



2019 UNAUDITED INTERIM RESULTS

FOR THE SIX MONTHS
ENDED 30 SEPTEMBER



Lewis
Group Ltd

Highlights



Revenue
^
6.1%



Merchandise sales
^
6.4%



Gross profit margin at
40.3%

Operating profit
^
25.7%
(8.9% excluding the impact of IFRS16)

Headline earnings
^
14.4%

Headline earnings per share
^
18.9%



Interim dividend
^
14.3%
to 120 cents per share



Commentary

Trading and financial performance (including IFRS 16 in current year)

The group has adopted the new lease accounting standard IFRS 16 on a modified retrospective basis and comparative information has therefore, not been restated.

Revenue increased by 6.1% to R3.1 billion, with merchandise sales up 6.4% and other revenue increasing by 5.8%. The gross profit margin expanded by 40 basis points to 40.3%. Operating costs increased by 5.2% and debtor costs reduced by 0.4%.

Operating profit increased by 25.7% to R243.5 million and the operating margin strengthened by 120 basis points to 7.9%. Net finance costs were R21.6 million higher mainly due to the recognition of interest on the IFRS 16 lease liability. The group reported a 13.7% increase in net profit to R171.1 million for the six months.

Trading and financial performance (excluding IFRS 16 in current year)

The commentary presented below includes pro-forma financial information, which is the responsibility of the directors of Lewis Group Limited. The purpose of presenting financial information on a comparable basis is to assist the user in understanding the like for like performance, excluding the impact of IFRS 16 in the current year. The pro-forma financial information has been prepared for illustrative purposes only and may not fairly present the financial information, changes in equity, and results of operations or cashflows of Lewis Group Limited. This pro-forma financial information has not been reported on by the group's auditors, being PwC.

Refer to note 1.2 for detail on the impact of IFRS 16 on the group.

After recording strong sales growth for the first quarter, growth slowed in the second quarter, resulting in merchandise sales increasing by 6.4% to R1.7 billion for the six months. Comparable store sales grew by 2.8% for the period.

The group's traditional retail brands Lewis, Best Home and Electric, and Beares increased sales by 3.7% for the first six months. UFO grew by 8.8% and INspire, the omni-channel home shopping retailer, generated sales of R35.7 million for the six months (H1 2019: R3.8 million for the five months since inception). Stores outside South Africa, which comprise 15.4% of the store base, accounted for 17.3% of total sales.

Credit sales increased by 8.1% and continued to benefit from the change in the affordability assessment regulations. Cash sales grew by 4.1%.

Other revenue, consisting of finance charges and initiation fees, insurance premiums and services rendered, increased by 5.8%.

Total revenue, comprising merchandise sales and other revenue, increased by 6.1%.

The group's gross profit margin benefited from the introduction of new merchandise ranges and increased by 40 basis points to 40.3% (H1 2019: 39.9%).

Commentary continued

Operating costs, excluding debtor costs, grew by 7.5%, within management's guided range of 6% to 8%. In-store promotions and marketing activity were increased to support sales growth in the current challenging consumer environment.

Operating profit increased by 8.9% to R211.0 million and the group's operating margin expanded by 10 basis points to 6.8%. The traditional retail segment contributed R201.6 million and UFO R22.6 million. INspire posted a loss of R13.2 million and is no longer expected to reach breakeven by the end of the 2020 financial year. The INspire business model is being refined by developing the various sales channels and increasing collection rates to improve profitability.

Net finance costs reflected an improvement of R14.9 million and can be attributed to a saving in interest paid following the repayment of borrowings.

Net profit increased by 16.4% to R175.2 million (H1 2019: R150.4 million).

On a comparable basis, the group remains ungeared and has no borrowings. On an IFRS 16 basis, the gearing ratio is at 11.9% owing to lease liabilities of R813.0 million now being reflected on the balance sheet.

The interim dividend was increased by 14.3% to 120 cents per share (H1 2019: 105), with a dividend payout ratio of 55%.

Improving health of debtor book

The credit health of the group's customer base continued to improve despite the weak consumer credit environment, with collection rates increasing from 77.2% to 79.6%. This contributed to debtor costs declining by 0.4%.

The level of satisfactory paid customers improved to 74.2% from 69.9% at end September 2018, the highest level reported since September 2008.

Owing to the improving quality of the debtor book, the impairment provision reduced to 39.8% from 43.5% at 30 September 2018.

Store footprint

Following the opening of nine stores and closure of six stores over the past six months, the group's store base increased to 787. This includes 121 stores in the neighbouring countries of Namibia, Botswana, Eswatini and Lesotho. A further 107 stores across the portfolio were refurbished and four stores relocated to improve trading positions.

Share repurchase programme

The group repurchased 1.9 million shares during the first half of the financial year, at an average market price of R32.33 per share. Since the commencement of the current share repurchase programme, the group bought back 10.6 million shares at an average price of R30.69 per share. At the annual general meeting in October 2019, shareholders granted management the authority to repurchase a further 10% of the issued share capital.

Outlook

Against the background of the weak macroeconomic environment in South Africa, trading conditions are not expected to improve in the short to medium term. The group's strategy of diversification across target markets and sales channels is expected to continue offering resilience in the constrained consumer spending climate. A net six new stores are planned for the second half of the year.

Marketing activity is being accelerated to drive sales growth, with all the group's brands planning to expand participation in Black Friday 2019. The group is also planning for robust festive season trading which will be supported by strong promotional campaigns and new merchandise ranges.

Dividend declaration

Notice is hereby given that a final gross cash dividend of 120 cents per share in respect of the six months ended 30 September 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 120 cents and the dividend tax payable is 24 cents for shareholders who are not exempt. The net dividend for shareholders who are not exempt will therefore, be 96 cents. The dividend tax rate may be reduced where the shareholder is tax resident in a foreign jurisdiction which has a Double Tax Convention with South Africa and meets the requirements for a reduced rate. The company's tax reference number is 9551/419/15/4.

Commentary continued

The following dates are applicable to this declaration:

| | |
|--------------------------------------|---------------------------|
| Last date of trade “cum” dividend | Tuesday 21 January 2020 |
| Date trading commences “ex” dividend | Wednesday 22 January 2020 |
| Record date | Friday 24 January 2020 |
| Date of payment | Monday 27 January 2020 |

Share certificates may not be dematerialised or rematerialised between Wednesday 22 January 2020 and Friday 24 January 2020, both days inclusive.

