



2019

ANNUAL  
FINANCIAL  
STATEMENTS  
FOR THE YEAR ENDED  
31 MARCH 2019



**Lewis**  
Group Ltd

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## Company information

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

### Primary statements

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

### Notes to the financial statements

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

#### Accounting policies

The principle accounting policies applied in the preparation of these annual financial statements are included in the specific notes to which they relate and are indicated with this light blue background. With the adoption of IFRS 9 and IFRS 15, affected accounting policies which are applicable to the 2018 financial year, are disclosed in note 24.

#### Significant accounting estimates and judgements

The areas involving a high degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements, are included in the specific notes to which they relate and are indicated with this light khaki background. With the adoption of IFRS 9 and IFRS 15, affected significant accounting estimates and judgements which are applicable to the 2018 financial year, are disclosed in note 24.

## Directors' responsibility statement

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

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

In fulfilling its responsibility, the board of directors has approved the accounting policies applied and established that reasonable and sound estimates and judgements 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 2020, as well as the current financial position and have no reason to believe that the group will not be a going concern for the foreseeable future. The going concern basis has therefore been adopted in preparing the financial statements.

PricewaterhouseCoopers Inc., as external auditors, have examined the financial statements and their report appears on pages 3 to 8.

The financial statements of the group and the company for the year ended 31 March 2019, which appear on pages 16 to 103 have been approved by the board of directors and signed on their behalf by:



**H Saven**  
Chairman



**J Enslin**  
Chief executive officer



**J Bestbier**  
Chief financial officer

Cape Town  
22 May 2019

## Preparation and presentation of audited annual financial statements

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

## Company secretary certificate

### Compliance with the Companies Act, 2008

In terms of the Companies Act and for the year ended 31 March 2019, I certify that the company has filed all returns and notices required by the Companies Act, with the Companies and Intellectual Property Commission and that all such returns and notices are true, correct and up to date.



**INT Makomba**  
Company secretary

22 May 2019

# Independent auditor's report

To the shareholders of Lewis Group Limited

## Report on the audit of the consolidated and separate financial statements

### Our opinion

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Lewis Group Limited (the Company) and its subsidiaries (together the Group) as at 31 March 2019, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

### What we have audited

Lewis Group Limited's consolidated and separate financial statements set out on pages 16 to 101 comprise:

- the consolidated and company balance sheets as at 31 March 2019;
- the consolidated income statement for the year then ended;
- the consolidated and company statements of comprehensive income for the year then ended;
- the consolidated and company statements of changes in equity for the year then ended;
- the consolidated and company cash flow statements for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

### Basis for opinion

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

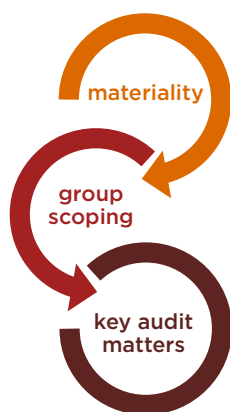
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Independence

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

## Our audit approach

### Overview



#### Overall group materiality

- R62.5 million, which represents 1% of total revenue.

#### Group audit scope

- The group operates through 7 trading subsidiaries in South Africa, Botswana, Lesotho, eSwatini and Namibia.
- All subsidiaries of the group were subjected to full scope audits.

#### Key audit matters

- Expected credit losses (ECL) on trade receivables.

## Independent auditor's report continued

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

### Materiality

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

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

<b>Overall group materiality</b>	R62.5 million
<b>How we determined it</b>	1% of total revenue
<b>Rationale for the materiality benchmark applied</b>	We have selected total revenue as our materiality benchmark because, in our view, it most appropriately reflects the activity levels of the Group. It is a benchmark against which the performance of the Group would be most relevant to users of the financial statements given the downward trend in profits over the last five years while the other key elements of the financial statements have remained constant. We chose 1% which is consistent with the quantitative materiality thresholds that we would typically apply when using revenue to compute materiality.

### How we tailored our group audit scope

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

The Group comprises of the company and its 7 subsidiaries and operates mainly through its operating subsidiary, Lewis Stores (Proprietary) Limited and provides insurance cover to customers through its short term insurance subsidiary, Monarch Insurance Company Limited. The Group operates across five different geographical locations – South Africa, Botswana, Lesotho, eSwatini and Namibia.

All subsidiaries within the group, in the five geographical locations, were subject to full scope audits by auditors from within the PricewaterhouseCoopers (PwC) network of firms.

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

### Key audit matters

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

## Independent auditor's report continued

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

Key audit matter	How our audit addressed the key audit matter
<b>Expected credit losses (ECL) on trade receivables</b>	
<p>At 31 March 2019, the carrying value of trade receivables was R5 527.8 million against which an ECL of R2 323.1 million was recorded.</p> <p>The ECL was calculated by applying International Financial Reporting Standard 9 <i>Financial Instruments</i> (IFRS 9), as described in the notes to the financial statements. The Group adopted IFRS 9 retrospectively with an adjustment to opening retained earnings as at 1 April 2018. The comparative financial statements were not restated as permitted by IFRS 9.</p> <p>The Group has elected to apply the simplified model under IFRS 9 and measures the impairment allowance at an amount equal to the lifetime ECL of all trade receivables. Lifetime ECL's are assessed by determining cash flows on a probability weighted basis and discounting these at the original effective interest rate, that includes initiation fees as they are integral to the effective interest rate. The Group has made use of a quantitative expert in their calculation of the ECL.</p> <p>In calculating the ECL, the key areas of significant management judgement and estimation included:</p> <ul style="list-style-type: none"> <li>• The probability weighted cash flows are calculated using the trade receivables population payment behaviour in combination with transition matrix and conditional probabilities. The transition matrix and payment performance for each payment state has been developed using the group's 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.</li> <li>• Write-offs take place where the customer's payment behaviour cannot be rehabilitated after all reasonable commercially and economically appropriate collection methods have been utilised and exhausted. This point is estimated based on account status, behavioural score and consecutive missed payments.</li> </ul>	<p>Our audit procedures addressed the key areas of significant judgement and estimation in determining the ECL on trade and other receivables and the first time adoption of IFRS 9 as follows:</p> <p><b>Calibration of ECL statistical model components</b></p> <p>We assessed the methodology applied by management in their IFRS 9 model documentation which forms the basis of the ECL calculation. We have involved our actuarial and accounting specialists to assess that the model methodology and application of the methodology are in line with the requirements of IFRS 9.</p> <p>We utilised our actuarial specialists to assess the following:</p> <ul style="list-style-type: none"> <li>• reasonability of the key assumptions, i.e. effective interest rate, probability weighted cash flows and forward-looking information (economic overlay) applied in the ECL calculation; and</li> <li>• appropriateness and accuracy of the methodology applied by management's experts in their calculation of the ECL. Accuracy was tested by a complete independent recalculation of the ECL values as at 31 March 2019.</li> </ul> <p>Our actuarial specialists assessed the principles underlying the ECL calculation, the practical implementation of these principles as well as consistency with current industry best practices and regulatory expectations based on the requirements of the standard.</p> <p><b>Determination of the write-off point</b></p> <p>We evaluated management's assessment of historical post write-off recoveries, to determine the point at which there was no reasonable expectation of further recovery. Through recalculation, we tested the application of the IFRS 9 write-off policy, including the exclusion of post write-off recoveries from expected cash flows for purposes of determining the ECL.</p>

## Independent auditor's report continued

Key audit matter	How our audit addressed the key audit matter
<b>Expected credit losses (ECL) on trade receivables</b> continued	
<ul style="list-style-type: none"><li>Determining and weighting of assumptions used in the forward-looking economic model (economic overlay). Three forward-looking scenarios are probability weighted by management to determine the ECL (high, middle and low scenario). An economic overlay has been developed by performing a regression analysis between a proxy for default rates and key economic variables such as prime overdraft rate and unemployment rate.</li></ul> <p>We determined the ECL on trade receivables to be a matter of most significance to our current year audit due to the following:</p> <ul style="list-style-type: none"><li>the first time adoption of IFRS 9 by the Group;</li><li>the magnitude of the ECL; and</li><li>the degree of judgement and estimation applied by management in determining the ECL.</li></ul> <p>Refer to note 4 of the consolidated financial statements for the disclosures relating to trade receivables, credit risk, the accounting policy for trade receivables and the critical accounting estimates and judgements relating to the ECL of trade receivables.</p>	<p><b><i>Inclusion of forward looking information and macro-economic variables in the ECL</i></b></p> <ul style="list-style-type: none"><li>We considered the assumptions used in the forward-looking economic model, specifically around the forward-looking scenarios used, the macro-economic variables considered as well as the macro-economic outlook. We compared these to our own actuarial statistics and independent market data.</li><li>We tested the performance and sensitivity of the forward-looking model in order to evaluate whether the chosen macro-economic factors and model fit provide a reasonable representation of the impact of macro-economic changes on the ECL results. To obtain comfort on the required magnitude of the forward-looking adjustment we calculated an independent assessment of macro-economic effect by modelling write-off rate to GDP and concluded that no material adjustment was required.</li></ul> <p>We found that the principles and methodology applied in the model are consistent with the requirements of IFRS 9.</p>

### Other information

The directors are responsible for the other information. The other information comprises the information included in the *Lewis Group Limited and its subsidiaries Annual Financial Statements for the year ended 31 March 2019*, which includes the Directors' Report, the Audit Committee Report and the Company Secretary Certificate as required by the Companies Act of South Africa, which we obtained prior to the date of this auditor's report, and the *Lewis Group Limited Integrated Report 2019*, which is expected to be made available to us after that date. Other information does not include the consolidated and separate financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



## Independent auditor's report continued

### Responsibilities of the directors for the consolidated and separate financial statements

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and/or Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

## Independent auditor's report continued

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

### Report on other legal and regulatory requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that PricewaterhouseCoopers Inc. has been the auditor of Lewis Group Limited for 28 years.



**PricewaterhouseCoopers Inc.**

**Director: MC Hamman**

*Registered Auditor*

Cape Town

22 May 2019

# Audit committee report

for the year ended 31 March 2019

The Audit Committee (“the committee”) has pleasure in submitting its report for the year ended 31 March 2019 in compliance with the Companies Act, No. 71 of 2008, as amended (“the Companies Act”).

## Introduction

The committee is a statutory committee which carries out its statutory duties in accordance with the Companies Act. In addition to its statutory duties the committee provides independent oversight over external audit, internal audit and the finance function in terms of the requirements of King IV. The committee operates in accordance with a documented charter and complies with all relevant legislation, regulation and governance codes. The committee’s terms of reference are reviewed annually and approved by the board.

The committee executed its duties in terms of the requirements of the Companies Act and King IV.

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

## Objectives

The objectives of the committee are:

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

## Relationship with the Monarch Audit and Risk Committee

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

## Membership

The committee consists of three independent non-executive directors:

DJ Westcott (chairman)

H Saven

AJ Smart

There were no changes to the committee during the reporting period.

## Audit committee report continued

for the year ended 31 March 2019

Biographical details of the committee members are provided on pages 12 to 13 of the Integrated Report. Fees paid to the committee members are outlined in the table of directors' remuneration on pages 81 to 82 of the Remuneration Report.

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

The committee meets separately with external auditors, without members of executive management being present, at least once a year. The effectiveness of the committee is assessed as part of the annual board and committee self-evaluation process.

### Committee activities

The committee met four times during the year under review. Attendance of the members has been set out on page 85 of the Corporate Governance Report.

The committee attended to the following material matters:

#### Financial statements

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

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

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

#### Implementation of New Standards – IFRS 9 and IFRS 15

IFRS 9 has been implemented as at 1 April 2018 in terms of the transitional arrangements. IFRS 9 covers the classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting. The major impact of IFRS 9 on the group was on the impairment provision due to IFRS 9 having much wider application than the previous standard, IAS 39 in that IFRS 9 introduces an expected loss impairment model as opposed to the incurred loss model of IAS 39. This resulted in an additional impairment loss of R841.9 million. Full details are set out in note 22.

This was first reported upon in our interim results for the 6 months ended 30 September 2018. As part of the interim results, an IFRS 9 transitional report was produced to explain the impact of IFRS 9. The transitional report was reported upon by our external auditors, PricewaterhouseCoopers Inc.

IFRS 15 (Revenue from contracts from Customers) was also implemented as at 1 April 2018. The main implication was a change in policy for cancelled sales. The impact has also been set out in note 22.

To consider all the above, the committee had constituted a sub-committee last year consisting of all members of the Audit Committee to monitor the progress of management's task team and to consider key judgements and assumptions in implementing the new standards. The sub-committee has complete access to the independent auditor and the advisors appointed. Regular meetings of this sub-committee were held to review progress and to consider all the key judgements made.

As part of its external audit, our independent auditors, PricewaterhouseCoopers, re-performed our impairment model and consider the assumptions, methodologies and judgements used in the model. The audit results of the re-performance were compared to management's calculation and there were no material differences.

## Audit committee report continued

for the year ended 31 March 2019

### Integrated report

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

The committee considered the company's integrated report and assessed its consistency with operational, financial and other information known to the audit committee members, and for consistency with the annual financial statements.

The committee satisfied itself that the integrated report is materially accurate, complete and reliable and consistent with the annual financial statements.

The committee recommended the integrated report for the year ended 31 March 2019 for approval by the board on 17 May 2019.

### External auditors

With regards to external audit the committee performed the following functions:

- Reviewed the independence of PricewaterhouseCoopers Inc., the company's external auditors, and 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 2019 financial year. The fees paid to the auditors are disclosed in note 21.4 to the annual financial statements;
- Determined the nature and extent of allowable non-audit services and approved the policy for the provision of non-audit services. It is the policy of the group that the auditor is restricted from rendering accounting, IT consulting services, company secretarial, internal audit and human resource services.
- Reviewed and approved the external audit plan, ensuring that material risk areas were included and that coverage of the significant business processes was acceptable.
- Reviewed the external audit reports and management's response, considered their effect on the financial statements and internal financial control.

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

### 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.
- Reviewed and approved the annual internal audit plan, ensuring that material risk areas were included and that the coverage of significant business processes was acceptable.
- Reviewed the quarterly internal audit reports, covering the effectiveness of internal control, material fraud incidents and material non-compliance with group policies and procedures. The committee is advised of all internal control developments and advised of any material losses, with none being reported during the year.
- Considered and reviewed with management and internal auditors any significant findings and management responses thereto in relation to reliable financial reporting, corporate governance and effective internal control to ensure appropriate action is taken.
- Oversaw the co-operation between internal audit and external auditors, and the committee is satisfied that the company has optimised the assurance coverage obtained from management, internal and external assurance providers in accordance with an appropriate combined assurance model.
- Assessed the performance and qualification of the internal audit function and found them to be satisfactory.

# Audit committee report continued

for the year ended 31 March 2019

## Internal financial control and compliance

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

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

## Governance of risk

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

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

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

## Independence of external auditors

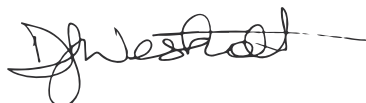
The committee is satisfied that PricewaterhouseCoopers Inc. are independent of the group. This assessment was made after considering the following:

- 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 designated auditor is Thinus Hamman who was appointed on 4 December 2017.

In the year ahead, the committee will, in addition to its statutory duties, focus on the implementation of IFRS 16 which will be effective in 2020.

The committee confirms it has functioned in accordance with its terms of reference for the 2019 financial year.



**D Westcott**

*Chairman, Audit Committee*

17 May 2019

# Directors' report

for the year ended 31 March 2019

## Nature of business

Lewis Group Limited is a holding company listed on the JSE Limited, operating through three main trading subsidiaries, Lewis Stores Proprietary Limited, United Furniture Outlets Proprietary Limited ("UFO") and Monarch Insurance Company Limited ("the group").

The group offers selected range of furniture and appliances through 489 Lewis, 138 Best Home and Electric and 121 Beares stores. Sales are mainly on credit. UFO is a cash furniture retailer with a retail footprint of 36 stores.

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 Eswatini operating under the Lewis, Best Home and Electric and Beares brands.

The store presence outside South Africa now amounts to 120 stores.

The nature of the business of the subsidiaries is set out in note 23.

## Regulatory matters

### Second referral by the National Credit Regulator ("NCR") to the National Credit Tribunal ("NCT").

In 2016, the NCR referred Lewis Stores to the NCT for alleged breaches of the NCA relating to club fees and extended maintenance contracts charged to its' customers. The NCT dismissed the referral by the NCR on both issues, causing the NCR to appeal the matter in 2017. Judgement in the appeal was delivered in 2018, dismissing the appeal with costs. The NCR further appealed the matter to the Supreme Court of Appeal with a date yet to be set.

### Homechoice application

In September 2018, Homechoice (Pty) Ltd served an application on Lewis in respect of Lewis' INspire business. The application relates to certain intellectual property rights which Homechoice alleges Lewis has breached. Lewis opposed the application and initiated a separate application relating to irregularities in Homechoice's application. An order was granted striking out the bulk of the documentation in Homechoice's application and affording Homechoice an opportunity to regularise such documentation.

### High Court summonses

In 2016, Lewis was served, at the direction of Summit Financial Partners, with summonses relating to 28 of its existing or previous customers. The summonses claimed damages for alleged breaches of the NCA relating to delivery charges and extended maintenance contracts. Lewis opposed the claims and raised procedural flaws with the plaintiff's particulars of claim. Two separate attempts by the plaintiffs to amend their particulars of claim were dismissed in 2017 and 2018. No further steps have been taken by the plaintiffs in these matters.

