 194	9 903	22 203	31 027	38 244	38 172	460 066

31 March 2018 (IAS 39) (Restated)

Customer grouping		Number of customers Total	Gross receivables R'000	Impairment provision R'000	Total arrears R'000	Instalments in arrears 1 R'000	2 R'000	3 R'000	>3 R'000
Satisfactory paid Customers who have paid 70% or more of amounts due over the contract period.		401 183	3 521 017	18 039	549 506	155 673	105 593	77 633	210 607
	%	68.4	57.9	1.1					
Slow payers Customers who have paid 65% to 70% of amounts due over the contract period.		51 311	522 578	196 021	308 975	37 594	36 230	33 546	201 605
	%	8.7	8.6	12.1					
Non-performing accounts Customers who have paid between 55% and 65% of amounts due over the contract period.		45 940	563 339	262 519	356 918	34 573	32 780	30 928	258 637
	%	7.8	9.3	16.2					
Non-performing accounts Customers who have paid 55% or less of amounts due over the contract period.		88 430	1 471 294	1 142 920	1 062 130	67 452	66 131	64 513	864 034
	%	15.1	24.2	70.6					
Gross debtor analysis		586 864	6 078 228	1 619 499	2 277 529	295 292	240 734	206 620	1 534 883
Unearned provision			(469 549)						
Gross carrying value			5 608 679	28.9%					

Notes to the summary financial statements continued

for the year ended 31 March 2019

2. Trade and other receivables continued

2.1 Trade receivables continued

Interest rate risk

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

The average effective interest rate on instalment sale and loan receivables is 22.8% (2018: 22.7%) and the average term of the sale is 32.8 months (2018: 32.8 months).

Fair value

In terms of paragraph 29(a) of IFRS 7, the carrying amounts reported in the balance sheet approximates fair value.

		2019 Audited Rm	2018 Audited Rm
2.2 Debtor costs			
Bad debts		**894.9**	958.7
Bad debts before credit impairment adjustment		**1 005.3**	958.7
Credit impairment adjustment		**(110.4)**	–
Bad debt recoveries		**(62.8)**	(60.3)
Movement in debtors' impairment provision		**(99.0)**	58.9
Closing balance		**2 323.1**	1 619.5
Transition to IFRS 9		**(802.6)**	–
Opening balance		**(1 619.5)**	(1 560.6)
		733.1	957.3
Debtor costs as a percentage of trade receivables	(%)	**13.3**	17.5

Included in bad debts in the current year is a reduction relating to credit impaired accounts. Interest income is recognised by applying the effective interest rate to the amortised cost (gross carrying value less impairment provision), resulting in lower bad debts.

3. Insurance

3.1 Insurance investments

	2019 Audited Rm	2018 Audited Rm
Financial assets – insurance investments		
Listed investments		
Fixed income securities		
– FVOCI debt/available-for-sale investments	**276.1**	471.0
Unlisted investments		
Money market		
– FVOCI debt/available-for-sale investments	**340.7**	135.4
	616.8	606.4
Analysed as follows:		
Non-current	**276.1**	471.0
Current	**340.7**	135.4
	616.8	606.4
Movement for the year		
Beginning of the year	**606.4**	750.8
Additions to investments	**293.3**	81.5
Disposals of investments	**(261.9)**	(255.7)
Fair value adjustment	**(21.0)**	29.8
End of the year	**616.8**	606.4

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

3. Insurance continued

3.1 Insurance investments continued

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

	Level 2 Rm	Total Rm
2019		
Insurance investments:		
Fixed income securities – FVOCI debt	**276.1**	**276.1**
Money market – FVOCI debt	**340.7**	**340.7**
	616.8	**616.8**
2018		
Insurance investments:		
Fixed income securities – available-for-sale	471.0	471.0
Money market – available-for-sale	135.4	135.4
	606.4	606.4

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

	2019 Audited Rm	2018 Audited Rm
3.2 Investment income		
Interest – insurance business	**50.0**	60.7
Realised gain on disposal of insurance investments	**0.3**	1.7
	50.3	62.4

	2019 Audited Rm	2018 Audited Rm
4. Revenue		
4.1 Revenue	**6 137.2**	5 556.8
Retail revenue – revenue from contracts with customers	**4 242.3**	3 524.2
Merchandise sales	**3 519.9**	2 865.0
Ancillary services	**722.4**	659.2
Insurance revenue	**647.2**	671.0
Effective interest income	**1 247.7**	1 361.6
Finance charges and initiation fees earned	**1 358.1**	1 361.6
Credit impairment adjustment	**(110.4)**	–

	Traditional Rm	Cash Rm	Omni-Channel Rm	Total Rm
4.2 Retail revenue				
2019				
Merchandise sales				
– Cash	**1 002.9**	**478.4**	**0.5**	**1 481.8**
– Credit	**2 011.4**	**–**	**26.7**	**2 038.1**
Ancillary services				
– At a point in time	**156.0**	**8.6**	**0.2**	**164.8**
– Over time	**556.8**	**–**	**0.8**	**557.6**
	3 727.1	**487.0**	**28.2**	**4 242.3**
2018				
Merchandise sales				
– Cash	915.5	64.9	–	980.4
– Credit	1 884.6	–	–	1 884.6
Ancillary services				
– At a point in time	143.7	1.1	–	144.8
– Over time	514.4	–	–	514.4
	3 458.2	66.0	–	3 524.2