For and on behalf of the board



Hilton Saven
*Independent
Non-Executive
Chairman*

Cape Town
20 November 2019



Johan Enslin
Chief Executive Officer



Jacques Bestbier
Chief Financial Officer

Lewis Group Limited

Income statement

for the six months ended 30 September 2019

| | Notes | 6 months ended 30 Sept 2019 Unaudited Rm | 6 months ended 30 Sept 2018 Unaudited Rm | 12 months ended 31 March 2019 Audited Rm |
|---|---------|---|---|---|
| Revenue | | 3 083.2 | 2 904.9 | 6 137.2 |
| Retail revenue | 4 | 2 110.4 | 1 973.4 | 4 242.3 |
| Merchandise sales | | 1 735.0 | 1 630.5 | 3 519.9 |
| Ancillary services | | 375.4 | 342.9 | 722.4 |
| Insurance revenue | | 328.3 | 326.9 | 647.2 |
| Effective interest income | | 644.5 | 604.6 | 1 247.7 |
| Cost of merchandise sales | 9 | (1 035.2) | (980.0) | (2 069.3) |
| Operating costs | | (1 804.5) | (1 731.1) | (3 624.9) |
| Debtor costs | 2.2 | (299.4) | (300.5) | (733.1) |
| Employment costs | | (599.3) | (565.2) | (1 149.5) |
| Occupancy costs | | (73.4) | (220.9) | (444.8) |
| Administration and IT | | (188.8) | (170.4) | (348.3) |
| Transport and travel | | (127.2) | (115.9) | (241.7) |
| Marketing | | (182.9) | (161.1) | (298.3) |
| Depreciation and amortisation | | (168.3) | (38.4) | (78.6) |
| Right-of-use assets | 6.2 | (128.6) | – | – |
| Property, plant and equipment | | (36.5) | (36.6) | (66.5) |
| Intangible assets | | (3.2) | (1.8) | (12.1) |
| Other operating costs | | (165.2) | (158.7) | (330.6) |
| Operating profit before investment income | | 243.5 | 193.8 | 443.0 |
| Investment income | 3.2 | 27.3 | 23.8 | 50.3 |
| Profit before finance costs | | 270.8 | 217.6 | 493.3 |
| Net finance costs | | (16.0) | 5.6 | (29.5) |
| Interest paid | | (50.6) | (34.4) | (69.8) |
| Borrowings | | (10.5) | (30.4) | (54.5) |
| Lease liabilities | | (36.6) | – | – |
| Other | | (3.5) | (4.0) | (15.3) |
| Interest received | | 25.7 | 19.8 | 23.0 |
| Forward exchange contracts | | 8.9 | 20.2 | 17.3 |
| Profit before taxation | | 254.8 | 223.2 | 463.8 |
| Taxation | 11 | (83.7) | (72.8) | (154.3) |
| Net profit attributable to ordinary shareholders | | 171.1 | 150.4 | 309.5 |
| Earnings per share | (cents) | 215.0 | 181.8 | 377.5 |
| Diluted earnings per share | (cents) | 211.3 | 179.0 | 368.7 |

Lewis Group Limited

Statement of comprehensive income

for the six months ended 30 September 2019

| | 6 months ended 30 Sept 2019 Unaudited Rm | 6 months ended 30 Sept 2018 Unaudited Rm | 12 months ended 31 March 2019 Audited Rm |
|---|---|--|--|
| Net profit for the period | 171.1 | 150.4 | 309.5 |
| Items that may be subsequently reclassified to income statement: | | | |
| Movement in other reserves | (1.2) | (7.4) | (10.1) |
| Fair value adjustments | (1.8) | (22.8) | (15.3) |
| Changes in the fair value of debt instruments at fair value through other comprehensive income – FVOCI debt investments | (2.5) | (31.7) | (21.3) |
| Tax effect | 0.7 | 8.9 | 6.0 |
| Disposals | 0.2 | 0.3 | 0.2 |
| Disposal of FVOCI debt investments | 0.3 | 0.4 | 0.3 |
| Tax effect | (0.1) | (0.1) | (0.1) |
| Foreign currency translation reserve | 0.4 | 15.1 | 5.0 |
| Items that may not be subsequently reclassified to income statement: | | | |
| Retirement benefit remeasurements | – | – | (4.1) |
| Remeasurement of the retirement assets and liabilities | – | – | (5.7) |
| Tax effect | – | – | 1.6 |
| Other comprehensive income | (1.2) | (7.4) | (14.2) |
| Total comprehensive income for the period attributable to equity shareholders | 169.9 | 143.0 | 295.3 |

Lewis Group Limited

Earnings and dividends per share

for the six months ended 30 September 2019

| | | 6 months ended 30 Sept 2019 Unaudited | 6 months ended 30 Sept 2018 Unaudited | 12 months ended 31 March 2019 Audited |
|---|---------|--|--|--|
| Weighted average number of shares | | | | |
| Weighted average | ('000) | 79 567 | 82 744 | 81 990 |
| Diluted weighted average | ('000) | 80 946 | 84 032 | 83 950 |
| Headline earnings | | | | |
| Attributable earnings | (Rm) | 171.1 | 150.4 | 309.5 |
| Loss/(profit) on disposal of fixed assets | (Rm) | 0.1 | (0.8) | (1.1) |
| Headline earnings | | 171.2 | 149.6 | 308.4 |
| Earnings per share | | | | |
| Earnings per share | (cents) | 215.0 | 181.8 | 377.5 |
| Diluted earnings per share | (cents) | 211.3 | 179.0 | 368.7 |
| Headline earnings per share | | | | |
| Headline earnings per share | (cents) | 215.1 | 180.8 | 376.2 |
| Diluted headline earnings per share | (cents) | 211.4 | 178.0 | 367.4 |
| Dividends per share | | | | |
| Dividends paid per share | | | | |
| Final dividend 2019 (2018) | (cents) | 129.0 | 100.0 | 100.0 |
| Interim dividend 2020 (2019) | (cents) | – | – | 105.0 |
| | | 129.0 | 100.0 | 205.0 |
| Dividends declared per share | | | | |
| Interim dividend 2020 (2019) | (cents) | 120.0 | 105.0 | 105.0 |
| Final dividend 2019 (2018) | (cents) | – | – | 129.0 |
| | | 120.0 | 105.0 | 234.0 |