### Referral by Summit Financial Services to the National Consumer Tribunal

Following the refusal by the NCR to refer a complaint by Summit to the NCT, the NCT granted an application for Summit to self-refer the matter. The complaint alleged that delivery fees charged by Lewis contravene the NCA. Lewis has appealed the NCT's decision to the High Court and it will be heard in July 2019.

## Review of financial results and activities

The financial results and affairs of the group are reflected in the annual financial statements set out on pages 16 to 103.

## Segmental analysis

Segmental information is set out in note 10 to the annual financial statements.

## Share capital

During the financial year, 3 224 858 shares were repurchased in terms of section 48 of the Companies Act.

Refer to note 13.4 for more details. The number of shares in issue at the end of the financial year is 80 210 076.

The company will delist the remaining 85 970 shares to update the JSE records to reflect the number of shares the company will have in issue as 80 210 076.

## Directors' report continued

for the year ended 31 March 2019

### Treasury shares

The company's wholly-owned subsidiary, Lewis Stores Proprietary Limited, previously held 9 216 928 ordinary shares in Lewis ("treasury shares"), which comprised approximately 9.95% of the issued ordinary shares of the company at that time.

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.

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

### Dividends

The following dividends have been declared or proposed for the financial year ended 31 March 2019:

	Dividend per share cents	Date declared	Date payable
Interim – declared	105	21 November 2018	28 January 2019
Final – proposed	129	22 May 2019	22 July 2019
For the year	234		

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

The following dates are applicable to this declaration:

Last date to trade "cum" dividend	16 July 2019
Date trading commences "ex" dividend	17 July 2019
Record date	19 July 2019
Date of payment	22 July 2019

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

### Directors

On 1 April 2018, Les Davies resigned as chief financial officer and Jacques Bestbier was appointed in his stead.

The directors as at 31 March 2019 are as follows:

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



## Directors' report continued

for the year ended 31 March 2019

### Company secretary

Mr PB Croucher was appointed interim company secretary with effect from 18 October 2017.

Ms INT Makomba was appointed as the permanent company secretary with effect 11 June 2018. The address of the company secretary is that of registered offices as stated on page 1.

### Directors' interests

At 31 March 2019, the directors' beneficial direct and indirect interest in the company's issued shares were as follows:

	2019 Direct	2019 Indirect	2018 Direct	2018 Indirect
H Saven		6 440		6 440
AJ Smart	319 070		319 070	
J Enslin	176 038	65 541	176 038	17 522
J Bestbier	1 148	26 674		
LA Davies			320 192	13 699
	<b>496 256</b>	<b>98 655</b>	815 300	37 661

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

Full details of the terms and conditions in relation to these share awards are set out in note 14.2 to the financial statements.

During the course of the year, no director had a material interest in any contract of significance with the company or any of its subsidiaries that could have given risen 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 14.2 to the financial statements.

### Subsidiary companies

Details of the company's subsidiaries are set out in note 23.

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

	2019 Rm	2018 Rm
Profit	325.1	280.4
Losses	(15.6)	(16.3)

### Borrowing powers

There were no borrowings as at 31 March 2019 (2018: R531.6 million). Borrowings are subject to treasury policy adopted by the board of directors. In terms of the articles of association, the group has unlimited borrowing powers.

# Lewis Group Limited:

## Consolidated income statement

for the year ended 31 March 2019

	Notes	2019 Rm	2018 Rm
<b>Revenue</b>	9	<b>6 137.2</b>	5 556.8
Retail revenue		<b>4 242.3</b>	3 524.2
Merchandise sales		<b>3 519.9</b>	2 865.0
Ancillary services		<b>722.4</b>	659.2
Insurance revenue		<b>647.2</b>	671.0
Effective interest income		<b>1 247.7</b>	1 361.6
<b>Cost of merchandise sales</b>	11	<b>(2 069.3)</b>	(1 677.8)
<b>Operating costs</b>		<b>(3 624.9)</b>	(3 499.7)
Debtor costs	4.2	<b>(733.1)</b>	(957.3)
Employment costs	14.1	<b>(1 149.5)</b>	(1 059.1)
Occupancy costs		<b>(444.8)</b>	(373.2)
Administration and IT		<b>(348.3)</b>	(328.8)
Transport and travel		<b>(241.7)</b>	(205.0)
Marketing		<b>(298.3)</b>	(246.6)
Depreciation and amortisation		<b>(78.6)</b>	(85.9)
Other operating costs		<b>(330.6)</b>	(243.8)
<b>Operating profit before investment income</b>		<b>443.0</b>	379.3
Investment income	5.2	<b>50.3</b>	62.4
<b>Profit before finance costs and taxation</b>		<b>493.3</b>	441.7
<b>Net finance costs</b>		<b>(29.5)</b>	(49.2)
Interest paid	6.2	<b>(69.8)</b>	(87.6)
Interest received	6.2	<b>23.0</b>	38.9
Forward exchange contracts	6.2	<b>17.3</b>	(0.5)
<b>Profit before taxation</b>		<b>463.8</b>	392.5
Taxation	15	<b>(154.3)</b>	(128.4)
<b>Net profit attributable to ordinary shareholders</b>		<b>309.5</b>	264.1
Earnings per share	(cents) 13.1	<b>377.5</b>	306.8
Diluted earnings per share	(cents) 13.1	<b>368.7</b>	301.3

# Lewis Group Limited:

## Consolidated statement of comprehensive income

for the year ended 31 March 2019

	2019 Rm	2018 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)
Disposal of available-for-sale investments recognised	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:		
Retirement benefit remeasurements	(4.1)	42.6
Remeasurements of the retirement asset and liabilities	(5.7)	59.1
Tax effect	1.6	(16.5)
<b>Total comprehensive income for the year attributable to ordinary shareholders</b>	<b>295.3</b>	<b>316.6</b>

\* 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: Consolidated balance sheet

at 31 March 2019

	Notes	2019 Rm	2018 Restated Rm	2017 Restated Rm
<b>Assets</b>				
<b>Non-current assets</b>				
Property, plant and equipment	16	298.9	301.8	343.5
Intangible assets	17	122.3	117.8	66.2
Goodwill	18	187.6	187.6	5.5
Deferred taxation	15	195.4	10.9	48.9
Retirement benefit asset	14.5	79.0	91.1	55.0
Financial assets – insurance investments	5.1	276.1	471.0	455.9
		<b>1 159.3</b>	<b>1 180.2</b>	<b>975.0</b>
<b>Current assets</b>				
Inventories	11	665.8	579.7	447.7
Trade and other receivables	4.1	3 315.6	4 200.0	4 348.0
Re-insurance assets	5.3	–	–	152.2
Insurance premiums in advance		–	75.6	403.2
Taxation	15	102.9	136.5	181.1
Financial assets – insurance investments	5.1	340.7	135.4	294.9
Cash-on-hand and deposits	6.1	204.7	608.4	788.6
		<b>4 629.7</b>	<b>5 735.6</b>	<b>6 615.7</b>
<b>Total assets</b>		<b>5 789.0</b>	<b>6 915.8</b>	<b>7 590.7</b>
<b>Equity and liabilities</b>				
<b>Capital and reserves</b>				
Share capital and premium	13.4	0.9	425.0	588.5
Treasury shares	13.4	(0.5)	(480.2)	(480.2)
Other reserves	13.5	48.4	42.6	6.2
Retained earnings	13.6	4 827.3	5 461.1	5 325.9
		<b>4 876.1</b>	<b>5 448.5</b>	<b>5 440.4</b>
<b>Non-current liabilities</b>				
Long-term interest-bearing borrowings	6.1	–	–	700.0
Deferred taxation	15	43.2	121.0	89.0
Retirement benefit liability	14.5	87.2	89.8	101.7
		<b>130.4</b>	<b>210.8</b>	<b>890.7</b>
<b>Current liabilities</b>				
Trade and other payables	7.1	521.8	379.2	256.5
Payments in advance	8	158.0	168.9	137.0
Insurance and re-insurance liabilities	5.4	102.7	176.8	618.8
Short-term interest-bearing borrowings	6.1	–	531.6	247.3
		<b>782.5</b>	<b>1 256.5</b>	<b>1 259.6</b>
<b>Total equity and liabilities</b>		<b>5 789.0</b>	<b>6 915.8</b>	<b>7 590.7</b>

# Lewis Group Limited:

## Consolidated statement of changes in equity

for the year ended 31 March 2019

	Notes	2019 Rm	2018 Rm
<b>Share capital and premium</b>	13.4		
Opening balance		425.0	588.5
Cost of own shares acquired		(99.0)	(163.5)
Treasury shares cancelled		(477.7)	–
Transfer of cost of cancelled shares		152.6	–
		0.9	425.0
<b>Treasury shares</b>	13.4		
Opening balance		(480.2)	(480.2)
Share awards to employees		8.1	–
Cost of own shares acquired		(6.1)	–
Treasury shares cancelled		477.7	–
		(0.5)	(480.2)
<b>Other reserves</b>	13.5		
Opening balance		42.6	6.2
Other comprehensive income:			
Changes in fair value of FVOCI debt/available-for-sale investments		(15.3)	22.8
Disposal of FVOCI debt/available-for-sale investments recognised		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
<b>Retained earnings</b>	13.6		
Opening balance as previously reported		5 461.1	5 325.9
IFRS 9 Transitional adjustments	22.2	(604.8)	–
IFRS 15 Transitional adjustments	22.2	(26.0)	–
Opening balance (Restated)		4 830.3	5 325.9
Net profit attributable to ordinary shareholders		309.5	264.1
Distribution to shareholders	13.2	(168.0)	(171.5)
Transfer of cost of cancelled shares		(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
<b>Balance at 31 March</b>		<b>4 876.1</b>	<b>5 448.5</b>

# Lewis Group Limited:

## Consolidated cash flow statement

for the year ended 31 March 2019

	Notes	2019 Rm	2018 Rm
<b>Cash flow from operating activities</b>			
Cash flow from trading	12.1	501.8	606.3
Changes in working capital	12.2	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	15	(128.1)	(58.5)
		527.6	661.1
<b>Cash utilised in investing activities</b>			
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 business	19	(16.5)	(234.6)
Proceeds on disposal of property, plant and equipment		9.6	12.4
		(126.6)	(90.6)
<b>Cash flow from financing activities</b>			
Dividends paid	13.2	(168.0)	(171.5)
Repayments of borrowings		(502.8)	(422.2)
Purchase of own shares		(105.1)	(163.5)
		(775.9)	(757.2)
<b>Net decrease in cash and cash equivalents</b>			
		(374.9)	(186.7)
Cash and cash equivalents at the beginning of the year		579.6	766.3
<b>Cash and cash equivalents at the end of the year</b>		<b>204.7</b>	<b>579.6</b>

# Lewis Group Limited: Consolidated financial statements **Notes to the annual financial statements**

for the year ended 31 March 2019

## 1.1 Basis of preparation

The financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”), the IFRS Interpretations Committee interpretations and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements, as issued by the Financial Reporting Standards Council and the requirements of the Companies Act. The financial statements are prepared under the historical cost convention, as modified by the revaluation of certain financial instruments to fair value. The financial statements are prepared on a going concern basis.

The accounting policies applied are consistent with those applied in the previous consolidated annual financial statements except as disclosed in note 1.3.

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

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

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

## 1.2 Significant accounting estimates and judgements

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

The following significant judgements have been identified:

	<b>Note reference</b>
Impairment of receivables	4.1
Debtor costs	4.2
Payments in advance	8
Retail revenue	9.2
Share-based payments	14.3
Normal and deferred taxation	15
Retirement benefits	14.5
Useful lives and residual values of fixed assets	16
Goodwill	18

# Lewis Group Limited: Consolidated financial statements **Notes to the annual financial statements** continued

for the year ended 31 March 2019

## 1.3 Changes in accounting policies and restatements

### 1.3.1 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.

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)

For full details of the adoption of IFRS 9, refer notes 3, 4 and 22.

#### Interest income

The following change to the effective interest recognition policy (refer note 9.1), 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).

### 1.3.2 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 (refer note 9.1) was required as a consequence of transitioning to IFRS 15:

#### Refund obligation

It is 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.



# Lewis Group Limited: Consolidated financial statements **Notes to the annual financial statements** continued

for the year ended 31 March 2019

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)

The effect of the adoption of IFRS 15 as at 1 April 2018 is reflected in note 22.

### 1.3.3 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 separately 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 disclosed separately under current liabilities.

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

	Trade receivables	Trade payables	Payments in advance
<b>2018</b>			
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
<b>2017</b>			
March 2017 – previously reported	4 225.8	271.3	–
March 2017 – effect of change	122.2	(14.8)	137.0
March 2017 – restated	4 348.0	256.5	137.0

Refer note 8 for the analysis of payments in advance.

# Lewis Group Limited: Consolidated financial statements **Notes to the annual financial statements** continued

for the year ended 31 March 2019

## 2. Risk management

The board of directors is responsible for risk management and views it as an integral part of providing a responsible return on shareholders' equity.

To assist the board, the group is managed through a system of internal controls functioning throughout the entity. The board established a group risk committee comprising four independent non-executive directors and two executive directors which operates in compliance with a formal charter. The committee assists the board by, *inter alia*:

- reviewing the risk management policy and plan annually;
- making recommendations on risk tolerance and appetite;
- evaluate and agree the nature of and extent of the risks that the company should be willing to take in pursuit of its strategic objectives;
- reviewing the risk register of strategic and operational risks annually;
- monitoring implementation of the risk management policy and plan; and
- exercise ongoing oversight of risk management.

Risk management disclosures are categorised as follows:

### **Credit risk**

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

### **Price risk**

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

### **Interest rate risk**

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

### **Currency risk**

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

### **Liquidity risk**

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

### **Insurance risk**

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

### **Actuarial risk**

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

# Lewis Group Limited: Consolidated financial statements **Notes to the annual financial statements** continued

for the year ended 31 March 2019

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

	Note reference
<b>Credit risk</b>	
Trade receivables	4.1
Insurance investments	5.1
Cash	6.1
<b>Price risk</b>	
Insurance investments	5.1
Borrowings	6.1
<b>Interest rate risk</b>	
Trade receivables	4.1
Insurance Investments	5.1
Net finance costs	6.2
<b>Currency risk</b>	
Net finance costs	6.2
<b>Liquidity risk</b>	
Borrowings	6.1
<b>Insurance risk</b>	
Insurance and re-insurance liabilities	5.4
<b>Actuarial risk</b>	
Defined benefit retirement plans	14.5.3
Post-retirement healthcare benefits	14.5.4

### 3. Financial instruments

The group holds the following financial instruments:

	Note reference
Trade and other receivables	4.1
Insurance investments	5.1
Cash-on-hand and deposits	6.1
Trade payables	7.1
Borrowings	6.1

#### Accounting policies – 2019

Accounting policies related to financial instruments have been significantly amended as a consequence of the implementation of IFRS 9. The following significant changes to the accounting policies for financial instruments have been made:

##### *(i) Initial recognition of financial assets*

On initial recognition, financial instruments are measured at fair value. Purchases and sales of financial assets are recognised on the trade date, being the date that the group commits to the transaction.

Subsequently, financial instruments are measured as follows: Amortised cost, fair value through other comprehensive income, fair value through profit or loss or designated as at fair value through profit or loss.

##### *(ii) Business model assessment*

For debt instruments, IFRS 9 requires that a business model assessment is carried out which reflects how the group manages the assets in order to generate cash flows. The assessment is at a portfolio level which is the level at which the portfolio is managed. Factors considered in determining the business model for a group of assets include past experience on how cash flows were collected, how the assets' performance is evaluated and reported, risks that affect the assets performance and how these risks are assessed and managed and the reasons, frequency, volume and timing of sales in prior periods.

# Lewis Group Limited: Consolidated financial statements **Notes to the annual financial statements** continued

for the year ended 31 March 2019

## 3. Financial instruments continued

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective such as trade and other receivables, insurance assets and deposits. With the adoption of IFRS 9, debt instruments have been classified into the following categories:

- Amortised cost
- Fair value through other comprehensive income ("FVOCI")
- Fair value through profit and loss ("FVTPL")

The group reclassifies debt instruments when and only when its business model for those financial assets changes. Such changes are expected to be very infrequent.

The group's business models for managing debt instruments and the contractual cash flow characteristics of the debt instruments determine the following categories:

### **Amortised cost**

Financial assets within a business model whose objective is solely to hold assets to collect contractual cash flows and the contractual terms of these assets are solely payments of principal and interest.

### **FVOCI (hold to collect and sell)**

Financial assets held within a business model whose objective is both to hold these assets to collect contractual cash flows and to sell these assets and that the contractual terms of financial assets are solely payments of principal and interest.

Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains or losses on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to the income statement and recognised in debtors cost. Interest income from these financial assets is included in effective interest income using the effective interest rate method.

### **FVTPL (hold to sell/manage in a fair value basis)**

Financial assets are held within a business model where the objective is to sell and manage these assets on a fair value basis. In addition, financial assets can also be included in this category if:

- the use of this classification removes or significantly reduces an accounting mismatch;
- financial assets which doesn't meet the SPPI criteria (see below).

Financial assets are only derecognised when the rights to receive cash flows from the investments have expired or the group has transferred the contractual rights to receive the cash flows of the financial asset.

### ***(iii) Solely payment of principal and interest ("SPPI")***

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the group assesses whether the assets' cash flows represent solely payments of principal and interest (the "SPPI test"). In making this assessment, the group considers whether the contractual cash flows are consistent with a basic lending arrangement. Where the contractual terms introduce volatility or exposure to risks that are inconsistent with a basic lending arrangement, the financial asset is classified and measured at FVTPL.