Notes to the summary financial statements continued

for the year ended 31 March 2019

		2019 Audited Rm	2018 Audited Rm
5. Borrowings, banking facilities and cash			
Interest-bearing borrowings			
Long-term			
Banking facilities		–	–
Short-term			
Banking facilities		–	502.8
Bank overdrafts		–	28.8
		–	531.6
Cash-on-hand and deposits		**(204.7)**	(608.4)
Net borrowings		**(204.7)**	(76.8)
Unutilised facilities			
Banking facilities		**1 500.0**	1 618.4
Domestic medium term note programme		**2 000.0**	2 000.0
		3 500.0	3 618.4
Available facilities		**3 704.7**	3 541.6
Interest rate profile			
Interest rate profile of borrowings is as follows:			
– Bank borrowings at interest rates linked to three month JIBAR. The weighted average interest rate at the end of the reporting period is 9.1% (2018: 9.1%).		–	502.8
		–	502.8
Cash and cash equivalents			
Cash-on-hand and deposits		**204.7**	608.4
Bank overdrafts		–	(28.8)
		204.7	579.6
Capital management			
Net debt		**(204.7)**	(76.8)
Shareholder's equity		**4 876.1**	5 448.5
Gearing ratio	(%)	**(4.2)**	(1.4)

6. Reportable segments

	Traditional Rm	Cash retail[1] Rm	Omni-Channel Rm	Group Rm
Primary				
2019				
Revenue	**5 619.5**	**487.0**	**30.7**	**6 137.2**
Operating profit before investment income	**429.4**	**40.5**	**(26.9)**	**443.0**
Operating margin (%)	**7.6**	**8.3**	**(87.6)**	**7.2**
Segment assets	**3 696.3**	**136.1**	**38.1**	**3 870.5**
2018 (Restated)				
Revenue	5 490.8	66.0	–	5 556.8
Operating profit before investment income	383.5	(4.2)	–	379.3
Operating margin (%)	7.0	(6.4)	–	6.8
Segment assets	4 458.9	110.0	–	4 568.9

[1] *In 2018, reflects only two months trading since its acquisition by the group.*

Change in segments

During the year, the group changed its operating segments to reflect the new strategic direction of the group, especially with regard to the acquired businesses and the development of new business ventures. The operating segments are as follows:

- Traditional business which consists of credit-focused brands of Lewis, Best Home and Electric and Beares.
- Cash business, UFO.
- Omni-Channel business, being newly launched INspire.

In accordance with IFRS 8, the comparatives have been prepared as if these reportable segments were in place in the prior periods.

	South Africa Rm	Namibia Rm	BLE* Rm	Group Rm
Geographical				
2019				
Revenue	**5 131.2**	**491.6**	**514.4**	**6 137.2**
2018				
Revenue	4 551.2	497.6	508.0	5 556.8

* *Botswana, Lesotho and Eswatini.*

Notes to the summary financial statements continued

for the year ended 31 March 2019

		2019 Audited Rm	2018 Audited Rm
7. Gross profit			
Merchandise sales		**3 519.9**	2 865.0
Cost of merchandise sales		**(2 069.3)**	(1 677.8)
Merchandise gross profit		**1 450.6**	1 187.2
Gross profit percentage	(%)	**41.2**	41.4

	2019 Audited Rm	2018 Audited Restated Rm
8. Cash flow from operations		
8.1 Cash flow from trading	**501.8**	606.3
Operating profit before investment income	**443.0**	379.3
Adjusted for:		
Share-based payments	**36.2**	26.5
Depreciation and amortisation	**78.6**	85.9
Movement in debtors impairment provision	**(99.0)**	58.9
Movement in other provisions	**23.3**	47.8
Other movements	**19.7**	7.9
Included in cash flow from trading is interest received on trade receivables of R1 358.1 million.		
8.2 Changes in working capital	**150.7**	101.9
Increase in inventories	**(63.6)**	(27.3)
Decrease in trade and other receivables	**146.5**	82.9
Increase/(decrease) in trade payables	**77.2**	(23.4)
(Decrease)/increase in payment in advance	**(10.9)**	31.9
Decrease in insurance premiums in advance	**75.6**	327.6
Decrease in reinsurance asset	**–**	152.2
Decrease in reinsurance and insurance liabilities	**(74.1)**	(442.0)
The 2018 comparatives for changes in trade and other receivables, trade payables and payments in advance have been updated for the restatement set out in note 1.3.		

9. Cancellation of treasury shares

Lewis Stores (Pty) Ltd ("Lewis Stores"), previously held 9 216 928 ordinary shares in Lewis Group Ltd ("the company"), which comprised approximately 9.95% of the issued ordinary shares of the company. On 4 June 2018, Lewis Stores made a distribution in specie of the treasury shares to the company, in its capacity as the holding company of Lewis Stores. On completion of the distribution, the treasury shares have reverted to the authorised, but unissued share capital of the company with effect from 4 June 2018. There are no longer any treasury shares in issue held by the company's subsidiaries, except for the Share Trust, as defined by the Companies Act of 2008.