Lewis Group Limited

Balance sheet

for the six months as at 30 September 2019

| | Notes | 6 months as at 30 Sept 2019 Unaudited Rm | 6 months as at 30 Sept 2018 Unaudited Rm | 12 months as at 31 March 2019 Audited Rm |
|--|-------|--|--|--|
| Assets | | | | |
| Non-current assets | | | | |
| Property, plant and equipment | | 315.9 | 304.2 | 298.9 |
| Right-of-use assets | 6.2 | 678.3 | – | – |
| Intangible assets | | 121.3 | 115.9 | 122.3 |
| Goodwill | | 187.6 | 187.6 | 187.6 |
| Deferred taxation | | 195.7 | 156.6 | 195.4 |
| Retirement benefit asset | | 74.8 | 91.1 | 79.0 |
| Financial assets – insurance investments | 3.1 | 273.3 | 442.9 | 276.1 |
| | | 1 846.9 | 1 298.3 | 1 159.3 |
| Current assets | | | | |
| Inventories | | 806.0 | 750.5 | 665.8 |
| Trade and other receivables | 2.1 | 3 384.8 | 3 347.3 | 3 315.6 |
| Insurance premiums in advance | | – | 17.4 | – |
| Taxation | | 5.8 | 171.2 | 102.9 |
| Financial assets – insurance investments | 3.1 | 319.2 | 133.6 | 340.7 |
| Cash-on-hand and deposits | 5 | 242.8 | 543.4 | 204.7 |
| | | 4 758.6 | 4 963.4 | 4 629.7 |
| Total assets | | 6 605.5 | 6 261.7 | 5 789.0 |
| Equity and liabilities | | | | |
| Capital and reserves | | | | |
| Share capital and premium | | 0.9 | 0.9 | 0.9 |
| Treasury shares | | (0.4) | (0.5) | (0.5) |
| Other reserves | | 40.4 | 32.3 | 48.4 |
| Retained earnings | | 4 739.9 | 4 805.0 | 4 827.3 |
| | | 4 780.8 | 4 837.7 | 4 876.1 |
| Non-current liabilities | | | | |
| Long-term interest-bearing borrowings | 5 | – | – | – |
| Lease liabilities | 6.1 | 599.6 | – | – |
| Deferred taxation | | 36.4 | 34.1 | 43.2 |
| Retirement benefit liability | | 89.0 | 92.6 | 87.2 |
| | | 725.0 | 126.7 | 130.4 |
| Current liabilities | | | | |
| Trade and other payables | | 634.8 | 512.7 | 521.8 |
| Payments in advance | | 157.3 | 161.0 | 158.0 |
| Insurance and reinsurance liabilities | | 94.2 | 121.7 | 102.7 |
| Short-term interest-bearing borrowings | 5 | – | 501.9 | – |
| Lease liabilities | 6.1 | 213.4 | – | – |
| | | 1 099.7 | 1 297.3 | 782.5 |
| Total equity and liabilities | | 6 605.5 | 6 261.7 | 5 789.0 |

Lewis Group Limited

Statement of changes in equity

for the six months ended 30 September 2019

| | Notes | 6 months ended 30 Sept 2019 Unaudited Rm | 6 months ended 30 Sept 2018 Unaudited Rm | 12 months ended 31 March 2019 Audited Rm |
|--|-------|--|--|--|
| Share capital and premium | | | | |
| Opening balance | | 0.9 | 425.0 | 425.0 |
| Cost of own shares acquired | | (62.5) | (51.5) | (99.0) |
| Treasury shares cancelled | | – | (477.7) | (477.7) |
| Transfer of cost of cancelled shares | | 62.5 | 105.1 | 152.6 |
| | | 0.9 | 0.9 | 0.9 |
| Treasury shares | | | | |
| Opening balance | | (0.5) | (480.2) | (480.2) |
| Share awards to employees | | 21.1 | (6.1) | 8.1 |
| Cost of own shares acquired | | (21.0) | 477.7 | (6.1) |
| Treasury shares cancelled | | – | 8.1 | 477.7 |
| | | (0.4) | (0.5) | (0.5) |
| Other reserves | | | | |
| Opening balance | | 48.4 | 42.6 | 42.6 |
| Other comprehensive income: | | | | |
| Changes in fair value of FVOCI debt investments | | (1.8) | (22.8) | (15.3) |
| Disposal of FVOCI debt investments | | 0.2 | 0.3 | 0.2 |
| Foreign currency translation reserve | | 0.4 | 15.1 | 5.0 |
| Equity settled share-based payments | | 14.1 | 17.4 | 36.2 |
| Transfer of share-based payments reserve to retained earnings on vesting | | (20.9) | (20.3) | (20.3) |
| | | 40.4 | 32.3 | 48.4 |
| Retained earnings | | | | |
| Opening balance as previously reported | | 4 827.3 | 5 461.1 | 5 461.1 |
| IFRS 9 Transitional adjustments | | – | (604.8) | (604.8) |
| IFRS 15 Transitional adjustments | | – | (26.0) | (26.0) |
| IFRS 16 Transitional adjustments | 1.2 | (92.8) | – | – |
| Opening balance (Restated) | | 4 734.5 | 4 830.3 | 4 830.3 |
| Net profit attributable to ordinary shareholders | | 171.1 | 150.4 | 309.5 |
| Distribution to shareholders | | (103.0) | (82.8) | (168.0) |
| Transfer of cost of cancelled shares | | (62.5) | (105.1) | (152.6) |
| Transfer of share-based payments reserve to retained earnings on vesting | | 20.9 | 20.3 | 20.3 |
| Retirement benefit remeasurements | | – | – | (4.1) |
| Share awards to employees | | (21.1) | (8.1) | (8.1) |
| | | 4 739.9 | 4 805.0 | 4 827.3 |
| Balance as at the end of period | | 4 780.8 | 4 837.7 | 4 876.1 |