### ***(iv) Impairment of financial assets***

#### **Financial assets other than trade receivables**

The expected credit loss ("ECL") model applies to financial assets classified at amortised cost and/or FVOCI. ECL is a probability-weighted estimate of losses. A credit loss is the difference between the cash flows that are due to the entity in accordance with the contract and the cash flows it expects to receive, discounted at the original effective interest rate implicit in the financial asset.

# Lewis Group Limited: Consolidated financial statements **Notes to the annual financial statements** continued

for the year ended 31 March 2019

The general model for impairment is recognised as follows:

#### *Stage 1*

ECL is recognised on initial recognition and measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months.

#### *Stage 2*

At each reporting date, the group assesses whether there has been a significant increase in credit risks ("SICR") since initial recognition. Where evidence exists that there has been a SICR, the ECL is based on expected credit losses over the lifetime of the asset.

#### *Stage 3*

Financial assets become credit impaired as a result of a loss event that has occurred after initial recognition. ECL is based on estimated credit losses over the lifetime of the account. For these credit impaired assets, the interest or return on these assets are calculated on the amortised cost. Amortised cost is defined as the gross carrying value on initial recognition (adjusted for any modifications) less the impairment provision.

The impairment gains or losses are presented as follows:

- For amortised cost assets, through the income statement.
- For debt instruments that are financial assets classified as FVOCI, through the income statement.

#### **Trade receivables**

The group's trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. These receivables contain a significant financing component with terms of business varying from 6 to 36 months, and a significant portion conducted on 36 months.

In accordance with paragraph 5.5.15 (a)(ii), the group has elected to measure the impairment allowance at an amount equal to the lifetime expected credit losses. This policy will be applied to all trade receivables.

The ECL is a probability-weighted estimate and represents the difference between the cash flow that is due to the entity in accordance with the contract and the cash flows the entity expects to receive, discounted at the original effective interest rate (contractual interest rate and initiation fee included in the customer contract).

Where trade receivables have become credit impaired as a result of loss events that have occurred after initial recognition, those receivables are classified as stage 3. The effective interest recognised on these assets is calculated on the amortised cost being defined as gross carrying value on initial recognition (adjusted for any modification) less the impairment provision.

#### **(v) Current and non-current financial assets and financial liabilities**

Current assets and liabilities have maturity terms of less than 12 months, except for instalment sale receivables. Instalment sale 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.

#### **(vi) Set off**

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

#### **(vii) Derivative instruments**

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

#### **Accounting policies – 2018**

Refer note 24.

Lewis Group Limited:  
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for the year ended 31 March 2019

**3. Financial instruments** continued

i) Categories

	Amortised cost Rm	FVOCI debt Rm	Total Rm
<b>2019</b>			
<b>Assets</b>			
Insurance investments	–	616.8	616.8
Trade and other receivables	3 315.6	–	3 315.6
Cash-on-hand and deposits	204.7	–	204.7
<b>Liabilities</b>			
Trade payables	160.9	–	160.9
Borrowings	–	–	–
Insurance and re-insurance liabilities <sup>(1)</sup>	102.7	–	102.7

	Loans and receivables Rm	Amortised cost Rm	Available-for-sale Rm	Total Rm
<b>2018</b>				
<b>Assets</b>				
Insurance investments	–	–	606.4	606.4
Trade and other receivables	4 200.0	–	–	4 200.0
Cash-on-hand and deposits	–	608.4	–	608.4
<b>Liabilities</b>				
Trade payables	–	136.8	–	136.8
Borrowings	–	531.6	–	531.6
Insurance and re-insurance liabilities <sup>(1)</sup>	–	176.8	–	176.8

ii) Maturity profile of financial assets

The maturity profiles of financial assets are as follows:

	0 to 12 months Rm	1 to 5 years Rm	>5 years Rm	Total Rm
<b>2019</b>				
Insurance investments	340.7	–	276.1	616.8
Trade and other receivables	2 123.8	1 191.8	–	3 315.6
Cash-on-hand and deposits	204.7	–	–	204.7
	<b>2 669.2</b>	<b>1 191.8</b>	<b>276.1</b>	<b>4 137.1</b>
<b>2018</b>				
Insurance investments	135.4	–	471.0	606.4
Trade and other receivables	2 782.6	1 417.4	–	4 200.0
Cash-on-hand and deposits	608.4	–	–	608.4
	<b>3 526.4</b>	<b>1 417.4</b>	<b>471.0</b>	<b>5 414.8</b>

<sup>(1)</sup> These are liabilities in terms of IFRS 4 but included to disclose maturity analysis of insurance liabilities.

# Lewis Group Limited: Consolidated financial statements Notes to the annual financial statements continued

for the year ended 31 March 2019

## iii) Maturity profile of financial liabilities

The maturity profiles of undiscounted financial liabilities are as follows:

	0 to 12 months Rm	1 to 5 years Rm	>5 years Rm	Total Rm
<b>2019</b>				
Borrowings	–	–	–	–
Interest on borrowings to maturity	–	–	–	–
Trade payables	(160.9)	–	–	(160.9)
Insurance and re-insurance liabilities <sup>(1)</sup>	(77.2)	(25.5)	–	(102.7)
	<b>(238.1)</b>	<b>(25.5)</b>	<b>–</b>	<b>(263.6)</b>
<b>2018</b>				
Borrowings	(531.6)	–	–	(531.6)
Interest on borrowings to maturity	(34.0)	–	–	(34.0)
Trade payables	(136.8)	–	–	(136.8)
Insurance and re-insurance liabilities <sup>(1)</sup>	(143.6)	(33.2)	–	(176.8)
	<b>(846.0)</b>	<b>(33.2)</b>	<b>–</b>	<b>(879.2)</b>

<sup>(1)</sup> These are liabilities in terms of IFRS 4 but included to disclose maturity analysis of insurance liabilities.

## iv) 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
<b>2019</b>				
<b>Assets</b>				
Gross instalment sale receivables	Up to 3 years	22.8	Fixed	5 527.8
Fixed income securities	Varies	8.2	Fixed	276.1
Money market investments	Up to 12 months	8.4	Floating	340.7
<b>Liabilities</b>				
Short-term interest-bearing borrowings	Varies (refer note 6)	9.1	Floating	–
<b>2018 (Restated)</b>				
<b>Assets</b>				
Gross instalment sale and loan receivables	Up to 3 years	22.7	Fixed	5 608.7
Fixed income securities	Varies	7.9	Fixed	471.0
Money market investments	Up to 12 months	8.5	Floating	135.4
<b>Liabilities</b>				
Short-term interest-bearing borrowings	Varies (refer note 6)	9.2	Floating	502.8

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**3. Financial instruments** continued

v) Interest received and paid on financial instruments

	2019 Rm	2018 Rm
<b>Interest received on financial assets</b>		
Insurance investments	50.0	60.7
Trade and other receivables	1 358.1	1 361.6
Cash-on-hand and deposits	23.0	34.6
	<b>1 431.1</b>	1 456.9
<b>Interest paid on financial liabilities</b>		
Borrowings	54.5	74.4
	<b>54.5</b>	74.4

**4. Trade and other receivables and debtor costs**

	2019 Rm	2018 Restated Rm
<b>4.1 Trade and other receivables</b>		
Trade receivables	5 527.8	5 608.7
Provision for impairment	(2 323.1)	(1 619.5)
Trade receivables (net)	<b>3 204.7</b>	3 989.2
Due within 12 months	<b>2 012.9</b>	2 571.8
Due after 12 months	<b>1 191.8</b>	1 417.4
Other receivables	<b>110.9</b>	210.8
<b>Total trade and other receivables</b>	<b>3 315.6</b>	4 200.0
Debtors' impairment provision as percentage of net debtors (%)	<b>42.0</b>	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.

**Accounting policies**

**Trade and other receivables**

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. They are recognised initially at fair value and are subsequently measured at amortised cost using the effective interest rate, less a provision for impairment. Trade receivables are classified as financial instruments in terms of IFRS.

The accounting policies for financial instruments are included in note 3 for 2019 and note 24 for 2018.



# Lewis Group Limited: Consolidated financial statements **Notes to the annual financial statements** continued

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## **Significant accounting estimates and judgements – 2019**

### ***(i) Business model***

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. These receivables contain a significant financing component with terms of business varying from 6 to 36 months, and a significant portion of the business being conducted on 36 months.

Trade receivables are held to collect contractual cash flows and the contractual terms of the trade receivables are solely payments of principal and interest. Accordingly, the assessment of the business model is that of holding to collect and, therefore, trade receivables are accounted for on an amortised cost basis.

### ***(ii) Modifications***

The ECL is calculated with reference to the original contract with the customer. No modifications are made to the contract or the contractual cash flows as contemplated by IFRS 9.

### ***(iii) Impairment modelling***

#### **Probability weighted cash flows**

In accordance with paragraph 5.5.15(a)(ii) of IFRS 9, the group has elected to apply the simplified model and measures the impairment allowance at an amount equal to lifetime expected credit losses. This policy has been applied to all trade receivables. Lifetime expected credit losses are assessed by determining cash flows on a probability weighted basis and discounting these at the effective interest rate including initiation fees.

The probability weighted cash flows are calculated using the following:

- transition matrix and conditional probabilities; and
- payment performance for each payment state.

The transition matrix and conditional probabilities are calculated using the trade receivables population payment behaviour for each payment state and has been developed using the group's customer payment history over the last five years. 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 following:

- Customers' lifetime payment rating which measures the customers actual payments received over the lifetime of the account relative to the contractual instalments due;
- Age of the account; and
- Term of the contract.

For each term, lifetime payment rating and age, the transitional matrix maps the probability of an account transitioning into future lifetime payment ratings for the remaining months on book. Cash flows are forecast until the account is settled or written off.

The payment performance for each payment state is calculated using the actual payment history for each payment rating over the last 12 months to ensure the recency of the impairment model as required by IFRS 9.

If the payment prediction was derived using payment performance data over the last five years, the impairment provision would increase by R86.6 million since the payment experience over the last year is better than the payment experience over the last five years.

# Lewis Group Limited: Consolidated financial statements Notes to the annual financial statements continued

for the year ended 31 March 2019

## 4. Trade and other receivables and debtor costs continued

### Economic overlay

An economic overlay has been developed by performing a regression analysis between key economic variables with reference to the non-performing category over a five-year period (customers who have paid less than 55% of amounts due over the contract period). Two economic variables were identified as having statistical significance:

- Prime overdraft rate; and
- Unemployment rate.

Middle, high and low scenarios using the economic variables above is determined and a weighted average scenario prepared. This is compared to the base position and an appropriate adjustment is made to the whole trade receivables book.

The three scenarios project the future impact of the economic variables on the impairment provision. Management has assigned a probability of 60% to the low scenario, 30% to the middle scenario and 10% to the high scenario for the 12 month forecast.

Impact of forward looking information on ECL	Rm	% change
Probability weighted impact of all three scenarios	125.7	
100% low scenario	148.5	18
100% middle scenario	104.5	(17)
100% high scenario	52.0	(59)

### (iv) Credit Impaired (Stage 3)

The criteria for credit impaired accounts (i.e. when the account moves to stage 3 as a result of loss events that have occurred after initial recognition) are as follows:

- Non-performing accounts (i.e. customers who have paid less than 55% of the amounts due over the contract period).
- *In duplum* accounts (the National Credit Act section providing that all charges ceases to accrue once the sum of the charges equals the amount of capital outstanding at the time).
- Accounts in debt counselling (as governed by the National Credit Act).
- As a backstop, accounts not included in the above categories, where no payment has been received over the last three consecutive months. This category was specifically created for IFRS 9 purposes.

A credit impaired account will cure when the customer does not meet the criteria for being a credit impaired account.

Curing occurs in the following instances:

- Non-performing accounts: Accounts in this category will only cure when their lifetime payment rating improves to the extent that the customer has paid 55% or more of the amounts due over the contract period. Generally, this will require a significant improvement in the customer's payment behaviour.
- *In duplum* accounts: Accounts in this category will cure when they no longer meet the requirements of the National Credit Act for being defined as an *in duplum* account.
- Accounts in debt counselling: Accounts in this category will cure when the customer is no longer in debt counselling in terms of the requirements of the National Credit Act.
- For accounts where no payment has been received in the last three consecutive months, it will cure once in receipt of a payment. This category has a high probability of curing.

With regard to credit impaired accounts, interest income is recognised by applying the effective interest rate to the net carrying value, i.e. gross carrying value less impairment provision, resulting in lower interest revenue.

# Lewis Group Limited: Consolidated financial statements **Notes to the annual financial statements** continued

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## **(v) Unpaid insurance**

Unearned and unpaid insurance receivables of R166 million has been included in trade receivables. Impairment of R106 million relating to insurance receivables has been included in the impairment provision for trade receivables. Insurance receivables are recognised and measured in terms of IFRS 4 Insurance Contracts and the group has not amended its policies for the measurement of IFRS 4. The insurance receivables are therefore excluded from the scope of IFRS 9's expected credit loss impairment.

## **Significant accounting estimates and judgements - 2018**

Refer note 24.

## **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; and
  - 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 customers' 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 customers at the store level to follow up the slow paying and non-performing customers.

# Lewis Group Limited: Consolidated financial statements **Notes to the annual financial statements** continued

for the year ended 31 March 2019

## **4. Trade and other receivables and debtor costs** continued

### **4.1 Trade and other receivables** continued

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.

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 arrears. 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:

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**Debtor analysis 31 March 2019**

	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	
<b>Customer grouping</b>										
<b>Satisfactory paid</b> 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							
<b>Slow payers</b> 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	17.3	26.3							
<b>Non-performing accounts</b> 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							
<b>Gross debtor analysis</b>	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**

	Non-performing accounts R'000	In duplum		Debt counselling		No payment in 3 consecutive months		Total R'000
		Satisfactory R'000	Slow pay R'000	Satisfactory R'000	Slow pay R'000	Satisfactory R'000	Slow pay R'000	
<b>Credit impaired categories</b>								
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

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**4. Trade and other receivables and debtor costs** continued

4.1 Trade and other 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	2 R'000	3 R'000	>3 R'000
<b>Satisfactory paid</b> Customers who have paid 70% or more of amounts due over the contract period.	401 183	3 063 886	6 75 971	22.1	549 506	155 673	105 593	77 633	210 607
	68.4	55.0	27.9		24.1				
<b>Slow payers</b> 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				
<b>Non-performing accounts</b> 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				
<b>Gross debtor analysis</b>	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		Debt counselling		No payment in 3 consecutive months		Total R'000
		Satisfactory R'000	Slow pay R'000	Satisfactory R'000	Slow pay R'000	Satisfactory R'000	Slow pay 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

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

# Lewis Group Limited: Consolidated financial statements Notes to the annual financial statements continued

for the year ended 31 March 2019

## 4. Trade and other receivables and debtor costs continued

### 4.1 Trade and other receivables continued

	Not credit impaired Rm	Credit impaired Rm	Total Rm
<b>Analysis of gross trade receivables</b>			
<b>Restated balance at 1 April 2018</b>	3 838.7	1 730.6	5 569.3
New accounts	2 221.7	–	2 221.7
Accounts settled	(632.3)	(40.1)	(672.4)
Receivables derecognised (Bad debts written off)	(253.7)	(688.8)	(942.5)
Change in value due to transactions <sup>(1)</sup>	(554.2)	(94.1)	(648.3)
Transfers:			
Cured (from “Credit impaired” to “Not credit impaired”)	89.0	(89.0)	–
New credit impaired (from “Not credit impaired” to “Credit impaired”)	(745.0)	745.0	–
<b>Balance: 31 March 2019</b>	<b>3 964.2</b>	<b>1 563.6</b>	<b>5 527.8</b>
<b>Analysis of impairment allowance</b>			
<b>Restated balance at 1 April 2018</b>	1 151.5	1 270.6	2 422.1
New accounts	505.8	–	505.8
Accounts settled	(189.7)	(29.4)	(219.1)
Receivables derecognised (Bad debts written off)	(141.5)	(558.9)	(700.4)
Change in value due to transactions <sup>(1)</sup>	186.3	128.4	314.7
Transfers:			
Cured (from “Credit impaired” to “Not credit impaired”)	46.7	(46.7)	–
New credit impaired (from “Not credit impaired” to “Credit impaired”)	(486.7)	486.7	–
<b>Balance: 31 March 2019</b>	<b>1 072.4</b>	<b>1 250.7</b>	<b>2 323.1</b>
ECL coverage	(%) 27	80	42

<sup>(1)</sup> This line includes movements relating to amounts charged to accounts and payments received where accounts have not yet been fully settled.

#### Interest rate risk

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

The average effective interest rate on instalment sale 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 approximate fair value.



# Lewis Group Limited: Consolidated financial statements Notes to the annual financial statements continued

for the year ended 31 March 2019

	2019 Rm	2018 Rm
<b>4.2 Debtor costs</b>		
Bad debts	894.9	958.7
Bad debts before credit impaired 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)
<b>Total debtor costs</b>	<b>733.1</b>	<b>957.3</b>
Debtor costs as a percentage of trade receivables	(%) <b>13.3</b>	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.

## Accounting policy – 2019

### Debtor costs

The group writes-off trade receivables when it has exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery.

Impairment losses on trade receivables are included in debtor costs. Subsequent recoveries of amounts previously written off are credited against the same line item.

### Accounting policy – 2018

Refer note 24.

## Significant accounting estimates and judgements – 2019

Bad debt write-offs take place at the end of each reporting period (i.e. September and March). Bad debt write-offs take place where the customer's payment behaviour cannot be rehabilitated after all reasonable commercially and economically appropriate collection methods have been utilised and exhausted. The bad debt write-offs are initiated where the customer has not made a qualifying payment in the three months preceding the write-off for the following categories:

- Customers significantly in arrears
- Non-performing customers in terms of the business' credit management practices
- Customers with out-of-term accounts

Strong collection drives precede the write-offs and there is no reasonable prospect of significant recoveries once the customer account has been written off. Where receivables have been written off, the group continues to engage in enforcement activity to attempt to recover the receivable due.