The dividend in specie in the statement of changes in equity relates to the distribution of the company's own shares as a dividend from its subsidiary entity. This is accounted for as a transaction in equity as gains or losses on own shares are not recognised in profit or loss.

The Lewis Employee Incentive Scheme Trust effectively holds 15 842 shares, all of which will be utilised to cover share awards granted to executives.

		2019 Audited Rm	2018 Audited Rm
10. Taxation			
Taxation charge			
Normal taxation			
Current year		**107.0**	93.5
Prior year		**36.7**	(0.6)
Deferred taxation			
Current year		**23.3**	29.8
Prior year		**(27.7)**	(6.8)
Withholding tax		**15.0**	12.5
Taxation per income statement		**154.3**	128.4
Tax rate reconciliation			
Profit before taxation		**463.8**	392.5
Taxation calculated at a tax rate of 28% (2018: 28%)		**129.9**	109.9
Differing tax rates in foreign countries		**3.5**	4.5
Disallowances		**7.9**	22.8
Exemptions		**(11.0)**	(13.9)
Prior years		**9.0**	(7.4)
Withholding tax		**15.0**	12.5
Taxation per income statement		**154.3**	128.4
Effective tax rate	(%)	**33.3**	32.7

Notes to the summary financial statements continued

for the year ended 31 March 2019

11. New Standards and Interpretations not yet effective

IFRS 16

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

The group has set up a project team which has reviewed all of the group's leasing arrangements over the last year in light of the new lease accounting rules in IFRS 16 and is in the process of quantifying the effect. The new standard will primarily affect the accounting for operating leases relating to retail stores. As at the reporting date the group has non-cancellable operating lease commitments of R656.2 million.

IFRS 17

IFRS 17 (Insurance Contracts) which replaces IFRS 4, applies to insurance contracts and reinsurance contracts. The standard will apply to the group for the year ending 31 March 2023. Management has not yet performed an assessment of the potential impact of the implementation of this new standard.

12. 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.

Lewis Group Limited: Summary financial statements

Key ratios

for the year ended 31 March 2019

		2019	2018
Operating efficiency ratios			
Gross profit margin	(%)	**41.2**	41.4
Operating profit margin	(%)	**7.2**	6.8
Number of stores		**784**	773
Number of permanent employees	(average)	**8 101**	8 093
Trading space	(sqm)	**254 590**	258 463
Inventory turn*	(times)	**3.1**	2.8
Current ratio*		**5.9**	3.8
Credit ratios			
Credit sales	(%)	**57.9**	65.8
Debtor costs as a percentage of the net debtors*	(%)	**13.3**	17.2
Debtors' impairment provision as a percentage of net debtors*	(%)	**42.0**	43.5
Arrear instalments on satisfactory paid accounts as a percentage of gross debtors	(%)	**8.8**	9.2
Arrear instalments on slow-paying and non-performing accounts as a percentage of gross debtors	(%)	**26.2**	28.8
Credit applications decline rate	(%)	**37.4**	37.1
Shareholder ratios			
Net asset value per share*	(cents)	**6 081**	5 778
Gearing ratio*	(%)	**(4.2)**	(1.6)
Dividend payout ratio	(%)	**61.1**	71.1
Return on average equity (after-tax)*	(%)	**6.4**	5.1
Return on average capital employed (after-tax)*	(%)	**6.5**	5.1
Return on average assets managed (pre-tax)*	(%)	**8.5**	6.6

Notes:

1. *All ratios are based on figures at the end of the year unless otherwise disclosed.*
2. *The net asset value has been calculated using 80 194 000 shares in issue (2018: 83 384 000).*
3. *Total assets exclude the deferred tax asset and the reinsurance asset.*
4. *Net debtors represents the gross carrying value i.e. after unearned provisions. Gross debtors is before unearned provisions.*
5. *Ratios marked with an asterisk calculated assuming that IFRS 9, IFRS 15 and restatements were implemented as at 31 March 2018.*

Notes

Corporate information

Non-executive directors:	Hilton Saven (independent non-executive chairman), Prof. Fatima Abrahams, Adheera Bodasing, Daphne Motsepe, Alan Smart, Duncan Westcott.
Executive directors:	Johan Enslin (chief executive officer) Jacques Bestbier (chief financial officer)
Company secretary:	Ntokozo Makomba
Transfer secretaries:	Computershare Investor Services (Pty) Ltd; 7 Rosebank Towers, 15 Biermann Ave, Rosebank, Johannesburg, 2196; PO Box 61051, Marshalltown, 2107.
Auditors:	PricewaterhouseCoopers Inc.
Sponsor:	UBS South Africa (Pty) Ltd.
Debt Sponsor:	ABSA Bank Limited, acting through its Corporate and Investment Banking Division
Registered office:	53A Victoria Road, Woodstock, 7925.
Registration number:	2004/009817/06.
Share code:	LEW
ISIN:	ZAE000058236
Bond code:	LEWI

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