Lewis Group Limited

Cash flow statement

for the six months ended 30 September 2019

| | Notes | 6 months ended 30 Sept 2019 Unaudited Rm | 6 months ended 30 Sept 2018 Unaudited Rm | 12 months ended 31 March 2019 Audited Rm |
|---|-------|--|--|--|
| Cash flow from operating activities | | | | |
| Cash flow from trading | 10.1 | 234.2 | 195.5 | 501.8 |
| Changes in working capital | 10.2 | 103.4 | 20.0 | 150.7 |
| Cash flow from operations | | 337.6 | 215.5 | 652.5 |
| Interest received other than from trade receivables | | 52.6 | 44.0 | 73.0 |
| Interest paid | | (50.6) | (14.2) | (69.8) |
| Taxation refunded/(paid) | | 42.9 | (84.2) | (128.1) |
| | | 382.5 | 161.1 | 527.6 |
| Cash utilised in investing activities | | | | |
| Net disposals/(purchases) of insurance business investments | | 22.4 | (1.8) | (31.1) |
| Purchases of insurance investments | | (68.3) | (63.1) | (293.3) |
| Disposals of insurance investments | | 90.7 | 61.3 | 262.2 |
| Acquisition of fixed assets | | (58.4) | (38.9) | (88.6) |
| Purchase of business | | – | (16.5) | (16.5) |
| Proceeds on disposal of fixed assets | | 2.6 | 1.2 | 9.6 |
| | | (33.4) | (56.0) | (126.6) |
| Cash flow from financing activities | | | | |
| Dividends paid | | (103.0) | (82.8) | (168.0) |
| Lease liability payments | | (124.5) | – | – |
| Repayments of borrowings | | – | (0.9) | (502.8) |
| Purchase of own shares | | (83.5) | (57.6) | (105.1) |
| | | (311.0) | (141.3) | (775.9) |
| Net increase/(decrease) in cash and cash equivalents | | | | |
| | | 38.1 | (36.2) | (374.9) |
| Cash and cash equivalents at the beginning of the period | | 204.7 | 579.6 | 579.6 |
| Cash and cash equivalents at the end of the period | | 242.8 | 543.4 | 204.7 |

Lewis Group Limited

Notes to the summary financial statements

for the six months ended 30 September 2019

1.1 Basis of reporting

The condensed consolidated interim financial statements are prepared in accordance with International Financial Reporting Standard, (IAS 34 Interim Financial Reporting), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council. The accounting policies applied in the preparation of these interim financial statements are in terms of International Financial Reporting Standards and are consistent with those applied in the previous consolidated annual financial statements except as disclosed in note 1.2.

The interim financial statements were prepared by the group's Finance Department under the supervision of the Chief Financial Officer, Mr J Bestbier CA(SA).

1.2 Changes in accounting policies

Adoption of IFRS 16 – Leases

IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019. The standard replaces the previous guidance in IAS 17. The previous distinction between a finance lease and an operating lease under IAS 17 is no longer applicable as IFRS 16 requires almost all operating leases to be brought onto the balance sheet.

IFRS 16 removes the straight-line rent cost previously recognised in respect of operating leases under IAS 17, and replaces the cost with depreciation on right-of-use ("ROU") assets and interest charged on outstanding lease liabilities.

The group has adopted IFRS 16 with effect from 1 April 2019 and has elected not to restate its comparative information as permitted by this standard. Accordingly, using the modified retrospective approach, the impact of IFRS 16 has been applied retrospectively with an adjustment to the group's opening retained earnings on 1 April 2019.

On initial recognition the lease liability was measured at the net present value of the future lease payments discounted over the lease term using the relevant incremental borrowing rate ("IBR"). Future lease payments comprise fixed lease payment, less any lease incentives receivable. Subsequent to initial recognition, the lease liability is measured at amortised cost using the effective interest rate method, reduced by future lease payments net of interest charged.

The associated ROU asset was recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. Subsequent to initial recognition, the ROU asset is depreciated on a straight-line basis over the period of the lease term. ROU assets are tested for impairment when there are any indicators of impairment.

Lewis Group Limited

Notes to the summary financial statements

for the six months ended 30 September 2019

1.2 Changes in accounting policies continued

The group leases various properties such as stores, storerooms, warehouses and offices. Rental contracts are typically made for fixed periods of one to five years and may include extension options. The lease term includes any non-cancellable periods and reasonably certain termination or extension option periods. Management applies their judgement in assessing the likelihood of exercising termination or extension options. The group's portfolio of qualifying leases has an average lease term of four years.

The discount rate used to calculate the lease liability is the lessee's incremental borrowing rate specific to the term, country and currency of the lease. Incremental borrowing rates are based on a series of inputs including market rates and risk adjustments which reflects the individual company and country risk profiles. The group's portfolio of qualifying leases has a weighted average borrowing rate of 9.04% on date of initial application.

The group considered all of the practical expedients available under the modified retrospective approach listed under IFRS 16 annexure C paragraph 10 and has elected to apply the following two:

- Application of a single discount rate to a portfolio of leases with reasonably similar characteristics; and
- Exclude initial direct costs from the measurement of the ROU asset.

1.2 Changes in accounting policies *continued*

Adoption effect on the financial statements

Impact on the income statement

| | Post IFRS 16 6 months ended 30 Sept 2019 Unaudited Rm | IFRS 16 Adjustments Unaudited Rm | Pre IFRS 16 6 months ended 30 Sept 2019 Unaudited Rm | 6 months ended 30 Sept 2018 Unaudited Rm |
|---|--|---|---|--|
| Revenue | 3 083.2 | – | 3 083.2 | 2 904.9 |
| Cost of merchandise sales | (1 035.2) | – | (1 035.2) | (980.0) |
| Operating costs | (1 804.5) | 32.5 | (1 837.0) | (1 731.1) |
| Occupancy costs | (73.4) | 161.1 | (234.5) | (220.9) |
| Depreciation and amortisation | (168.3) | (128.6) | (39.7) | (38.4) |
| - Right-of-use assets | (128.6) | (128.6) | – | – |
| - Property, plant and equipment | (36.5) | – | (36.5) | (36.6) |
| - Intangible assets | (3.2) | – | (3.2) | (1.8) |
| Other operating costs ¹ | (1 562.8) | – | (1 562.8) | (1 471.8) |
| Operating profit before investment income | 243.5 | 32.5 | 211.0 | 193.8 |
| Investment income | 27.3 | – | 27.3 | 23.8 |
| Profit before finance costs | 270.8 | 32.5 | 238.3 | 217.6 |
| Net finance costs | (16.0) | (36.6) | 20.6 | 5.6 |
| Interest paid | (50.6) | (36.6) | (14.0) | (34.4) |
| - Borrowings | (10.5) | – | (10.5) | (30.4) |
| - Lease liabilities | (36.6) | (36.6) | – | – |
| - Other | (3.5) | – | (3.5) | (4.0) |
| Interest received | 25.7 | – | 25.7 | 19.8 |
| Forward exchange contracts | 8.9 | – | 8.9 | 20.2 |
| Profit before taxation | 254.8 | (4.1) | 258.9 | 223.2 |
| Taxation | (83.7) | – | (83.7) | (72.8) |
| Net profit attributable to ordinary shareholders | 171.1 | (4.1) | 175.2 | 150.4 |
| Earnings per share (cents) | 215.0 | (5.1) | 220.1 | 181.8 |
| Diluted earnings per share (cents) | 211.3 | (5.0) | 216.3 | 179.0 |