## Significant accounting estimates and judgements – 2018

Refer note 24.

# Lewis Group Limited:

## Consolidated financial statements

### Notes to the annual financial statements continued

for the year ended 31 March 2019

	2019 Rm	2018 Rm
<b>5. Insurance</b>		
<b>5.1 Insurance investments</b>		
<b>Financial assets – insurance investments</b>		
<b>Listed investments</b>		
Fixed income securities – FVOCI debt/available-for-sale investments	276.1	471.0
<b>Unlisted investments</b>		
Money market – FVOCI debt/available-for-sale investments	340.7	135.4
	<b>616.8</b>	606.4
Analysed as follows:		
Non-current	276.1	471.0
Current	340.7	135.4
	<b>616.8</b>	606.4
<b>Movement for the year</b>		
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	<b>616.8</b>	606.4

#### Accounting policy

Insurance investments are those investments made by the group's insurance company to meet statutory solvency requirements and comprise fixed income securities and money market instruments. Insurance investments is classified as financial instruments in terms of IFRS.

The accounting policies for financial instruments are included in note 3 for 2019 and note 24 for 2018.

#### Significant accounting estimates and judgements – 2019

The group holds the following investments:

- Fixed income securities
- Money market investments (floating rate notes)

From a business model assessment, these assets are held to collect the contractual cash flows and to sell the assets. The fixed income securities and money market investments meet the SPPI test and are accounted for at FVOCI.

Fixed income securities are almost entirely risk-free government bonds or government-guaranteed securities. Money market investments (floating rate notes) are invested with credit-worthy financial institutions. Both foreign and local credit ratings are monitored to assess credit-worthiness. An ECL assessment was performed and no ECL has been provided as it was found to be immaterial.

Stage 1 with no movement between stages. No amount for 12-month expected credit loss has been recognised as the amount is immaterial.

#### Significant accounting estimates and judgements – 2018

Refer note 24.

# Lewis Group Limited: Consolidated financial statements Notes to the annual financial statements continued

for the year ended 31 March 2019

## 5.1 Insurance investments continued

### Credit risk

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

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

Financial institutions	Foreign	Local	2019 Rm	2018 Rm
FNB	Baa3	P-3	83.3	29.8
ABSA	Baa3	P-3	69.6	24.4
Nedbank	Baa3	P-3	69.6	22.3
Standard Bank	Baa3	P-3	70.3	24.4
Investec	Baa3	P-3	43.6	19.4
Other			4.3	15.1
Total			340.7	135.4

Both the foreign and local ratings as at 31 March 2019 are provided. Foreign ratings are heavily influenced by the country's overall credit rating.

### Price risk

There is exposure to securities price risk because of investments held by Monarch Insurance Company Limited ("Monarch"). These investments are classified as FVOCI debt (2018: available-for-sale investments).

Monarch holds investments in order to meet the insurance liabilities and solvency margins required by the Insurance Act No. 18 of 2017. The investments are managed by Sanlam Investment Management (Pty) Ltd ("Sanlam") on Monarch's behalf.

The overall management objectives of the Monarch investment portfolio are:

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

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

- current market conditions and future expectations;
- asset allocations considering the above;
- returns under each asset category;
- detailed reviews of the positioning of the bond portfolio; and
- 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 Monarch chief executive officer to implement the strategy. The performance of this portfolio is presented to the group's Audit Committee on a quarterly basis.

# Lewis Group Limited: Consolidated financial statements Notes to the annual financial statements continued

for the year ended 31 March 2019

## 5. Insurance continued

### 5.1 Insurance investments continued

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:

	2019	2018
Modified duration of Monarch's fixed income portfolio	7.8	7.1
Modified duration of the JSE All Bond Index	7.3	7.6

#### Interest rate risk

Interest rate volatility arises from insurance investments in two ways:

- Money market investments in the form of floating rate notes
- Fixed income securities in the form of fixed coupon rates

The interest rate prevailing on money market deposits at year-end was 8.4% (2018: 8.5%). Assuming the current levels of money market deposits throughout the year, the impact of changes to the coupon rate on net profit after tax is as follows:

+50 basis points	1.1	0.6
-50 basis points	(1.1)	(0.6)

The interest rate on fixed income securities prevailing at year-end was 8.2% (2018: 7.9%). Assuming no change in current level of fixed income securities, the impact of changes in the coupon rate on net profit after tax is as follows:

+50 basis points	2.2	2.7
-50 basis points	(2.2)	(2.7)

#### Liquidity risk

Monarch manages liquidity requirements by matching the maturity of the assets invested to the corresponding insurance and re-insurance liabilities. The insurance and re-insurance liabilities are covered by fixed income securities and money market deposits. The maturity analysis of insurance investments and insurance and re-insurance liabilities are presented in note 3.

#### Fair value hierarchy

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

	Level 2 Rm	Total Rm
<b>2019</b>		
Insurance investments:		
Fixed income securities – FVOCI debt	276.1	276.1
Money market floating rate notes – FVOCI debt	340.7	340.7
	<b>616.8</b>	<b>616.8</b>
<b>2018</b>		
Insurance investments:		
Fixed income securities – Available-for-sale	471.0	471.0
Money market floating rate notes – Available-for-sale	135.4	135.4
	<b>606.4</b>	<b>606.4</b>

# Lewis Group Limited: Consolidated financial statements Notes to the annual financial statements continued

for the year ended 31 March 2019

## 5.1 Insurance investments continued

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

### Level 1

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

### Level 2

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

- quoted prices for similar assets in an active market;
- quoted prices for identical or similar assets in inactive markets;
- valuation model using observable input; and
- valuation model using inputs derived from/corroborated by observable market data.

### Level 3

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

	2019 Rm	2018 Rm
<b>5.2 Investment income</b>		
Interest – insurance business	50.0	60.7
Realised gain on disposal of insurance investments	0.3	1.7
	<b>50.3</b>	<b>62.4</b>

### Accounting policy – 2019

Investment income is recognised as follows:

- Interest on investments is recognised on a time proportion basis taking into account the effective interest rate method on the assets.
- The group has debt investments measured at FVOCI. For these investments, changes in fair value are accumulated within the FVOCI reserve within equity. The accumulated changes in fair value are transferred to profit or loss when the investment is derecognised or impaired.

### Accounting policy – 2018

Refer note 24.

Lewis Group Limited:  
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for the year ended 31 March 2019

	2019 Rm	2018 Rm
<b>5. Insurance continued</b>		
<b>5.3 Re-insurance assets</b>		
Re-insurer's share of unearned premiums	-	-
Opening balance	-	123.8
Recognised in income statement	-	(100.6)
Cessation of re-insurance	-	(23.2)
Re-insurer's share of insurance provisions	-	-
Opening balance	-	28.4
Recognised in income statement	-	(13.5)
Cessation of re-insurance	-	(14.9)
<b>Total re-insurance assets</b>	<b>-</b>	<b>-</b>

The re-insurance arrangements with Constantia Insurance Company Limited were terminated with effect from 6 April 2018, beginning of the current financial year.

	2019 Rm	2018 Rm
<b>5.4 Insurance and re-insurance liabilities</b>		
Unearned premiums	<b>48.2</b>	133.2
Opening balance	<b>133.2</b>	412.1
Recognised in income statement	<b>(85.0)</b>	(278.9)
Due to re-insurers	-	0.9
Outstanding claims and IBNR	<b>54.5</b>	42.7
Opening balance	<b>42.7</b>	75.7
Recognised in income statement	<b>11.8</b>	(19.6)
Cessation of re-insurance	-	(13.4)
Re-insurance liabilities	-	-
Opening balance	-	130.7
Recognised in income statement	-	(106.0)
Cessation of re-insurance	-	(24.7)
<b>Total insurance and re-insurance liabilities</b>	<b>102.7</b>	176.8
<b>Total insurance liabilities</b>	<b>102.7</b>	175.9
<b>Total re-insurance liabilities</b>	<b>-</b>	0.9

The re-insurance arrangements with Constantia Insurance Company Limited were terminated with effect from 6 April 2018, beginning of the current financial year.

# Lewis Group Limited: Consolidated financial statements **Notes to the annual financial statements** continued

for the year ended 31 March 2019

## **Accounting policies**

### **Classification**

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

Contracts entered into with re-insurers 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 re-insurance contracts held. Insurance contracts entered into by the group's insurer under which the contract holder is another insurer (inwards re-insurance) are included with insurance contracts.

### **Provision for unearned premiums**

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

### **Unexpired risk reserve**

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

### **Outstanding claims**

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

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

## **5.4 Insurance and re-insurance liabilities** continued

### **Insurance risk**

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

- replacement of customer's goods or settlement of balances in the event of damage or theft of goods. Where the goods are replaced, the cost of the claim is determined with reference to the cost of the goods acquired;
- settlement of customer's outstanding balance in the event of death or disability, and
- settlement of customer's outstanding balance, should the customer become unemployed after three months subsequent to the sale.

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

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

A prominent 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.

# Lewis Group Limited: Consolidated financial statements **Notes to the annual financial statements** continued

for the year ended 31 March 2019

## 5. Insurance continued

### 5.4 Insurance and re-insurance liabilities continued

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 re-insurance arrangements and proactive claims handling. The geographical spread of the group ensures that the underwritten risks are well-diversified. No significant concentrations of insurance risk exist.

Catastrophe cover has been placed with third-party insurers and re-insurers 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 approximates the actual claims costs. The insurance result is dependent on the trend in the group's merchandising sales. There is no insurance business other than with the group's customers.

#### Regulatory requirements

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

On 1 January 2012 Board Notice 169 of 2011 ("BN169") became effective. BN169 stipulates the requirements for the calculation of the value of assets, liabilities and the capital adequacy requirement of Short-Term Insurers. Subsequently, BN169 was withdrawn and replaced with the requirements set out in Prudential Authority within South African Reserve Bank ("PA") Governance and Operational Standards for Insurers ("GOI") solvency standards and the Financial Soundness of Insurance specifications (FSI). This new calculation, as part of the Solvency Assessment and Management ("SAM") regime, requires Monarch to hold certain prescribed assets to meet its insurance liabilities and capital adequacy requirement. Management has performed a preliminary assessment of the new solvency requirements and meets the minimum standards in terms of the SAM regime. A complete and final assessment of the solvency requirements will be performed for purposes of submission to the PA which is due by 31 July 2019.

	2019 Rm	2018 Rm
<b>5.5 Insurance cell captive</b>		
Investment in insurance cell captive included in other receivables	<b>27.3</b>	18.3

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



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	2019 Rm	2018 Rm
<b>6. Borrowings, cash and net finance costs</b>		
<b>6.1 Borrowings, banking facilities and cash</b>		
<b>Interest-bearing borrowings</b>		
Long-term		
Banking facilities	–	–
	–	–
Short-term		
Banking facilities	–	502.8
Bank overdrafts	–	28.8
	–	531.6
Cash-on-hand and deposits	<b>(204.7)</b>	(608.4)
<b>Net borrowings</b>	<b>(204.7)</b>	(76.8)
<b>Unutilised facilities</b>		
Banking facilities	<b>1 500.0</b>	1 618.4
Domestic Medium-Term Note Programme	<b>2 000.0</b>	2 000.0
	<b>3 500.0</b>	3 618.4
<b>Available facilities</b>	<b>3 704.7</b>	3 541.6
<b>Interest rate profile</b>		
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
The exposure of the group's borrowings to interest rate changes and the contractual repricing dates at the end of the reporting period are set out below in terms of years subsequent to reporting date:		
Variable interest rates:		
One year	–	502.8
Two years	–	–
Three years	–	–
Four years	–	–
	–	502.8
The above borrowings are unsecured. The group has committed facilities with banks and financial institutions of R1 500 million (2018: R2 150 million) and has established a Domestic Medium-Term Note programme ("DMTN") in October 2013, under which the group can issue notes up to R2 billion.		
<b>Cash and cash equivalents</b>		
Cash-on-hand and deposits	<b>204.7</b>	608.4
Bank overdrafts	–	(28.8)
	<b>204.7</b>	579.6

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**6. Borrowings, cash and net finance costs** continued

**6.1 Borrowings, banking facilities and cash** continued

	Liabilities from financing activities			Total Rm
	Banking facilities due within one year Rm	Banking facilities due after one year Rm	Bank overdraft due within one year Rm	
<b>Net debt as at 1 April 2017</b>	225.0	700.0	22.3	947.3
Cash flows	(229.5)	(252.3)	(8.3)	(490.1)
Interest payments which are presented as operating cash flows	4.5	55.1	14.8	74.4
Transfers to short-term facilities	502.8	(502.8)	–	–
<b>Net debt as at 31 March 2018</b>	502.8	–	28.8	531.6
Cash flows	(537.3)	–	(48.8)	(586.1)
Interest payments which are presented as operating cash flows	34.5	–	20.0	54.5
<b>Net debt as at 31 March 2019</b>	–	–	–	–

**Accounting policies**

Borrowings comprise committed facilities with banks and financial institutions and notes issued under a Domestic Medium-Term Note programme (“DMTN”).

Cash and cash equivalents comprise cash-on-hand and deposits held on call with banks, bank overdrafts and demand loans.

Borrowings and cash and cash equivalents are classified as financial instruments in terms of IFRS.

Interest income on cash and cash equivalents calculated utilising the effective interest rate method is recognised in the income statement as part of interest received.

The accounting policies for financial instruments are included in note 3 for 2019 and note 24 for 2018.

	2019 Rm	2018 Rm
<b>Capital management</b>		
Interest-bearing borrowings	–	531.6
Less: cash and cash equivalents	(204.7)	(608.4)
Net debt	(204.7)	(76.8)
Shareholders equity	4 876.1	5 448.5
Gearing ratio	(%) (4.2)	(1.4)

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

The gearing ratio is in line with the actual capital structure.

# Lewis Group Limited: Consolidated financial statements Notes to the annual financial statements continued

for the year ended 31 March 2019

## 6.1 Borrowings, banking facilities and cash continued

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; and
- maintain an optimal capital structure as approved by the board.

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

During the 2019 financial year, the strategy was to reduce the gearing significantly, which in the current credit conditions is considered to be prudent. This was achieved by eliminating interest-bearing borrowings as well as introducing a share repurchase programme.

### Credit risk

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

Stage 1 with no movement between stages. No amount for 12-month expected credit loss has been recognised as the amount is immaterial.

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 R36.1 million (2018: R39.0 million).

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

Financial institutions	Foreign	Local	2019 Rm	2018 Rm
FNB	Baa3	P-3	57.3	207.9
ABSA	Baa3	P-3	97.7	168.8
Investec	Baa3	P-3	–	9.0
Standard Bank	Baa3	P-3	0.1	10.1
RMB	Baa3	P-3	6.3	157.5
Nedbank	Baa3	P-3	38.1	50.1
Other			5.2	5.0
Total			204.7	608.4

### Liquidity risk

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

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

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

### Fair value

Cash and cash equivalents are stated at cost which approximates fair value due to the short-term nature of these instruments.

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

# Lewis Group Limited: Consolidated financial statements Notes to the annual financial statements continued

for the year ended 31 March 2019

	Note	2019 Rm	2018 Rm
<b>6. Borrowings, cash and net finance costs continued</b>			
<b>6.2 Net finance costs</b>			
Interest paid		(69.8)	(87.6)
Borrowings	3	(54.5)	(74.4)
Other		(15.3)	(13.2)
Interest received – Bank		23.0	38.9
Forward exchange contracts		17.3	(0.5)
Net finance costs		(29.5)	(49.2)

## Accounting policies

### Foreign currency transactions and balances

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

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

### Derivative instruments

Derivative instruments are utilised to hedge exposure to foreign currency fluctuations. Derivative instruments are classified as financial instruments under IFRS.

The accounting policies for financial instruments are included in note 3 for 2019 and note 24 for 2018.

### Interest rate risk

The principal objective of interest rate management is to:

- minimise the impact of interest rate volatility on profits in the short-term; and
- ensure that the group is protected from volatile interest rate movements for the medium to long-term.

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

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

	2019	2018
Interest increases by 50 basis points	–	2.0
Interest decreases by 50 basis points	–	(2.0)

### Foreign exchange risk

Foreign exchange risk is present in respect of imports of merchandise. Merchandise is sourced from foreign suppliers, particularly in the far East. In order to minimise exposure to foreign currency fluctuations, forward cover is taken out to cover forward purchase commitments made with foreign suppliers.

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## 6.2 Net finance costs continued

During the year, 25.6% (2018: 12.8%) of the purchases were in foreign denominated currencies. Below is a summary of the amounts payable under forward contracts:

	Term	Rate	Foreign currency FCm	Rand equivalent Rm	Fair value (gain)/loss Rm
<b>2019</b>					
US dollar	Less than 9 months	14.05	7.5	104.9	1.0
<b>2018</b>					
US dollar	Less than 3 months	12.25	12.4	152.0	(1.0)

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

	2019	2018
Currency appreciates by 10%	7.6	11.0
Currency depreciates by 10%	(7.6)	(11.0)

	2019 Rm	2018 Restated Rm
<b>7. Trade and other payables</b>		
<b>7.1 Trade and other payables</b>		
Trade payables	160.9	136.8
Employment provisions	109.7	90.5
Accruals and other payables	181.9	151.9
Refund obligation	69.3	–
	<b>521.8</b>	<b>379.2</b>

### Accounting policies

#### Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as financial instruments in terms of IFRS.

The accounting policies for financial instruments are included in note 3 for 2019 and note 24 for 2018.