1. *Comprises debtor costs, employment costs, administration and IT, transport and travel, marketing and other operating costs. Refer page 5 for full income statement for the six months ended 30 September 2019.*

Lewis Group Limited

Notes to the summary financial statements

for the six months ended 30 September 2019

1.2 Changes in accounting policies continued

Adoption effect on the financial statements continued

Impact on the balance sheet

| | 30 Sept 2019 Rm | On transition 1 April 2019 Rm |
|--|--------------------|-------------------------------------|
| Total assets | | |
| Increase in right-of-use assets | 678.3 | 726.2 |
| Gross carrying value | 806.9 | 726.2 |
| Accumulated depreciation | (128.6) | – |
| Increase in deferred tax assets | 36.6 | 36.6 |
| Decrease in lease premiums ¹ | (5.2) | (6.5) |
| Decrease in rental prepayments ¹ | (23.8) | (23.2) |
| | 685.9 | 733.1 |
| Total equity and liabilities | | |
| Decrease in opening retained earnings | (92.8) | (92.8) |
| Decrease in retained earnings | (4.1) | – |
| Increase in lease liabilities | 813.0 | 856.1 |
| Non-current | 599.6 | 642.2 |
| Current | 213.4 | 213.9 |
| Decrease in lease averaging provision ² | (30.2) | (30.2) |
| | 685.9 | 733.1 |

1. Previously included in the trade and other receivables note.

2. Previously included in the trade and other payables note.

1.2 Changes in accounting policies continued

Adoption effect on the financial statements continued

| | 30 Sept 2019 Rm | On transition 1 April 2019 Rm |
|--|--------------------|-------------------------------------|
| Impact on net asset value | | |
| Decrease in opening retained earnings | (92.8) | (92.8) |
| Decrease in net profit attributable to ordinary shareholders | (4.1) | – |
| | (96.9) | (92.8) |
| Impact on net asset value per share | | |
| Decrease in net asset value per share (cents) | (123.8) | (115.7) |
| Impact on the cash flow statement | | |
| Increase in cash flow from trading | 161.1 | |
| Increase in cash flow from operations | 161.1 | |
| Increase in interest paid – lease liabilities | (36.6) | |
| Effect on cash flows from operating activities | 124.5 | |
| Increase in lease liability payments | (124.5) | |
| Effect on cash flows from financing activities | (124.5) | |
| Net effect on cash and cash equivalents | – | |

Lewis Group Limited

Notes to the summary financial statements

for the six months ended 30 September 2019

1.2 Changes in accounting policies continued

Adoption effect on the financial statements continued

Impact on the reportable segments

IFRS 16 adjustments by reportable segments are as follows:

| | 30 Sept 2019 | | | |
|--|-------------------|------------|------------------------|-------------|
| | Traditional Rm | Cash Rm | Omni- channel Rm | Group Rm |
| Decrease in operating costs | 27.6 | 4.9 | – | 32.5 |
| Decrease in occupancy costs | 134.4 | 26.5 | 0.2 | 161.1 |
| Increase in depreciation | (106.8) | (21.6) | (0.2) | (128.6) |
| Increase in segment operating profit before investment income | 27.6 | 4.9 | – | 32.5 |
| Increase in segment operating margin | 1.0% | 1.9% | – | 1.1% |
| Increase in interest paid – lease liabilities | (30.0) | (6.6) | – | (36.6) |
| Decrease in profit before taxation | (2.4) | (1.7) | – | (4.1) |

1.2 Changes in accounting policies continued

Reconciliation of operating lease commitments (IAS 17) to lease liabilities (IFRS 16)

Leases have been classified into three categories based on the individual lease terms.

| | Lease categories | | | Total Rm |
|---|-------------------------|-----------------------|-------------------|----------------|
| | 0 to 12 months Rm | 1 to 5 years Rm | >5 years Rm | |
| Operating lease commitments (on cash basis) previously disclosed 31 March 2019 | 258.3 | 427.9 | – | 686.2 |
| Less: Short-term leases recognised as an expense | (4.0) | – | – | (4.0) |
| Add: Adjustments as a result of the inclusion of extension options | 48.6 | 197.8 | 155.0 | 401.4 |
| Total commitments to be discounted using the relevant IBR at date of initial application | 302.9 | 625.7 | 155.0 | 1 083.6 |
| Discounting using the relevant IBR | | | | (227.5) |
| Lease liabilities recognised as at 1 April 2019 | | | | 856.1 |
| Non-current | | | | 642.2 |
| Current | | | | 213.9 |

Lewis Group Limited

Notes to the summary financial statements

for the six months ended 30 September 2019

| | 6 months ended 30 Sept 2019 Unaudited Rm | 6 months ended 30 Sept 2018 Unaudited Rm | 12 months ended 31 March 2019 Audited Rm |
|--|---|--|--|
| 2. Trade and other receivables | | | |
| 2.1 Trade receivables | | | |
| Trade receivables | 5 399.6 | 5 420.7 | 5 527.8 |
| Provision for impairment | (2 151.3) | (2 357.6) | (2 323.1) |
| Trade receivables (net) | 3 248.3 | 3 063.1 | 3 204.7 |
| Due within 12 months | 2 038.6 | 1 939.2 | 2 012.9 |
| Due after 12 months | 1 209.7 | 1 123.9 | 1 191.8 |
| Other receivables | 136.5 | 284.2 | 110.9 |
| Total trade and other receivables | 3 384.8 | 3 347.3 | 3 315.6 |
| Debtors' impairment provision as percentage of debtors at gross carrying value (%) | 39.8 | 43.5 | 42.0 |

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

Credit risk

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.

2. Trade and other receivables continued

2.1 Trade receivables continued

Credit granting

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

- **Credit scoring:** this involves the gathering of appropriate information from the client, use of credit bureaus and third parties such as employers. These input variables are run through the various credit scorecards. Lewis deals with its new customers and existing customers differently when credit scoring takes place.

The process is as follows:

- for new customers, application risk scorecards predict the risk with the emphasis for such an evaluation on information from credit bureaus and third-party information.
- for existing customers, behavioural scorecards have been developed to assess the risk through predictive behaviour with the emphasis on the customer's payment record with Lewis, bureau and other information being considered.
- **Assessing client affordability:** this process involves collecting information regarding the customer's income levels, expenses and current debt obligations. Lewis has its own priority expense model based on surveys conducted with customers in addition to the National Credit Regulator's expense table.
- **Determining the credit limit for the customer:** the customer's risk score determined by the scorecard together with the affordability assessment and outstanding obligations are used to calculate a credit limit within the customer's affordability level.

The credit granting systems enable the group to determine its appetite for risk. In determining the acceptable level of risk, the potential loss is weighed up against the revenue potential using the predictive behavioural models inherent in the credit-granting system. The group continuously monitors any variances from the level of risk that has been adopted.

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

Lewis Group Limited

Notes to the summary financial statements

for the six months ended 30 September 2019

2. Trade and other receivables continued

2.1 Trade receivables continued

Impairment provision

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

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.

2. Trade and other receivables continued

2.1 Trade receivables continued

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 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.

Lewis Group Limited

Notes to the summary financial statements

for the six months ended 30 September 2019

2. Trade and other receivables continued

2.1 Trade receivables continued

Debtor analysis

30 September 2019

| Customer grouping | Number of customers Total | Gross carrying value R'000 | Impairment provision R'000 | Impairment provision % | Total arrears R'000 | Installments in arrears | | | |
|--|------------------------------|-------------------------------|-------------------------------|---------------------------|------------------------|-------------------------|------------|------------|-------------|
| | | | | | | 1 R'000 | 2 R'000 | 3 R'000 | >3 R'000 |
| Satisfactory paid Customers who have paid 70% or more of amounts due over the contract period. % | 426 782 | 3 374 370 | 679 125 | 20.1 | 541 164 | 159 109 | 109 560 | 79 892 | 192 603 |
| Slow payers Customers who have paid 55% to 70% of amounts due over the contract period. % | 82 152 | 904 682 | 545 552 | 60.3 | 568 416 | 65 057 | 62 040 | 58 683 | 382 636 |
| Non-performing accounts Customers who have paid less than 55% of amounts due over the contract period. % | 66 037 | 1 120 505 | 926 625 | 82.7 | 826 496 | 56 473 | 55 327 | 54 424 | 660 272 |
| Gross debtor analysis | 574 971 | 5 399 557 | 2 151 302 | 39.8 | 1 936 076 | 280 639 | 226 927 | 192 999 | 1 235 511 |

Credit impaired debtors as at 30 September 2019

| Credit impaired categories | Non-performing accounts R'000 | In duplum | | Debt counselling | | No payment in three 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 30 September 2019 | 1 120 505 | 23 318 | 53 449 | 37 798 | 71 302 | 64 734 | 157 731 | 1 528 837 |
| Impairment provision | (926 625) | (7 924) | (35 372) | (8 387) | (39 671) | (15 591) | (89 491) | (1 123 061) |
| Amortised cost | 193 880 | 15 394 | 18 077 | 29 411 | 31 631 | 49 143 | 68 240 | 405 776 |

2. Trade and other receivables continued

2.1 Trade receivables continued

Debtor analysis

30 September 2018

| Customer grouping | Number of customers Total | Gross carrying value R'000 | Impairment provision R'000 | Impairment provision % | Total arrears R'000 | Installments in arrears | | | |
|--|------------------------------|-------------------------------|-------------------------------|---------------------------|------------------------|-------------------------|------------|------------|-------------|
| | | | | | | 1 R'000 | 2 R'000 | 3 R'000 | >3 R'000 |
| Satisfactory paid Customers who have paid 70% or more of amounts due over the contract period. % | 408 005 | 3 103 155 | 666 767 | 21.5 | 530 205 | 148 582 | 102 629 | 75 903 | 203 091 |
| Slow payers Customers who have paid 55% to 70% of amounts due over the contract period. % | 91 370 | 958 938 | 571 465 | 59.6 | 633 196 | 67 912 | 64 902 | 61 756 | 438 626 |
| Non-performing accounts Customers who have paid less than 55% of amounts due over the contract period. % | 84 568 | 1 358 540 | 1 119 257 | 82.4 | 1 013 893 | 65 006 | 64 349 | 63 654 | 820 884 |
| Gross debtor analysis | 583 943 | 5 420 633 | 2 357 489 | 43.5 | 2 177 294 | 281 500 | 231 880 | 201 313 | 1 462 601 |

Credit impaired debtors as at 30 September 2018

| Credit impaired categories | Non-performing accounts R'000 | In duplum | | Debt counselling | | No payment in three consecutive months | | |
|--|----------------------------------|-----------------------|-------------------|-----------------------|-------------------|--|-------------------|----------------|
| | | Satisfactory R'000 | Slow pay R'000 | Satisfactory R'000 | Slow pay R'000 | Satisfactory R'000 | Slow pay R'000 | Total R'000 |
| Gross carrying value as at 30 September 2018 | 1 358 540 | 8 469 | 35 126 | | | | | |
| Impairment provision | (1 119 257) | (4 050) | (25 087) | 36 089 | (8 516) | 59 508 | 164 185 | 1 735 957 |
| Amortised cost | 239 283 | 4 419 | 10 039 | 27 573 | 29 983 | (13 360) | (94 894) | (1 309 221) |
| | | | | | | 46 148 | 69 291 | 426 736 |

Lewis Group Limited

Notes to the summary financial statements

for the six months ended 30 September 2019

2. Trade and other receivables continued

2.1 Trade receivables continued

Debtor analysis

31 March 2019

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

Credit impaired debtors as at 31 March 2019

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

2. Trade and other receivables continued

2.1 Trade receivables continued

Interest rate risk

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

The average effective interest rate on instalment sale and loan receivables is 22.8% (2018: 22.7%) and the average term of the sale is 32.8 months (2018: 32.7 months).