#### Provisions

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

#### Employment provisions

Employee entitlements to annual leave and bonus are recognised as they accrue to employees when there is a legal or constructive obligation to make such payments as a result of past performance. An accrual is made for the estimated provision still owing as a result of services provided by employees up to the balance sheet date.

#### Refund obligation

Refer note 9.1 for accounting policy.

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	2019 Rm	2018 Rm
<b>7. Trade and other payables</b> continued		
<b>7.2 Operating leases</b>		
<b>Operating leases charged to income statement</b>		
Operating lease payments on a cash flow basis	333.2	278.8
Lease adjustment	1.5	3.9
	<b>334.7</b>	282.7
<b>Operating lease commitments</b>		
Payments on a straight-line basis:		
Within one year	255.6	257.0
Two to five years	400.6	402.2
	<b>656.2</b>	659.2
Payments on a cash flow basis:		
Within one year	258.3	253.0
Two to five years	427.9	418.2
	<b>686.2</b>	671.2

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

Leases on properties are contracted for periods of between three and five years with further renewal options for certain stores. Rental escalations vary, but average at a rate of 5.9% per annum.

#### Accounting policy

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

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	2019 Rm	2018 Restated Rm
<b>8. Payments in advance</b>		
Opening balance	168.9	137.0
Acquisition of UFO	–	23.6
Movement in the current year	(10.9)	8.3
Closing balance	158.0	168.9

**Payments in advance**

Payments in advance arise:

- in the case of a maintenance contract (refer note 9.2) where customers have settled their accounts or where customers have paid in advance of Lewis' performance obligations, which will typically be satisfied over a period of three years from the date of that maintenance contract; and
- in the case where customers have paid in advance for goods still to be delivered under the sales contract, which will be satisfied when those goods are delivered to the customer.

Management expects that R101 million (2018: R105 million) of the transaction price allocated to the unsatisfied contracts as of 31 March 2019 will be recognised as revenue during the next reporting period and the remaining R57 million (2018: R63.9 million) during the following reporting period.

	2019 Rm	2018 Rm
<b>9. Revenue</b>		
<b>9.1 Revenue</b>	<b>6 137.2</b>	<b>5 556.8</b>
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)	–

# Lewis Group Limited: Consolidated financial statements **Notes to the annual financial statements** continued

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## **Accounting policies – 2019**

### **Revenue**

Revenue is measured based on the consideration specified in a contract with a customer and comprises merchandise sales net of discounts, earned finance charges and initiation fees, earned maintenance contracts, delivery and insurance premiums earned, net of re-insurance premiums paid. Value added tax is excluded.

#### **(i) Retail revenue**

##### *Merchandise sales*

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

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

It is 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 accumulated experience of the portfolio has been utilised to estimate such returns at the time of sale at a portfolio level (expected value method). Our assessment is that no significant change in the level of returns will occur. The assumptions and the estimates underling the refund liability are re-assessed at each reporting date.

##### *Ancillary services*

##### **Maintenance contracts**

Revenue from maintenance contracts is recognised as follows:

- The income is deferred until the expiry of the suppliers warranty in terms of the contractual arrangement with suppliers which is one year.
- For the two subsequent years of the maintenance contract, revenue is recognised in accordance with the percentage stage of completion method using the expected costs of providing the service as an appropriate measure of the stage of completion. To establish the expected cost to provide the service, the group reviews its historic incidence records on a rolling three year period.

##### **Other**

Revenue from the provision of other services (mainly delivery and service fees) is recognised when the services are rendered.

#### **(ii) Effective interest income**

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 revenue is calculated by applying the effective interest rate to their net carrying value (i.e. gross carrying value less impairment provision). The effective interest rate calculation does not consider expected credit losses but include initiation fees as they are integral to the effective interest rate.

#### **(iii) Insurance revenue**

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

## **Accounting policies – 2018**

Refer note 24.



# Lewis Group Limited: Consolidated financial statements Notes to the annual financial statements continued

for the year ended 31 March 2019

## 9. Revenue continued

### 9.2 Retail revenue – revenue from contracts with customers

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

#### Significant accounting estimates and judgements – 2019

##### Disaggregation of revenue

The disaggregation of revenue from contracts with customers is in accordance with the reportable segments as this represents how the group is managed in terms of its sales channels.

##### Transaction price

All transaction prices for ancillary services are stand alone and are at arm's-length i.e. no services are bundled with the purchase of merchandise.

Consequently, there are no allocations of transaction prices required.

##### Maintenance contracts

The maintenance contract is a two year contract irrespective of the term of the instalment sale agreement. The first year is covered by a suppliers warranty. The group provides two year extended warranty coverage in the second and third year. Revenue from maintenance contracts is recognised in accordance with the percentage stage of completion method using the expected costs of providing the service as an appropriate measure of the stage of completion. To establish the expected cost to provide the service, the group reviews its historic incidence records on a rolling three year period.

##### Delivery fees

Revenue from delivery fees is recognised at a point in time when delivery of the customer's purchased goods is made. The customer has the non-obligatory option to select delivery for their purchased goods at an additional cost.

##### Service fees

Service fees are the fees charged monthly in connection with the routine administration cost of maintaining a credit agreement and consequently, in accordance with paragraph 5.4.3.(a) of appendix B (implementation guidance) to IFRS 9, it is accounted for under IFRS 15.

Services fees are fixed and are not charged on a variable basis by the group i.e. not based on the price of the goods sold.

Revenue from service fees is recognised when the service is performed on a monthly basis over the duration of the credit agreement.

#### Significant accounting estimates and judgements – 2018

Refer note 24.

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	2019 Rm	2018 Rm
<b>9. Revenue continued</b>		
<b>9.3 Insurance revenue</b>		
Gross premiums written	562.2	462.5
Re-insurance premiums outwards	–	(138.9)
Net premiums written	562.2	323.6
Changes in unearned premiums, net of re-insurance	85.0	178.2
Net premiums earned	647.2	501.8
Re-insurance commission	–	169.2
	<b>647.2</b>	<b>671.0</b>

**10. Reportable segments**

Primary	Traditional Rm	Cash retail <sup>(1)</sup> Rm	Omni- channel Rm	Group Rm
<b>2019</b>				
<b>Segment income statement</b>				
<b>Total revenue from external customers</b>				
Retail revenue – revenue from contracts with customers	3 727.1	487.0	28.2	4 242.3
Insurance revenue	647.2	–	–	647.2
Effective interest income	1 245.2	–	2.5	1 247.7
	<b>5 619.5</b>	<b>487.0</b>	<b>30.7</b>	<b>6 137.2</b>
<b>Cost of merchandise sales</b>	(1 772.1)	(281.8)	(15.4)	(2 069.3)
<b>Operating costs</b>	(3 418.0)	(164.7)	(42.2)	(3 624.9)
<b>Segment operating profit before investment income</b>	<b>429.4</b>	<b>40.5</b>	<b>(26.9)</b>	<b>443.0</b>
<b>Segment operating margin</b> (%)	<b>7.6</b>	<b>8.3</b>	<b>(87.6)</b>	<b>7.2</b>
<b>Segment assets<sup>(2)</sup></b>	<b>3 696.3</b>	<b>136.1</b>	<b>38.1</b>	<b>3 870.5</b>
<b>Capital expenditure</b>	<b>71.4</b>	<b>2.9</b>	<b>0.5</b>	<b>74.8</b>
<b>Depreciation</b>	<b>75.7</b>	<b>2.9</b>	<b>0.1</b>	<b>78.6</b>
<b>2018 (Restated)</b>				
<b>Segment income statement</b>				
<b>Total revenue from external customers</b>				
Retail revenue	3 458.2	66.0	–	3 524.2
Insurance revenue	671.0	–	–	671.0
Effective interest income	1 361.6	–	–	1 361.6
	<b>5 490.8</b>	<b>66.0</b>	<b>–</b>	<b>5 556.8</b>
<b>Cost of merchandise sales</b>	(1 633.6)	(44.2)	–	(1 677.8)
<b>Operating costs</b>	(3 473.7)	(26.0)	–	(3 499.7)
<b>Segment operating profit before investment income</b>	<b>383.5</b>	<b>(4.2)</b>	<b>–</b>	<b>379.3</b>
<b>Segment operating margin</b> (%)	<b>7.0</b>	<b>(6.4)</b>	<b>–</b>	<b>6.8</b>
<b>Segment assets<sup>(2)</sup></b>	<b>4 458.9</b>	<b>110.0</b>	<b>–</b>	<b>4 568.9</b>
<b>Capital expenditure</b>	<b>43.9</b>	<b>5.4</b>	<b>–</b>	<b>49.3</b>
<b>Depreciation</b>	<b>85.5</b>	<b>0.4</b>	<b>–</b>	<b>85.9</b>

<sup>(1)</sup> In 2018, reflects only two months trading since its acquisition by the group.

<sup>(2)</sup> Segment assets include net instalment sale receivables of R3 204.7 million (2018: R3 989.2 million) and inventory of R665.8 million (2018: R579.7 million).

# Lewis Group Limited: Consolidated financial statements Notes to the annual financial statements continued

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## 10. Reportable segments continued

Geographical	South Africa Rm	Namibia Rm	BLE* Rm	Total Rm
<b>2019</b>				
Revenue	5 131.2	491.6	514.4	6 137.2
Non-current assets <sup>(1)</sup>	330.7	24.8	65.7	421.2
<b>2018 (Restated)</b>				
Revenue	4 551.2	497.6	508.0	5 556.8
Non-current assets <sup>(1)</sup>	331.5	21.2	10.7	363.4

\* Botswana, Lesotho and Eswatini.

<sup>(1)</sup> Non-current assets are defined as property, plant and equipment and intangible assets.

### Accounting policy - 2019

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 operating 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 operating segments of the group:

#### (i) Traditional

Traditional business consists of the credit-focused brands:

##### Lewis

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

##### 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.

##### Beares

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

#### (ii) Cash

This is the cash focused brand of UFO which retails luxury furniture to customers in the LSM 9+ categories.

#### (iii) Omni-channel

Omni-channel business is the newly launched INspire brand, which aims to attract customers in the LSM 4 to 8 categories to extend the group's presence in urban areas.

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

# Lewis Group Limited: Consolidated financial statements Notes to the annual financial statements continued

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## 10. Reportable segments continued

### 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 the 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.

	2019 Rm	2018 Rm
<b>11. Gross profit and inventories</b>		
Merchandise sales	3 519.9	2 865.0
Cost of merchandise sales	(2 069.3)	(1 677.8)
Purchases	(2 155.4)	(1 809.8)
Movement in inventory	86.1	132.0
Merchandise gross profit	1 450.6	1 187.2
Gross profit percentage	(%) 41.2	41.4
<b>Inventories</b>		
Cost of merchandise	742.9	652.1
Less: provision for obsolescence	(77.1)	(72.4)
	665.8	579.7

### Accounting policy

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

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	2019	2018
	Rm	Restated Rm
<b>12. Cash flow from operations</b>		
<b>12.1 Cash flow from trading</b>	<b>501.8</b>	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 as set out in note 3.		
<b>12.2 Changes in working capital</b>	<b>150.7</b>	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 payments in advance	(10.9)	31.9
Decrease in insurance premiums in advance	75.6	327.6
Decrease in re-insurance asset	–	152.2
Decrease in re-insurance 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.

	2019	2018
	Cents	Cents
<b>13. Capital management</b>		
<b>13.1 Earnings</b>		
<b>Earnings per share</b>		
Earnings per share	377.5	306.8
Diluted earnings per share	368.7	301.3
<b>Headline earnings per share</b>		
Headline earnings per share	376.2	302.6
Diluted headline earnings per share	367.4	297.1

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**13. Capital management** continued

**13.1 Earnings** continued

	Gross Rm	Income tax effect Rm	Net Rm
<b>Headline earnings</b>			
<b>2019</b>			
Attributable earnings	309.5	–	309.5
Profit on disposal of property, plant and equipment	(1.5)	0.4	(1.1)
Headline earnings	<b>308.0</b>	<b>0.4</b>	<b>308.4</b>
<b>2018</b>			
Attributable earnings	264.1	–	264.1
Profit on disposal of property, plant and equipment	(3.3)	0.9	(2.4)
Profit on disposal of available-for-sale investments	(1.7)	0.5	(1.2)
Headline earnings	259.1	1.4	260.5

	2019 Cents	2018 Cents
<b>13.2 Dividends</b>		
<b>Dividends paid per share</b>		
Final dividend 2018 (2017)	100.0	100.0
Interim dividend 2019 (2018)	105.0	100.0
	<b>205.0</b>	<b>200.0</b>
<b>Dividends declared per share</b>		
Interim dividend 2019 (2018)	105.0	100.0
Final dividend 2019 (2018)	129.0	100.0
	<b>234.0</b>	<b>200.0</b>

	2019 Rm	2018 Rm
<b>Dividends paid</b>		
Dividend no. 26 declared on 24 May 2017 and paid on 24 July 2017		96.6
Dividend no. 27 declared on 13 November 2017 and paid on 29 January 2018		93.4
Dividend no. 28 declared on 23 May 2018 and paid on 23 July 2018	82.9	
Dividend no. 29 declared on 21 November 2018 and paid on 28 January 2019	85.2	
<b>Dividends received on treasury shares</b>		
Lewis Stores Proprietary Limited	–	(18.4)
Lewis Employee Share Incentive Scheme Trust	(0.1)	(0.1)
	<b>168.0</b>	<b>171.5</b>

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	2019 000's	2018 000's
<b>13.3 Number of shares</b>		
<b>Weighted average number of shares</b>		
Weighted average shares for earnings and headline earnings per share	81 990	86 073
Dilution resulting from share awards outstanding	1 960	1 597
	<b>83 950</b>	87 670
Weighted average shares for diluted earnings and headline earnings per share		
Diluted earnings and diluted headline earnings per share is calculated by adjusting the weighted average number of ordinary shares assuming that all share options will be exercised. The dilution is determined by the number of shares that could have been acquired at fair value (determined as the average annual market price of the shares), less the number of shares that would be issued on the exercise of all the share options.		
<b>Number of ordinary shares in issue</b>		
Number of shares issued at the beginning of the year	92 652	98 058
Treasury shares cancelled	(9 217)	–
Shares repurchased	(3 225)	(5 406)
	<b>80 210</b>	92 652
Number of shares issued at the end of the year		
Treasury shares held by:		
Lewis Stores Proprietary Limited	–	(9 217)
Lewis Employee Share Incentive Scheme Trust	(16)	(51)
	<b>80 194</b>	83 384

	2019 Rm	2018 Rm
<b>13.4 Equity</b>		
<b>Share capital and premium</b>		
Share capital	1.0	1.0
Share premium	2 131.2	2 547.1
Reverse acquisition reserve	(2 123.1)	(2 123.1)
Cost of cancelled shares	(8.2)	–
	<b>0.9</b>	425.0
Opening balance	425.0	588.5
Cost of own shares acquired	(99.0)	(163.5)
Treasury shares cancelled	(477.7)	–
Transfer of cost of cancelled shares	152.6	–
	<b>0.9</b>	425.0

# Lewis Group Limited: Consolidated financial statements Notes to the annual financial statements continued

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	2019 Rm	2018 Rm
<b>13. Capital management continued</b>		
<b>13.4 Equity continued</b>		
<b>Treasury shares</b>		
Opening balance	(480.2)	(480.2)
Cost of own shares acquired	(6.1)	–
Treasury shares cancelled	477.7	–
Share awards to employees	8.1	–
	(0.5)	(480.2)
Treasury shares	0.5	(480.2)
Lewis Stores Proprietary Limited	–	(477.7)
Lewis Employee Share Incentive Scheme Trust	0.5	(2.5)

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

	Number of shares repurchased	Average price R	Total value repurchased Rm
In terms of the general authority granted by shareholders at the annual general meeting held on 17 October 2017	1 724 739	29.41	50.7
In terms of the general authority granted by shareholders at the annual general meeting held on 25 October 2018	1 500 119	31.64	47.5
	<b>3 224 858</b>		<b>98.2</b>

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

#### Cancellation of treasury shares

Lewis Stores (Pty) Ltd (“Lewis Stores”), previously held 9 216 928 ordinary shares in Lewis Group Limited (“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.

#### Reverse acquisition reserve

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.



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**13.5 Other reserves**

	Fair value reserve Rm	Foreign currency translation reserve Rm	Share-based payment reserve Rm	Other Rm	Total Rm
<b>2019</b>					
<b>Opening balance</b>	3.1	(0.5)	39.2	0.8	42.6
Fair value adjustments of FVOCI debt investments	(15.3)				(15.3)
Disposal of FVOCI debt investments recognised	0.2				0.2
Movement in foreign currency translation reserve		5.0			5.0
Transfer of share-based payment reserve to retained earnings on vesting			(20.3)		(20.3)
Share-based payment			36.2		36.2
<b>Closing balance</b>	<b>(12.0)</b>	<b>4.5</b>	<b>55.1</b>	<b>0.8</b>	<b>48.4</b>
<b>2018</b>					
Opening balance	(18.4)	11.1	12.7	0.8	6.2
Fair value adjustments of available-for-sale investments	22.8				22.8
Disposal of available-for-sale investments recognised	(1.3)				(1.3)
Movement in foreign currency translation reserve		(11.6)			(11.6)
Share-based payment			26.5		26.5
Closing balance	3.1	(0.5)	39.2	0.8	42.6

	2019 Rm	2018 Rm
<b>13.6 Retained earnings</b>		
Opening balance	5 461.1	5 325.9
IFRS 9 Transitional adjustments – refer note 22.2	(604.8)	–
IFRS 15 Transitional adjustments – refer note 22.2	(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	(152.6)	–
Transfer of share-based payment reserve to retained earnings on vesting	20.3	–
Retirement benefit re-measurements	(4.1)	42.6
Share awards to employees	(8.1)	–
	<b>4 827.3</b>	5 461.1

Distribution by foreign subsidiaries of all their reserves at balance sheet date will potentially give rise to withholding taxes of R78 million (2018: R90.8 million).