Fair value

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

| | 6 months ended 30 Sept 2019 Unaudited Rm | 6 months ended 30 Sept 2018 Unaudited Rm | 12 months ended 31 March 2019 Audited Rm |
|---|---|--|--|
| 2.2 Debtor costs | | | |
| Bad debts | 499.1 | 391.2 | 894.9 |
| Bad debts before adjustment for interest on credit impaired accounts | 546.2 | 442.6 | 1 005.3 |
| Adjustment for interest on credit impaired accounts | (47.1) | (51.4) | (110.4) |
| Bad debt recoveries | (27.9) | (26.2) | (62.8) |
| Movement in debtors' impairment provision | (171.8) | (64.5) | (99.0) |
| Closing balance | 2 151.3 | 2 357.6 | 2 323.1 |
| Transition to IFRS 9 | – | (802.6) | (802.6) |
| Opening balance | (2 323.1) | (1 619.5) | (1 619.5) |
| | 299.4 | 300.5 | 733.1 |
| Debtor costs as a percentage of debtors at gross carrying value (%) | 5.5 | 5.5 | 13.3 |

Included in bad debts 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.

Lewis Group Limited

Notes to the summary financial statements

for the six months ended 30 September 2019

| | 6 months ended 30 Sept 2019 Unaudited Rm | 6 months ended 30 Sept 2018 Unaudited Rm | 12 months ended 31 March 2019 Audited Rm |
|---|---|--|--|
| 3. Insurance | | | |
| 3.1 Insurance investments | | | |
| Financial assets – insurance investments | | | |
| <i>Listed investments</i> | | | |
| Fixed income securities – FVOCI debt | 273.3 | 442.9 | 276.1 |
| <i>Unlisted Investments</i> | | | |
| Money market – FVOCI debt | 319.2 | 133.6 | 340.7 |
| | 592.5 | 576.5 | 616.8 |
| Analysed as follows: | | | |
| Non-current | 273.3 | 442.9 | 276.1 |
| Current | 319.2 | 133.6 | 340.7 |
| | 592.5 | 576.5 | 616.8 |
| Movement for the period | | | |
| Beginning of the period | 616.8 | 606.4 | 606.4 |
| Additions to investments | 68.3 | 63.1 | 293.3 |
| Disposals of investments | (90.4) | (61.7) | (261.9) |
| Fair value adjustment | (2.2) | (31.3) | (21.0) |
| End of the period | 592.5 | 576.5 | 616.8 |

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

3. Insurance continued

3.1 Insurance investments continued

Fair value hierarchy

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

| | Level 2 Rm | Total Rm |
|--------------------------------------|---------------|--------------|
| 30 September 2019 | | |
| Insurance investments: | | |
| Fixed income securities – FVOCI debt | 273.3 | 273.3 |
| Money market – FVOCI debt | 319.2 | 319.2 |
| | 592.5 | 592.5 |
| 30 September 2018 | | |
| Insurance investments: | | |
| Fixed income securities – FVOCI debt | 442.9 | 442.9 |
| Money market – FVOCI debt | 133.6 | 133.6 |
| | 576.5 | 576.5 |
| 31 March 2019 | | |
| Insurance investments: | | |
| Fixed income securities – FVOCI debt | 276.1 | 276.1 |
| Money market – FVOCI debt | 340.7 | 340.7 |
| | 616.8 | 616.8 |

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

| | 6 months ended 30 Sept 2019 Unaudited Rm | 6 months ended 30 Sept 2018 Unaudited Rm | 12 months ended 31 March 2019 Audited Rm |
|---|--|--|--|
| 3.2 Investment income | | | |
| Interest – insurance business | 27.0 | 24.2 | 50.0 |
| Realised gain/(loss) on disposal of insurance investments | 0.3 | (0.4) | 0.3 |
| | 27.3 | 23.8 | 50.3 |

Lewis Group Limited

Notes to the summary financial statements

for the six months ended 30 September 2019

| | 6 months ended 30 Sept 2019 Unaudited Rm | 6 months ended 30 Sept 2018 Unaudited Rm | 12 months ended 31 March 2019 Audited Rm |
|--|---|--|--|
| 4 Revenue | | | |
| 4.1 Revenue | 3 083.2 | 2 904.9 | 6 137.2 |
| Retail revenue – revenue from contracts with customers | 2 110.4 | 1 973.4 | 4 242.3 |
| Merchandise sales | 1 735.0 | 1 630.5 | 3 519.9 |
| Ancillary services | 375.4 | 342.9 | 722.4 |
| Insurance revenue | 328.3 | 326.9 | 647.2 |
| Effective interest income | 644.5 | 604.6 | 1 247.7 |
| Finance charges and initiation fees earned | 691.6 | 656.0 | 1 358.1 |
| Adjustment for interest on credit impaired accounts | (47.1) | (51.4) | (110.4) |

4 Revenue continued

4.2 Retail revenue

| | Traditional Rm | Cash Rm | Omni- channel Rm | Group Rm |
|---------------------------|-------------------|------------|------------------------|-------------|
| 30 September 2019 | | | | |
| Merchandise sales | | | | |
| - Cash | 476.0 | 250.6 | 0.2 | 726.8 |
| - Credit | 972.7 | - | 35.5 | 1 008.2 |
| Ancillary services | | | | |
| - At a point in time | 78.0 | 4.8 | 2.9 | 85.7 |
| - Over time | 287.7 | - | 2.0 | 289.7 |
| | 1 814.4 | 255.4 | 40.6 | 2 110.4 |
| 30 September 2018 | | | | |
| Merchandise sales | | | | |
| - Cash | 467.5 | 230.3 | 0.3 | 698.1 |
| - Credit | 928.9 | - | 3.5 | 932.4 |
| Ancillary services | | | | |
| - At a point in time | 72.7 | 4.1 | 0.4 | 77.2 |
| - Over time | 265.7 | - | - | 265.7 |
| | 1 734.8 | 234.4 | 4.2 | 1 973.4 |
| 31 March 2019 | | | | |
| Merchandise sales | | | | |
| - Cash | 1 002.9 | 478.4 | 0.5 | 1 481.8 |
| - Credit | 2 011.4 | - | 26.7 | 2 038.1 |
| Ancillary services | | | | |
| - At a point in time | 156.0 | 8.6 | 0.2 | 164.8 |
| - Over time | 556.8 | - | 0.8 | 557.6 |
| | 3 727.1 | 487.0 | 28.2 | 4 242.3 |