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#### Accounting policy

##### Share capital

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

Where any group company purchases the company's equity share capital (treasury shares), the consideration paid, including the costs attributable to the acquisition, is deducted from the group's equity until the shares are cancelled, re-issued or disposed of. Where such shares are subsequently sold or re-issued, 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.

Where shares are cancelled, the consideration paid including the cost attributable to the acquisition will be applied to the share premium account and once the share premium account is fully utilised, then the excess will be allocated to retained earnings.

	2019 Rm	2018 Rm
<b>14. Directors and employees</b>		
<b>14.1 Employee costs</b>		
<b>Employment costs</b>		
Salaries, wages, commissions and bonuses	1 030.6	948.9
Retirement benefit costs	70.0	72.1
Share-based payments	36.2	26.5
Other employment costs	12.8	11.6
	<b>1 149.5</b>	<b>1 059.1</b>
<b>Remuneration of key executives</b>		
Salary	14.6	13.3
Bonus	13.5	–
Retirement and medical contributions	2.9	2.1
Gains on share awards vested***	4.6	–
	<b>35.6</b>	<b>15.4</b>

\*\*\* The gain on shares vested is calculated with reference to the number of shares that vest and the price per share at the date of vesting less consideration payable (where applicable).

Key executives comprise the directors of Lewis Stores Proprietary Limited, the main operating subsidiary. Non-executive fees are disclosed in note 14.2.

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	2019 R'000	2018 R'000
<b>14.2 Directors' emoluments</b>		
<b>Non-executive directors – fees as directors</b>		
DM Nurek (resigned 30 November 2017)		
- company	–	640
- for subsidiary	–	147
H Saven		
- company	1 023	835
- for subsidiary	231	265
Prof. F Abrahams		
- company	804	713
- for subsidiary	231	165
A Bodasing		
	596	425
D Motsepe		
	664	474
AJ Smart		
- company	664	626
- for subsidiary	300	286
B van der Ross (retired 17 October 2017)		
	–	363
D Westcott (appointed 1 December 2017)		
- company	812	257
- for subsidiary	302	96
	<b>5 627</b>	<b>5 292</b>

	J Enslin <sup>#</sup> 2019 R'000	J Enslin <sup>#</sup> 2018 R'000	J Bestbier <sup>#</sup> 2019 R'000	LA Davies <sup>#</sup> 2018 R'000
<b>Executive directors</b>				
Salary	3 834	3 572	2 328	2 737
Bonuses paid during the year	3 575	–	1 940	–
Contributions to pension scheme	613	572	372	438
Contribution to medical aid	153	140	–	107
Gains on share awards	1 558	–	296	–
	<b>9 733</b>	<b>4 284</b>	<b>4 936</b>	<b>3 282</b>

	J Enslin <sup>#</sup> 2019	J Enslin <sup>#</sup> 2018	J Bestbier <sup>#</sup> 2019	LA Davies <sup>#</sup> 2018
<b>Gains on share awards</b>				
Share awards vested	50 077	–	9 505	–
Offer date	30 Jun 15	–	30 Jun 15	–
Date vested	30 Jun 18	–	30 Jun 18	–
Market value on date of vesting	1 557 895	–	295 701	–
Gain	1 557 895	–	295 701	–

<sup>#</sup> Paid by subsidiary.

# Lewis Group Limited: Consolidated financial statements Notes to the annual financial statements continued

for the year ended 31 March 2019

## 14. Directors and employees continued

### 14.2 Directors' emoluments continued

	2019 J Enslin R'000	2019 J Bestbier R'000	2018 J Enslin R'000	2018 LA Davies R'000
<b>Outstanding share awards</b>				
<b>Lewis Short-Term and Long-Term Executive Performance Scheme – New Scheme</b>				
30 June 2015 – Short-term award			14 376	11 015
30 June 2015 – Long-term award	6 000	1 500	66 000	49 500
28 June 2016 – Short-term award	104 986	22 628	104 986	80 437
1 June 2017 – Short-term award	219 498	119 107	219 498	168 193
30 June 2018 – Short-term award	188 397	114 284		
<b>Lewis Executive Retention Scheme – New Scheme</b>				
30 June 2015			29 700	23 220
30 June 2018	119 154	48 493		
In terms of the Lewis Executive Retention Scheme, the Trust holds 92 215 shares (2018: 31 221 shares) on behalf of the above directors by virtue of the investment of their bonuses into the scheme.				
<b>Lewis Executive Performance Scheme – Old Scheme</b>				
14 June 2013: Five year award			40 000	30 000
	<b>638 035</b>	<b>306 012</b>	474 560	362 365

#### Directors' interests

The directors' interests are set out on page 15.

	2019 Rm	2018 Rm
<b>14.3 Share-based payments</b>		
<b>Value of services provided</b>		
In respect of share awards granted	36.2	26.5

#### Accounting policy

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

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

# Lewis Group Limited: Consolidated financial statements Notes to the annual financial statements continued

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## Significant accounting estimates and judgements

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

		2019	2018
Weighted average share price	(R)	35.22	44.19
Weighted average expected volatility	(%)	76.6	64.9
Weighted average expected dividend yield	(%)	6.2	6.0
Weighted average risk-free rate (bond yield curve at date of grant)	(%)	8.6	7.7

## 14.4 Share incentive schemes

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

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

The group is required to provide funding to the Lewis Employee Share Trust in terms of the Contribution Agreement.

	New Schemes		Old Schemes	
	Lewis Executive Retention Scheme	Lewis Long-Term and Short-Term Executive Performance	Lewis Co-Investment Scheme	Lewis Executive Performance
<b>2019</b>				
Beginning of the year	111 294	2 727 929		
Granted	439 308	1 133 581		
Forfeited		(470 383)		
Vested	(111 294)	(124 154)		
End of the year	439 308	3 266 973		
Maximum awards available over the life of the scheme	1 000 000	3 500 000		
Utilised for the scheme to date	550 602	3 391 127		
Invested shares	242 195			
<b>2018</b>				
Beginning of the year	131 839	1 944 810		256 667
Granted		1 570 988		
Forfeited	(20 545)	(787 869)		(296 666)
Vested				
End of the year	111 294	2 727 929		256 667
Maximum awards available over the life of the scheme	1 000 000	3 500 000		
Utilised for the scheme to date	111 294	2 727 929		
Invested shares	65 660			

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

# Lewis Group Limited: Consolidated financial statements **Notes to the annual financial statements** continued

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## 14. Directors and employees continued

### 14.4 Share incentive schemes continued

#### **Lewis Executive Retention Scheme – New Scheme**

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

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

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

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

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

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

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

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

- headline earnings per share;
- quality of debtors book being either level of satisfactory paid customers or debtors costs as a percentage of net debtors; and
- gross margin.

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

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

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

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

#### **Lewis Co-Investment Scheme – Old Scheme**

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

#### **Lewis Executive Performance Scheme – Old Scheme**

There are no outstanding awards under this scheme and no intention to issue any further awards and the Lewis Long-Term and Short-Term Executive Performance Scheme has effectively replaced this scheme.

# Lewis Group Limited: Consolidated financial statements Notes to the annual financial statements continued

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## 14.5 Retirement benefits

### 14.5.1 Retirement plans and benefits

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

	Number of employees	
	2019	2018
The number of employees on these plans are as follows:		
Lewis Group Pension Fund	72	87
Lewis Stores Retirement Pension Fund	32	31
SACCAWU Provident Fund	2 188	2 211
Lewis Stores Provident Fund	3 872	3 974
Lewis Stores Namibia Orion Pension Fund	608	546
Alexander Forbes Botswana Umbrella Pension Fund	231	249

The group provides a subsidy of medical aid contributions to retired employees. Only those employees employed prior to 1 August 1997 qualify for this benefit. The liability was valued as at 31 March 2019 by a qualified actuary in accordance with the requirements of IAS 19. The group has a commitment to meet these unfunded benefits.

	2019	2018
	Rm	Rm
<b>14.5.2 Effects on comprehensive income</b>		
Defined Benefit Retirement Plans ( refer note 14.5.3)	7.0	11.2
Post-Retirement Healthcare Plans (refer note 14.5.4)	8.7	10.8
Defined Contribution Plans (refer note 14.5.5)	54.3	50.1
Income statement charge	70.0	72.1
Actuarial gains and losses included in other comprehensive income:		
Defined Benefit Retirement Plans	(11.9)	41.6
Post-retirement Healthcare Plans	6.2	17.5
	(5.7)	59.1

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	2019 Rm	2018 Rm
<b>14. Directors and employees</b> continued		
<b>14.5 Retirement benefits</b> continued		
<b>14.5.3 Defined benefit retirement plans</b>		
<b>Amounts recognised in the balance sheet</b>		
Present value of funded obligations	494.8	542.1
Fair value of plan assets	(595.8)	(638.8)
Asset ceiling limit applied in terms of IAS 19	22.0	5.6
Retirement benefit asset	(79.0)	(91.1)
Present value of unfunded obligations as a liability	2.1	2.1
	(76.9)	(89.0)
<b>Total movement in retirement benefit (asset)/liability</b>		
Present value at the beginning of the year	(89.0)	(52.5)
Income statement charge	7.0	11.2
Current service cost	15.4	15.7
Interest income	(8.4)	(4.5)
Actuarial gains and losses included in other comprehensive income	11.9	(41.6)
Contributions paid during the year	(6.8)	(6.1)
Present value at the end of the year	(76.9)	(89.0)
<b>Total present value of defined benefit obligation</b>		
Beginning of the year	544.2	551.2
Current service cost	15.4	15.7
Interest cost	52.0	52.8
Employee contributions	0.8	0.9
Benefit payments	(39.0)	(47.7)
Actuarial gains and losses recognised in other comprehensive income	(76.5)	(28.7)
End of the year	496.9	544.2
<b>Fair value of defined benefit plan assets</b>		
Beginning of the year	633.2	603.7
Employee contributions	0.8	0.9
Employer contributions	5.0	6.1
Interest income	60.4	57.3
Benefit payments	(39.0)	(47.7)
Actuarial gains and losses recognised in other comprehensive income	(64.6)	18.5
Asset ceiling limit applied in terms of IAS 19	(22.0)	(5.6)
End of the year	573.8	633.2



# Lewis Group Limited: Consolidated financial statements Notes to the annual financial statements continued

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## 14.5 Retirement benefits continued

### Plan assets

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

		2019	2018
Cash	(%)	<b>11.0</b>	11.4
Bonds - Listed	(%)	<b>14.7</b>	17.4
Equity - Listed	(%)	<b>48.2</b>	40.3
International equity - Listed	(%)	<b>19.0</b>	21.9
International bonds - Listed	(%)	<b>0.5</b>	1.9
Other	(%)	<b>6.6</b>	7.1
		<b>100.0</b>	100.0

The defined benefit funds are final salary defined benefit plans. These schemes are valued by an independent actuary on an annual basis in terms of IAS 19, using the projected unit credit method. The latest valuation was carried out as at 1 January 2019.

The above defined benefit retirement plan asset was subject to the asset ceiling as determined in IFRIC 14, being the maximum economic benefit arising from a future unconditional right to a refund and from reductions in future contributions in excess of the minimum funding requirement. The effect of the application of the asset ceiling was to reduce the defined retirement plan asset by R22 million.

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

### Accounting policy

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

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

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

The asset and liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets.

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that have terms to maturity approximating the terms of the related pension obligation.

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

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#### Significant accounting estimates and judgements

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

Principal actuarial assumptions:		2019	2018
Discount rate	(%)	10.0	10.6
Inflation rate	(%)	6.8	8.1
Future salary increases	(%)	6.8	9.1
Future pension increases	(%)	7.8	8.1

The weighted average duration of the actuarial liability is 12.9 years (2018: 13.3 years).

#### Sensitivity analysis

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

Assumption	Variation	Change in present value of obligation	
		2019	2018
Discount rate	(%) +1	(11.4)	(11.5)
	(%) -1	13.4	14.1
Salary increases	(%) +1	3.0	3.1
	(%) -1	(2.9)	(2.9)
Pension increases	(%) +1	9.9	10.5
	(%) -1	(8.7)	(9.1)
Mortality	(years) +1	(2.5)	(2.5)
	(years) -1	2.2	2.4

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

	2019	2018
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	(years) 13.8	13.7
Female	(years) 16.1	16.1
Actual return on plan assets	(%) 12.9	12.4

# Lewis Group Limited: Consolidated financial statements Notes to the annual financial statements continued

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## 14.5 Retirement benefits continued

### 14.5.3 Defined benefit retirement plans continued

#### Actuarial risks

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

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

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

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

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

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

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

	2019 Rm	2018 Rm
<b>14.5.4 Post-retirement healthcare benefits</b>		
Present value of post-retirement healthcare benefits	85.1	87.7
Present value of unfunded defined benefit obligation (refer note 14.5.3)	2.1	2.1
Retirement benefit liability	<b>87.2</b>	89.8
<b>Movement in post-retirement healthcare liability</b>		
Present value of liability at the beginning of the year	87.7	99.2
Charged to income statement	8.7	10.8
Current service cost	0.9	1.3
Interest cost	7.8	9.5
Actuarial gains and losses recognised in other comprehensive income	(6.2)	(17.5)
Employer benefit payments	(5.1)	(4.8)
Post-retirement healthcare benefits liability	<b>85.1</b>	87.7

#### Accounting policy

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

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

# Lewis Group Limited: Consolidated financial statements Notes to the annual financial statements continued

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## Significant accounting estimates and judgements

The underlying assumptions underlying the post-retirement healthcare benefit liability with a sensitivity analysis are set out below:

Principal actuarial assumptions:		2019	2018
Health care inflation rate	(%)	8.6	7.9
CPI inflation	(%)	6.6	5.9
Discount rate	(%)	10.4	9.2
Average retirement age	(years)	63	63

The weighted average duration of the actuarial liability is 13.7 years (2018: 14.9 years).

## Sensitivity analysis

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

Assumption	Variation	Change in present value of obligation	
		2019	2018
Discount rate	(%) +1	(10.1)	(10.9)
	(%) -1	12.3	13.4
Healthcare cost	(%) +1	4.7	13.3
	(%) -1	12.0	(10.9)
Expected retirement age	(years) +1	(1.9)	(2.1)
	(years) -1	1.6	2.0

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

## 14.5 Retirement benefits continued

### Actuarial risks

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

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

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

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

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

	2019 Rm	2018 Rm
<b>14.5.5 Defined contribution plans</b>		
Defined contribution plan costs	54.3	50.1

### Accounting policy

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

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	2019 Rm	2018 Rm
<b>15. Taxation</b>		
<b>Taxation per income statement</b>		
South Africa	133.6	88.9
Foreign	20.7	39.5
	<b>154.3</b>	128.4
Comprising:		
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
	<b>154.3</b>	128.4
<b>Tax rate reconciliation</b>		
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	<b>154.3</b>	128.4
Effective tax rate	(%) 33.3	32.7
<b>Taxation paid per cash flow statement</b>		
Amount due at the beginning of the year	136.5	181.1
Amount charged to the income statement	(154.3)	(128.4)
Adjustment for deferred taxation	(4.4)	23.0
Acquisition	-	(8.2)
Cessation of re-insurance	(3.0)	10.5
Amount owing at the end of the year	(102.9)	(136.5)
	<b>(128.1)</b>	(58.5)

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	2019 Rm	2018 Rm
<b>15. Taxation continued</b>		
<b>Deferred taxation as per balance sheet</b>		
Balance at the beginning of the year	110.1	40.1
<b>Movement for the year attributable to:</b>		
Income statement (debit)/credit	23.2	29.8
Prior year adjustment	(27.7)	(6.8)
IFRS 9 transitional adjustments – refer note 22.5	(237.1)	–
IFRS 15 transitional adjustments – refer note 22.5	(10.1)	–
Deferred tax on fair value adjustment in other comprehensive income	(6.0)	8.3
Acquisition	–	11.7
Deferred tax on retirement benefit remeasurements	(1.6)	16.5
Cessation of re-insurance	(3.0)	10.5
<b>Balance at the end of the year</b>	<b>(152.2)</b>	<b>110.1</b>
<b>This balance comprises</b>		
Capital allowances	47.8	66.3
FVOCI debt/available-for-sale investments	(4.8)	1.2
Debtors allowances	(106.1)	97.7
Income and expense recognition	(4.4)	(2.0)
Assessed loss	(14.3)	(11.7)
Other provisions	(70.4)	(41.4)
<b>Balance at the end of the year</b>	<b>(152.2)</b>	<b>110.1</b>
Disclosed as:		
<b>Deferred tax asset</b>	<b>(195.4)</b>	<b>(10.9)</b>
<b>Deferred tax liability</b>	<b>43.2</b>	<b>121.0</b>
	<b>(152.2)</b>	<b>110.1</b>

Deferred tax assets relate to provisions which are not deductible for tax purposes. The deferred tax asset will be reversed as these provisions are released. The deferred tax asset includes an amount of R20.1 million which relate to carried forward losses of our subsidiary in Botswana. The group has concluded that the deferred tax asset will be recoverable using estimated future taxable income based on approved budgets for the subsidiary.

### Accounting policy

#### Current and deferred taxation

The tax expense comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at balance sheet date in the countries where the company and its subsidiaries operate and generate taxable income. The group evaluates positions taken in tax returns with respect to situations in which applicable legislation and regulations are subject to interpretation. Appropriate provisions are established on the basis of amounts expected to be paid to the tax authorities.

# Lewis Group Limited: Consolidated financial statements Notes to the annual financial statements continued

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

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

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

## Significant accounting estimates and judgements

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.

## 16. Property, plant and equipment

	Land and buildings Rm	Vehicles Rm	Furniture, fixtures and equipment Rm	Total Rm
<b>As at 31 March 2019</b>				
Opening net carrying value	108.0	108.9	84.9	301.8
Additions	5.7	31.1	44.5	81.3
Disposals	(0.9)	(7.2)	(0.3)	(8.4)
Software classified as intangible asset (refer note 17.2)	–	–	(9.3)	(9.3)
Depreciation	(1.1)	(28.6)	(36.8)	(66.5)
Closing net carrying value	111.7	104.2	83.0	298.9
Cost	127.8	280.9	406.9	815.6
Accumulated depreciation	(16.1)	(176.7)	(323.9)	(516.7)
<b>As at 31 March 2018</b>				
Opening net carrying value	109.7	128.7	105.1	343.5
Additions	0.2	18.2	31.1	49.5
Disposals	(0.8)	(5.9)	(2.7)	(9.4)
Depreciation	(1.1)	(32.1)	(48.6)	(81.8)
Closing net carrying value	108.0	108.9	84.9	301.8
Cost	123.1	282.8	522.9	928.8
Accumulated depreciation	(15.1)	(173.9)	(438.0)	(627.0)

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

# Lewis Group Limited: Consolidated financial statements **Notes to the annual financial statements** continued

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## 16. Property, plant and equipment continued

### Accounting policy

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

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

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

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

During the year, the group reclassified software as intangible assets (refer note 17). Prior year comparatives were not restated since the carrying value for software is not material.

### Significant accounting estimates and judgements

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

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

	Land and buildings Rm	Vehicles Rm	Furniture, fixtures and equipment Rm	Total Rm
Included in the balances above are fully depreciated assets still in use with a cost and accumulated depreciation of:				
<b>As at March 2019</b>	–	12.0	235.1	247.1
As at March 2018	–	11.4	300.9	312.3



# Lewis Group Limited: Consolidated financial statements Notes to the annual financial statements continued

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	2019 Rm	2018 Rm
<b>17. Intangible assets</b>		
<b>17.1 Trademarks</b>		
Opening net carrying value	117.8	66.2
Additions	-	55.7
Disposals	-	-
Amortisation	(6.5)	(4.1)
Closing net carrying value	111.3	117.8
Cost	131.2	131.2
Accumulated amortisation	(19.9)	(13.4)

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

### Accounting policy

Separately acquired trademarks are shown at historical cost.

Trademarks acquired in a business combination are recognised at fair value at acquisition date. Trademarks have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks over their estimated useful lives of 20 years.

	2019 Rm	2018 Rm
<b>17.2 Software</b>		
Opening net carrying value	-	-
Transferred from PPE (refer note 16)	9.3	-
Cost	42.6	-
Accumulated amortisation	(33.3)	-
Additions	7.3	-
Disposals	-	-
Amortisation	(5.6)	-
Closing net carrying value	11.0	-
Cost	49.9	-
Accumulated amortisation	(38.9)	-

Developed software was previously included as property, plant and equipment but have been classified as intangible assets during the current year.

### Accounting policy

Software is depreciated to their residual value, on a straight-line basis, over their estimated useful lives. The estimated useful life of software is 3 years.

# Lewis Group Limited:

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### Notes to the annual financial statements continued

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	2019 Rm	2018 Rm
<b>18. Goodwill</b>		
Opening net carrying value	187.6	5.5
Additions	-	182.4
Other	-	(0.3)
Closing net carrying value	187.6	187.6
Cost	187.6	187.6
Accumulated impairment	-	-

Goodwill was recognised in the prior year as part of the acquisition of the UFO business, as the excess of the purchase consideration over the attributable fair value of the identifiable assets and liabilities, at the date of acquisition (refer note 19).

#### Accounting policy

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

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

#### Significant accounting estimates and judgements

The goodwill impairment assessment was conducted by an external valuer who applied the following assumptions:

- Expected cash flows were based on existing stores in accordance with IAS 36. No account of further store expansion in the future has been made.
- Sales growth on existing stores was 6% for the next five years and 5.5% on the terminal value.
- Earnings before interest and tax margin were based on three year historic average.
- Weighted average cost of capital ("WACC") was calculated as follows:
  - low 13.8%
  - mid 14.4%
  - high 15.0%

The carrying value of goodwill was assessed as follows:

	Low WACC R'000	Mid WACC R'000	High WACC R'000
Enterprise value	346 353	340 770	335 313
Assets other than goodwill	(130 367)	(130 367)	(130 367)
	215 986	210 403	204 946

No impairment was required.

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	2019 Rm	2018 Rm
<b>19. Purchase of business</b>		
<b>Identifiable assets acquired and liabilities assumed</b>		
Trademarks (refer note 17.1)	–	55.7
Goodwill (refer note 18)	–	182.4
Property, plant and equipment	–	4.9
Inventory	–	116.4
Trade receivables	–	–
Other receivables	–	5.4
Cash and cash equivalents	–	73.0
Short-term borrowings	–	(0.3)
Taxation	–	(8.2)
Trade and other payables	–	(93.5)
Deferred tax	–	(11.7)
Total consideration	–	324.1
<b>Outflow of cash to acquire subsidiary, net of cash acquired</b>		
Cash consideration	–	324.1
Less: Cash balances acquired	–	(73.0)
Less: Deferred purchase consideration	<b>16.5</b>	(16.5)
Net outflow of cash – investing activities	<b>16.5</b>	234.6

**Purchase of United Furniture Outlets (2018)**

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

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

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

# Lewis Group Limited: Consolidated financial statements **Notes to the annual financial statements** continued

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## 20. Group consolidation

### Accounting policies

#### Basis of consolidation

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

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

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

Inter-company transactions, balances and unrealised gains and losses (unless the transaction provides evidence of an impairment of the transferred asset) between group companies are eliminated. The accounting policies and the year-ends of material subsidiaries are consistent throughout the group.

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

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

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

#### Functional and presentation currency

##### (a) Foreign currency translation

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

##### (b) Group companies

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

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

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

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

# Lewis Group Limited: Consolidated financial statements Notes to the annual financial statements continued

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## 20. Group consolidation continued

### Currency risk - Net investment in foreign subsidiaries (FCTR)

The currency exposure is limited to the net investment in Botswana of R195.8 million (2018: R184.8 million), which includes a long-term loan account. The currency exposure is managed by keeping the net investment at a minimum practical level by remitting cash to South Africa on a regular basis through loan repayments and dividends.

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

	2019	2018
Currency appreciates by 10%	26.7	16.6
Currency depreciates by 10%	(26.7)	(16.6)

## 21. Other notes

### 21.1 Other accounting policies

#### Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation, but tested annually for impairment. Assets that are subject to amortisation and depreciation are reviewed for impairment whenever circumstances indicate that the carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

#### Current assets and liabilities

Assets and liabilities with maturity terms of less than 12 months, are classified as current unless they form part of a normal operating cycle, in which case, they are also classified as current.

### 21.2 New standards and interpretations not yet effective

#### 21.2.1 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 (refer to note 7.2).

#### 21.2.2 IFRS 17

IFRS 17 (Insurance Contracts) which replaces IFRS 4, applies to insurance contracts and re-insurance 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.

# Lewis Group Limited: Consolidated financial statements Notes to the annual financial statements continued

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## 21. Other notes continued

### 21.3 Other standards and interpretations not yet effective

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

IAS 1: Presentation of financial statements and IAS 8: Accounting policies, changes in accounting estimates and errors' on the definition of material	<p>These amendments to IAS 1 and IAS 8 and consequential amendments to other IFRSs:</p> <ul style="list-style-type: none"> <li>• use a consistent definition of materiality through IFRSs and the Conceptual Framework for Financial Reporting;</li> <li>• clarify the explanation of the definition of material; and</li> <li>• incorporate some of the guidance in IAS 1 about immaterial information.</li> </ul> <p>The amended definition is: Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.</p>
Amendments to IAS 19, 'Employee benefits' on plan amendment, curtailment or settlement	<p>These amendments require an entity to:</p> <ul style="list-style-type: none"> <li>• use updated assumptions to determine current service cost and net interest for the remainder of the period after a plan amendment, curtailment or settlement; and</li> <li>• recognise in profit or loss as part of past service cost, or a gain or loss on settlement, any reduction in a surplus (recognised or unrecognised). This reflects the substance of the transaction, because a surplus that has been used to settle an obligation or provide additional benefits is recovered. The impact on the asset ceiling is recognised in other comprehensive income, and it is not reclassified to profit or loss. The impact of the amendments is to confirm that these effects are not offset.</li> </ul>
Amendment to IFRS 3, 'Business combinations' – definition of a "business"	<p>This amendment revises the definition of a business. According to feedback received by the IASB, application of the current guidance is commonly thought to be too complex, and it results in too many transactions qualifying as business combinations. More acquisitions are likely to be accounted for as asset acquisitions. To be considered a business, an acquisition would have to include an input and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process is present (including for early stage companies that have not generated outputs). To be a business without outputs, there will now need to be an organised workforce.</p>
Amendments to IFRS 9 – 'Financial instruments' on prepayment features with negative compensation and modification of financial liabilities	<p>The narrow-scope amendment covers two issues:</p> <ul style="list-style-type: none"> <li>• The amendments allow companies to measure particular prepayable financial assets with so-called negative compensation at amortised cost or at fair value through other comprehensive income if a specified condition is met—instead of at fair value through profit or loss. It is likely to have the biggest impact on banks and other financial services entities.</li> <li>• How to account for the modification of a financial liability. The amendment confirms that most such modifications will result in immediate recognition of a gain or loss. This is a change from common practice under IAS 39 today and will affect all kinds of entities that have renegotiated borrowings.</li> </ul>
IFRIC 23, 'Uncertainty over income tax treatments'	<p>IFRIC 23 provides a framework to consider, recognise and measure the accounting impact of tax uncertainties. The Interpretation provides specific guidance in several areas where previously IAS 12 was silent. The interpretation also explains when to reconsider the accounting for a tax uncertainty. Most entities will have developed a model to account for tax uncertainties in the absence of specific guidance in IAS 12. These models might, in some circumstances, be inconsistent with IFRIC 23 and the impact on tax accounting could be material. Management should assess the existing models against the specific guidance in the interpretation and consider the impact on income tax accounting.</p>

Annual improvements to IFRS issued December 2017 and December 2018 for years commencing on or after 1 January 2019.

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	2019 Rm	2018 Rm
<b>21.4 Other income statement disclosures</b>		
<b>Service fees received on accounts receivable</b>	<b>320.0</b>	313.3
<b>Insurance claims expenses</b>	<b>153.5</b>	74.3
<b>Fees payable:</b>		
Investment management fee – insurance investments	1.7	2.1
Outsourcing of IT function	92.2	81.9
	<b>93.9</b>	84.0
<b>Auditors' remuneration</b>		
Audit fees – current year	4.6	3.1
Other services		
– Audit related	1.5	1.8
– Non-audit related	0.1	1.5
	<b>6.2</b>	6.4
<b>Fair value adjustment – loan</b>	–	(2.0)
<b>21.5 Contingencies</b>		
Bank guarantees given by the group to third-parties. The directors are of the opinion that no loss will be incurred on these guarantees.	<b>9.6</b>	9.0

**21.6 Post balance sheet events**

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

**21.7 Approval of financial statements**

These accounts have been approved by the board of directors on 22 May 2019.

# Lewis Group Limited:

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### Notes to the annual financial statements continued

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## 22. Impact of IFRS 9, IFRS 15 and restatements

The information set out below reflect the following:

- The amounts reported in the audited group financial statements for the year ended 31 March 2018.
- IFRS 9 Adjustments relating to the transition to IFRS 9 on 1 April 2018 ("IFRS 9 Adjustments"). These relate to the adoption of the expected credit loss model ("ECL"). Refer note 3.
- Adjustments relating to the transition to IFRS 15 on 1 April 2018 and restatements. Details of these adjustments are set out in note 3.
- The transitioned balance sheet, statement of changes in equity and selected notes as at 1 April 2018.

### 22.1 Impact on balance sheet as at 1 April 2018

	Group 31 March 2018 Rm	IFRS 9 Adjustments Rm	IFRS 15 Adjustments Rm	Re- statements Rm	Group 1 April 2018 Rm
<b>Assets</b>					
<b>Non-current assets</b>					
Deferred taxation	10.9	145.8	10.1	–	166.8
Financial assets – Insurance investments	471.0	–	–	–	471.0
Other non-current assets	698.3	–	–	–	698.3
<b>Current assets</b>					
Inventories	579.7	–	26.5	–	606.2
Trade and other receivables	4 068.9	(841.9)	–	131.1	3 358.1
Financial assets – Insurance investments	135.4	–	–	–	135.4
Other current assets	820.5	–	–	–	820.5
<b>Total assets</b>	<b>6 784.7</b>	<b>(696.1)</b>	<b>36.6</b>	<b>131.1</b>	<b>6 256.3</b>
<b>Equity and liabilities</b>					
Capital and reserves	5 448.5	(604.8)	(26.0)	–	4 817.7
<b>Liabilities</b>					
Deferred taxation	121.0	(91.3)	–	–	29.7
Trade and other payables	417.0	–	62.6	(37.8)	441.8
Payments in advance	–	–	–	168.9	168.9
Other liabilities	798.2	–	–	–	798.2
	1 336.2	(91.3)	62.6	131.1	1 438.6
<b>Total equity and liabilities</b>	<b>6 784.7</b>	<b>(696.1)</b>	<b>36.6</b>	<b>131.1</b>	<b>6 256.3</b>

### 22.2 Impact on statement of changes in equity as at 1 April 2018

	Group 31 March 2018 Rm	IFRS 9 Adjustments Rm	IFRS 15 Adjustments Rm	Re- statements Rm	Group 1 April 2018 Rm
Share capital and premium	425.0	–	–	–	425.0
Treasury shares	(480.2)	–	–	–	(480.2)
Other reserves	42.6	–	–	–	42.6
Retained earnings	5 461.1	(604.8)	(26.0)	–	4 830.3
<b>Balance at 1 April 2018</b>	<b>5 448.5</b>	<b>(604.8)</b>	<b>(26.0)</b>	<b>–</b>	<b>4 817.7</b>



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**22.3 Impact on accounts receivable as at 1 April 2018**

	Group 31 March 2018 Rm	IFRS 9 Adjustments Rm	Other adjustments Rm	Group 1 April 2018 Rm
<b>22.3.1 Trade receivables</b>				
Trade receivables at gross carrying value	5 477.6	(39.3)	131.1	5 569.4
Provision for impairment	(1 619.5)	(802.6)	–	(2 422.1)
Trade receivables at amortised cost	3 858.1	(841.9)	131.1	3 147.3
Other receivables	210.8	–	–	210.8
	4 068.9	(841.9)	131.1	3 358.1
Debtors' impairment provision as percentage of trade receivables	(%)	29.6		43.5

**22.3.2 Reconciliation between IAS 39 and IFRS 9**

	Group 31 March 2018 R'000	Category adjustments R'000	IFRS 9 Adjustments R'000	Group 1 April 2018 R'000
<b>22.3.2.1 Impairment provision</b>				
<b>Satisfactory paid</b>	18 039	–	657 932	675 971
(%)	1.1			27.9
<b>Slow payers</b>	196 021	262 519	150 176	608 716
(%)	12.1			25.1
<b>Non-performing accounts</b>	262 519	(262 519)	–	–
Customers who have paid between 55% and 65% of amounts due over the contract period	(%)	16.2		–
<b>Non-performing accounts</b>	1 142 920	–	(5 573)	1 137 347
Customers who have paid less than 55% of amounts due over the contract period	(%)	70.6		47.0
<b>Total</b>	1 619 499	–	802 535	2 422 034

The group has re-assessed its categories and aligned them with internal credit management policies. As a consequence of this re-assessment, the previously non-performing category where customers have paid between 55% and 65% of amounts due has been included with the slow paying customer category.

# Lewis Group Limited: Consolidated financial statements Notes to the annual financial statements continued

for the year ended 31 March 2019

## 22. Impact of IFRS 9, IFRS 15 and restatements continued

### 22.3.3 Combined impairment and contractual arrears table for IFRS 9

The table reflects the following:

- A summary of the main groupings of payment ratings describing payment behaviour. The group has aligned the groupings with internal credit management policies and, consequently, the previously non-performing grouping where customers have paid between 55% and 65% of amounts due has been included with the slow paying grouping.
- For each of the main groupings of payment ratings, the following is disclosed:
  - Number of customers;
  - The gross carrying value of trade receivables;
  - Impairment provision allocated to each grouping; and
  - Contractual arrears for each grouping have been categorised by number of instalments in arrears.

#### Gross trade receivable analysis restated for IFRS 9

1 April 2018	Total number of customers	Gross carrying value of receivables 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
<b>Satisfactory paid</b>	401 183	3 063 886	675 971	22.3	549 506	155 673	105 593	77 633	210 607
(%)	68.4	55.0	27.9	24.1					
<b>Slow payers</b>	97 251	1 049 782	608 716	58.5	665 893	72 167	69 010	64 474	460 242
(%)	16.5	18.9	25.1	29.3					
<b>Non-performing accounts</b>	88 430	1 455 670	1 137 347	78.9	1 062 130	67 452	66 131	64 513	864 034
(%)	15.1	26.1	47.0	46.6					
<b>Total</b>	586 864	5 569 338	2 422 034	43.5	2 277 529	295 292	240 734	206 620	1 534 883

#### Definitions for customer payment categories

- Satisfactory paid
  - Customers who have paid 70% or more of amounts due over the contract period.
- Slow payers
  - Customers who have paid 55% to 70% of amounts due over the contract period.
- Non-performing accounts
  - Customers who have paid 55% or less of amounts due over the contract period.

### 22.3.4 Credit impaired trade receivables

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

These are accounts that have moved into stage 3 as a result of loss events that have occurred after initial recognition and are presented at gross carrying value and amortised cost.

# Lewis Group Limited: Consolidated financial statements Notes to the annual financial statements continued

for the year ended 31 March 2019

## 22.4 Reclassification of financial assets on adoption of IFRS 9

On the date of initial application, 1 April 2018, the financial assets of the group were reclassified in terms of IFRS 9 as follows:

	Measurement category		Carrying value		Difference Rm
	Original IAS 39	New IFRS 9	Original Rm	New Rm	
<b>Non-current financial assets</b>					
Insurance investments	Available-for-sale	FVOCI	471.0	471.0	–
<b>Current financial assets</b>					
Trade and other receivables	Loans and receivables	Amortised cost	4 068.9	3 358.1	710.8
Cash-on-hand and deposits	Amortised cost	Amortised cost	608.4	608.4	–
Insurance investments	Available-for-sale	FVOCI	135.4	135.4	–

The group has no equity investments and, therefore, the irrevocable election to present an equity investment as FVOCI (equity) in paragraph 5.7.5 of IFRS 9 is not applicable.

## 22.5 Summary of adjustments

### Adoption of IFRS 9

The impairment of trade receivables has been significantly amended by IFRS 9, with the introduction of an expected credit loss model. The group has elected to use the simplified model for trade receivables which recognises the expected credit losses over the life of the account on initial recognition. The adjustment to opening retained earnings for the transition to the expected credit loss model as at 1 April 2018 is as follows:

	Rm
Decrease in trade receivables	(841.9)
Gross carrying value	(39.3)
Impairment provision	(802.6)
Attributable deferred tax	237.1
Decrease in retained earnings as at 1 April 2018	(604.8)

With the adoption of IFRS 9, the gross value of trade receivables which is calculated after taking into consideration the unearned provisions, required an adjustment to eliminate double counting both in the unearned provisions and in the impairment provision. The adjustment required was R39.3 million.

### Adoption of IFRS 15

It is 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 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 payables	(62.6)
Increase in inventory	26.5
Attributable deferred tax	10.1
Decrease in retained earnings as at 1 April 2018	(26.0)

# Lewis Group Limited: Consolidated financial statements **Notes to the annual financial statements** continued

for the year ended 31 March 2019

## 22. Impact of IFRS 9, IFRS 15 and restatements continued

### 22.5 Summary of adjustments continued

#### 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 separately 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 disclosed separately under current liabilities.

The restatements have the following impact on trade receivables, trade and other payables and payments in advance as at 31 March:

	2018 Rm	2017 Rm
Increase in trade receivables	131.1	122.2
Decrease in trade payables	37.8	14.8
Payments in advance	168.9	137.0

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**23. Interest in subsidiary companies**

	Nature of business	2019		2018	
		Carrying value of subsidiaries Rm	Holding %	Carrying value of subsidiaries Rm	Holding %
<b>Directly held</b>					
Lewis Stores (Pty) Ltd	F	2 800.0	100	2 800.0	100
<b>Indirectly held</b>					
<b>Incorporated in South Africa</b>					
Monarch Insurance Company Limited	I				
Kingtimm (Pty) Ltd	D				
Lifestyle Living (Pty) Ltd	D				
United Furniture Outlets (Pty) Ltd	F				
<b>Incorporated in Botswana</b>					
Lewis Stores (Botswana) (Pty) Ltd	F				
Lewis Insurance Services (Botswana) (Pty) Ltd	M				
Lewis Management Services (Botswana) (Pty) Ltd	D				
<b>Incorporated in Eswatini</b>					
Lewis Stores (Swaziland) (Pty) Ltd	F				
<b>Incorporated in Namibia</b>					
Lewis Stores (Namibia) (Pty) Ltd	F				
<b>Incorporated in Lesotho</b>					
Lewis Stores (Lesotho) (Pty) Ltd	F				
<b>Cost of subsidiaries</b>		<b>2 800.0</b>		<b>2 800.0</b>	
<b>Capital contribution in respect of share-based payment</b>		<b>55.1</b>		<b>39.5</b>	
<b>Loans to/(from) subsidiaries:</b>					
Long-term					
Short-term					
Amounts due to subsidiary		<b>(4.1)</b>		<b>(52.1)</b>	
<b>Interest in subsidiaries</b>		<b>2 851.0</b>		<b>2 787.4</b>	

F Furniture retailer

I Insurance company

M Management services company

D Dormant company

# Lewis Group Limited: Consolidated financial statements **Notes to the annual financial statements** continued

for the year ended 31 March 2019

## **24. 2018 Accounting policies, significant accounting estimates and judgements**

### **24.1 Financial instruments**

#### **24.1.1 Trade and other receivables**

##### **Accounting policies**

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

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

##### **Significant accounting estimates and judgements**

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

#### **24.1.2 Debtor costs**

##### **Accounting policy**

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

##### **Significant accounting estimates and judgements**

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

# Lewis Group Limited: Consolidated financial statements **Notes to the annual financial statements** continued

for the year ended 31 March 2019

## 24.1.3 Insurance investments

### Accounting policy

#### Financial assets

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

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

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

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

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

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

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

## 24.1.4 Investment income

### Accounting policy

Investment income is recognised as follows:

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

# Lewis Group Limited: Consolidated financial statements **Notes to the annual financial statements** continued

for the year ended 31 March 2019

## **24. 2018 Accounting policies, significant accounting estimates and judgements**

### **24.1 Financial instruments** continued

#### **24.1.5 Re-insurance assets**

##### **Accounting policies**

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

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

#### **24.1.6 Borrowings, banking facilities and cash**

##### **Accounting policies**

##### **Borrowings**

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

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

##### **Cash and cash equivalents**

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

#### **24.1.7 Net finance costs**

##### **Accounting policies**

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

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

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

##### **Derivative instruments**

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



# Lewis Group Limited: Consolidated financial statements **Notes to the annual financial statements** continued

for the year ended 31 March 2019

## 24.1.8 Trade payables

### Accounting policies

#### Trade payables

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

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

#### Provisions

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

#### Employment provisions

Employee entitlements to annual leave and bonus are recognised as they accrue to employees when there is a legal or constructive obligation to make such payments as a result of past performance. An accrual is made for the estimated provision still owing as a result of services provided by employees up to the balance sheet date.

## 24.2 Revenue

### Accounting policies

#### Revenue

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

#### *(i) Merchandise sales*

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

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

#### *(ii) Finance charges and initiation fees earned*

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

#### *(iii) Insurance revenue*

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

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**24. 2018 Accounting policies, significant accounting estimates and judgements**

**24.2 Revenue** continued

**(iv) Ancillary services**

Revenue from maintenance contracts is recognised as follows:

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

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

**24.3 Insurance**

**Re-insurance**

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

Re-insurance liabilities are premiums payable for re-insurance contracts.

The re-insurance arrangements with Constantia Insurance Company Limited were terminated with effect from 6 April 2018, beginning of the current financial year.

# Lewis Group Limited:

## Company financial statements

### Company statement of comprehensive income

for the year ended 31 March 2019

	Notes	2019 Rm	2018 Rm
Investment income	2	307.0	397.6
Operating costs	3	(9.8)	(9.5)
Profit before taxation		297.2	388.1
Taxation	4	(0.6)	(0.4)
Net profit and comprehensive income attributable to ordinary shareholders		296.6	387.7

### Company balance sheet

at 31 March 2019

	Notes	2019 Rm	2018 Rm
<b>Assets</b>			
<b>Non-current assets</b>			
Interest in subsidiaries	5	2 855.1	2 839.2
<b>Current assets</b>			
Deposits at bank	8	18.2	35.7
Taxation		–	0.6
<b>Total assets</b>		<b>2 873.3</b>	<b>2 875.5</b>
<b>Equity and liabilities</b>			
<b>Capital and reserves</b>			
Share capital and premium	6	2 132.2	2 548.1
Share-based payment reserve		55.1	39.2
Retained earnings		680.1	234.6
		<b>2 867.4</b>	<b>2 821.9</b>
<b>Current liabilities</b>			
Trade and other payables		1.8	1.5
Amounts due to subsidiary		4.1	52.1
		<b>5.9</b>	<b>53.6</b>
<b>Total equity and liabilities</b>		<b>2 873.3</b>	<b>2 875.5</b>

# Lewis Group Limited:

## Company financial statements

### Company statement of changes in equity

for the year ended 31 March 2019

	Share capital and premium Rm	Share-based payment reserve Rm	Retained earnings Rm	Total Rm
<b>Balance as at 1 April 2017</b>	2 711.6	12.7	39.5	2 763.8
Net profit attributable to ordinary shareholders	–	–	387.7	387.7
Dividends paid	–	–	(192.6)	(192.6)
Capital contribution in respect of share-based payment	–	26.5	–	26.5
Share repurchase	(163.5)	–	–	(163.5)
<b>Balance as at 31 March 2018</b>	2 548.1	39.2	234.6	2 821.9
Net profit attributable to ordinary shareholders	–	–	<b>296.6</b>	<b>296.6</b>
Dividends paid	–	–	<b>(168.0)</b>	<b>(168.0)</b>
Capital contribution in respect of share-based payment	–	<b>15.9</b>	–	<b>15.9</b>
Share repurchase	<b>(99.0)</b>	–	–	<b>(99.0)</b>
Dividend in specie	<b>(316.9)</b>	–	<b>316.9</b>	–
<b>Balance as at 31 March 2019</b>	<b>2 132.2</b>	<b>55.1</b>	<b>680.1</b>	<b>2 867.4</b>

## Company cash flow statement

for the year ended 31 March 2019

	Note	2019 Rm	2018 Rm
<b>Cash flow from operating activities</b>			
Cash utilised in operations	7	(9.5)	(10.2)
Dividends received		304.9	396.1
Taxation paid		–	(1.0)
Interest received		2.1	1.5
		<b>297.5</b>	<b>386.4</b>
<b>Cash flow from investment activities</b>			
Loan repayment received from subsidiary		–	–
		–	–
<b>Cash flow from financing activities</b>			
Dividends paid		(168.0)	(192.6)
Repayment of borrowings		–	–
(Payments to)/proceeds from loan to subsidiary		(48.0)	5.4
Share repurchase		(99.0)	(163.5)
		<b>(315.0)</b>	<b>(350.7)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(17.5)</b>	<b>35.7</b>
Cash and cash equivalents at the beginning of the year		35.7	–
<b>Cash and cash equivalents at the end of the year</b>		<b>18.2</b>	<b>35.7</b>

# Lewis Group Limited: Company financial statements Notes to the Company financial statements

for the year ended 31 March 2019

## 1. Accounting policies

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

	Note reference
Investment income	5.2
Taxation	15
Interest in subsidiaries	20
Borrowings	6.1
Share capital and premium	13.4
Share-based payments	14.3

In the current year, the company has adopted IFRS 9 Financial instruments as it is relevant to its operations. The company has applied IFRS 9, in accordance with the transition provisions set out in IFRS 9. All recognised financial assets that are within the scope of IFRS 9, are required to be subsequently measured at amortised cost or fair value on the basis of the entity’s business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

The directors reviewed and assessed the company’s existing financial assets as at 1 January 2018, based on the facts and circumstances that existed at that date and concluded that the initial application of IFRS 9 has had no impact on the company’s financial assets as regards to their classification and measurement.

The company holds the following financial instruments:

	Note reference
Deposits at bank	8
Trade and other payables	
Amounts due to subsidiary	

Investment income is recognised as follows:

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

## 2. Investment income

Dividends received from subsidiary – Lewis Stores Proprietary Limited  
Interest received from subsidiary – Lewis Stores Proprietary Limited  
Interest received – banks

	2019 Rm	2018 Rm
Dividends received from subsidiary – Lewis Stores Proprietary Limited	304.9	396.1
Interest received from subsidiary – Lewis Stores Proprietary Limited	–	–
Interest received – banks	2.1	1.5
	<b>307.0</b>	<b>397.6</b>

Lewis Group Limited:  
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for the year ended 31 March 2019

	2019 R'000	2018 R'000
<b>3. Operating profit</b>		
Stated after:		
Audit fees – current year	80	60
Directors fees (refer note 14.2 to the group financial statements)	4 563	4 334

	2019 Rm	2018 Rm
<b>4. Taxation</b>		
Taxation	–	0.4
	–	0.4
The rate of taxation on profit is reconciled as follows:		
Profit before taxation	297.2	388.1
Taxation calculated at a tax rate of 28% (2018: 28%)	83.2	108.7
Exempt income	(85.3)	(111.0)
Disallowed expenses	2.7	2.7
Taxation per income statement	0.6	0.4

<b>5. Interest in subsidiaries</b>		
Shares at cost	2 800.0	2 800.0
Capital contribution for share-based payment	55.1	39.2
	2 855.1	2 839.2

Full details are provided in note 23 in the consolidated annual financial statements.

<b>6. Share capital and premium</b>		
<b>Authorised</b>		
150 000 000 ordinary shares of 1 cent each	1.5	1.5
<b>Issued</b>		
80 210 076 (2018: 92 651 862) ordinary shares of 1 cent each	1.0	1.0
Share premium	2 131.2	2 547.1
Total share capital and premium	2 132.2	2 548.1

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. Full details are provided in note 13 in the consolidated annual financial statements.

# Lewis Group Limited: Company financial statements Notes to the Company financial statements

for the year ended 31 March 2019

	2019 Rm	2018 Rm
<b>7. Cash utilised in operations</b>		
Profit before taxation	297.2	388.1
Dividends received	(304.9)	(396.1)
Decrease in trade and other payables	0.3	(0.7)
Interest received – Banks	(2.1)	(1.5)
	(9.5)	(10.2)
<b>8. Deposits at bank</b>		
At amortised cost	18.2	35.7

#### Credit risk

Credit risk is the risk of financial loss to the company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. 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.

The Moody's credit rating and maximum exposure to credit risk for deposits per institution is detailed in the table below:

Financial institutions	Foreign	Local	2019 Rm	2018 Rm
FNB	Baa3	P-3	–	0.2
RMB	Baa3	P-3	18.2	35.5
Total			18.2	35.7

Stage 1 with no movement between stages. No amount for 12-month expected credit loss has been recognised as the amount is immaterial.

#### Fair value

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

## 9. Guarantees

The company guarantees banking facilities to the value of R1 500 million (2018: R1 618.4 million) for its subsidiaries at various financial institutions. No expected credit loss was recognised on these guarantees.

#### Credit risk

While the maximum credit risk is the full extent of the facilities, there is no exposure at year-end, as the group has no borrowings. Full details of the facilities are provided in note 6.1 in the consolidated annual financial statements.

#### 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. The company's liquidity needs are catered for under this group's central treasury function.

# Lewis Group Limited: Company financial statements

## Shareholder information

as at 31 March 2019

	Number of shareholders		Number of shares	
	total	%	total	%
<b>Shareholders spread</b>				
1 - 1 000 shares	1 651	68.91	379 684	0.47
1 001 - 10 000 shares	515	21.49	1 691 680	2.11
10 001 - 100 000 shares	148	6.18	4 885 991	6.09
100 001 - 1 000 000 shares	70	2.92	24 166 656	30.13
1 000 001 shares and over	12	0.50	49 086 065	61.20
Total	2 396	100.00	80 210 076	100.00

	Number of shareholders		Number of shares	
	total	%	total	%
<b>Distribution of shareholders</b>				
<b>Public</b>				
	2 388	99.67	79 094 934	98.61
Unit Trusts/Mutual Funds			43 593 466	54.35
Pension funds			15 107 582	18.84
Other			20 393 886	25.42
<b>Non-public</b>				
	8	0.33	1 115 142	1.39
Lewis Employee Incentive Scheme Trust	1	0.04	15 842	0.02
Directors:				
Lewis Group Limited	4	0.17	594 911	0.74
Lewis Stores Proprietary Limited	3	0.13	504 389	0.63
Total	2 396	100.00	80 210 076	100.00



# Lewis Group Limited: Company financial statements

## Shareholder information

as at 31 March 2019

### Major shareholdings as at 31 March 2019

According to the company's register of disclosures of beneficial interests made by registered shareholders acting in a nominee capacity, and the disclosures made by fund managers in terms of section 56 of the Companies Act of 2008, the following entities owned in excess of 5% of the company's shares as at 31 March 2019:

	Number of shares total	%
<b>Beneficial shareholders</b>		
Trimark Global Endeavour Fund	9 607 131	11.98
Government Employee Pension Fund	7 308 407	9.11
Trimark Global Balanced Fund	4 268 216	5.32
Trimark Global Endeavour Class	4 030 513	5.02
<b>By fund manager</b>		
Invesco Limited	20 556 924	25.63
Public Investment Corporation	7 678 598	9.57
Dimensional Fund Advisors	4 791 889	5.97
LSV Asset management (US)	4 277 397	5.33
Stonehage Trust Holdings (Jersey) Ltd	4 235 711	5.28

	%
<b>Geographical analysis of shareholders</b>	
<b>Beneficial shareholders</b>	
South Africa	41.11
North America	43.86
Rest of the World	15.03
	100.00
<b>By fund manager</b>	
South Africa	40.61
North America	45.05
Rest of the World	14.34
	100.00



[www.lewisgroup.co.za](http://www.lewisgroup.co.za)