Lewis Group Limited

Notes to the summary financial statements

for the six months ended 30 September 2019

| | 6 months ended 30 Sept 2019 Unaudited Rm | 6 months ended 30 Sept 2018 Unaudited Rm | 12 months ended 31 March 2019 Audited Rm |
|---|---|--|--|
| 5. Borrowings, banking facilities and cash | | | |
| Interest-bearing borrowings | | | |
| <i>Long-term</i> | | | |
| Banking facilities | – | – | – |
| <i>Short-term</i> | | | |
| Banking facilities | – | 501.9 | – |
| Bank overdrafts | – | – | – |
| | – | 501.9 | – |
| Cash-on-hand and deposits | (242.8) | (543.4) | (204.7) |
| Net borrowings | (242.8) | (41.5) | (204.7) |
| Available facilities | | | |
| Banking facilities | 1 500.0 | 2 150.0 | 1 500.0 |
| Domestic Medium-Term Note Programme | 2 000.0 | 2 000.0 | 2 000.0 |
| | 3 500.0 | 4 150.0 | 3 500.0 |
| Available funds | 3 742.8 | 4 191.5 | 3 704.7 |
| Interest rate profile | | | |
| Interest rate profile of borrowings is as follows: | | | |
| Bank borrowings at interest rates linked to three-month JIBAR. The weighted average interest rate at the end of the reporting period is 9.15% (2018: 9.32%) | | | |
| | – | 501.9 | – |
| Cash and cash equivalents | | | |
| Cash-on-hand and deposits | 242.8 | 543.4 | 204.7 |
| Bank overdrafts | – | – | – |
| | 242.8 | 543.4 | 204.7 |

6 months
ended
30 Sept 2019
Unaudited
Rm

6. Leases

6.1 Lease liabilities recognised

| | |
|-----------------------------------|---------|
| Recognised on adoption of IFRS 16 | 856.1 |
| New and expired leases | 81.4 |
| Lease liability payments | (124.5) |
| Closing balance | 813.0 |
| Analysed as follows: | |
| Non-current | 599.6 |
| Current | 213.4 |

6.2 Right-of-use assets

Land and buildings

| | |
|-----------------------------------|---------|
| Recognised on adoption of IFRS 16 | 726.2 |
| New and expired leases | 80.7 |
| Depreciation | (128.6) |
| Closing balance | 678.3 |
| Cost | 806.9 |
| Accumulated depreciation | (128.6) |

The average remaining lease term is 2.4 years as at 30 September 2019.

Lewis Group Limited

Notes to the summary financial statements

for the six months ended 30 September 2019

| | 6 months ended 30 Sept 2019 Unaudited Rm | 6 months ended 30 Sept 2018 Unaudited Rm | 12 months ended 31 March 2019 Audited Rm |
|------------------------------|---|--|--|
| 7. Capital management | | | |
| Pre IFRS 16 | | | |
| Net debt | (242.8) | (41.5) | (204.7) |
| Shareholder's equity | 4 875.3 | 4 837.7 | 4 876.1 |
| Gearing ratio (%) | (5.0) | (0.9) | (4.2) |
| Post IFRS 16 | | | |
| Net debt | 570.2 | (41.5) | (204.7) |
| Shareholder's equity | 4 780.8 | 4 837.7 | 4 876.1 |
| Gearing ratio (%) | 11.9 | (0.9) | (4.2) |

8. Reportable segments

| Primary | Traditional Rm | Cash Rm | Omni-channel Rm | Group Rm |
|---|----------------|---------|-----------------|----------|
| For the six months ended 30 September 2019 (Unaudited) | | | | |
| Revenue | 2 781.5 | 255.4 | 46.3 | 3 083.2 |
| Operating profit/(loss) before investment income | 229.2 | 27.5 | (13.2) | 243.5 |
| Operating margin (%) | 8.2 | 10.8 | (28.5) | 7.9 |
| Segment assets | 3 812.3 | 182.5 | 59.4 | 4 054.2 |
| For the six months ended 30 September 2018 (Unaudited)¹ | | | | |
| Revenue | 2 666.3 | 234.4 | 4.2 | 2 904.9 |
| Operating profit/(loss) before investment income | 186.8 | 21.6 | (14.6) | 193.8 |
| Operating margin (%) | 7.0 | 9.2 | (347.6) | 6.7 |
| Segment assets | 3 690.9 | 93.2 | 24.7 | 3 808.8 |
| For the twelve months ended 31 March 2019 (Audited) | | | | |
| Revenue | 5 619.5 | 487.0 | 30.7 | 6 137.2 |
| Operating profit/(loss) before investment income | 429.4 | 40.5 | (26.9) | 443.0 |
| Operating margin (%) | 7.6 | 8.3 | (87.6) | 7.2 |
| Segment assets | 3 696.3 | 136.1 | 38.1 | 3 870.5 |

¹ For the six months ended 30 September 2018, the Omni-channel segment reflects only five months of trading since the launch of INspire in May 2018.

| Geographical | South Africa Rm | Namibia Rm | BLE* Rm | Group Rm |
|---|-----------------|------------|---------|----------|
| For the six months ended 30 September 2019 (Unaudited) | | | | |
| Revenue | 2 616.9 | 238.6 | 227.7 | 3 083.2 |
| For the six months ended 30 September 2018 (Unaudited) | | | | |
| Revenue | 2 425.9 | 246.7 | 232.3 | 2 904.9 |
| For the twelve months ended 31 March 2019 (Audited) | | | | |
| Revenue | 5 131.2 | 491.6 | 514.4 | 6 137.2 |

* Botswana, Lesotho and Eswatini

Lewis Group Limited

Notes to the summary financial statements

for the six months ended 30 September 2019

| | 6 months ended 30 Sept 2019 Unaudited Rm | 6 months ended 30 Sept 2018 Unaudited Rm | 12 months ended 31 March 2019 Audited Rm |
|---|---|--|--|
| 9. Gross profit | | | |
| Merchandise sales | 1 735.0 | 1 630.5 | 3 519.9 |
| Cost of merchandise sales | (1 035.2) | (980.0) | (2 069.3) |
| Merchandise gross profit | 699.8 | 650.5 | 1 450.6 |
| Gross profit percentage (%) | 40.3 | 39.9 | 41.2 |
| 10. Cash flow from operations | | | |
| 10.1 Cash flow from trading: | 234.2 | 195.5 | 501.8 |
| Operating profit before investment income | 243.5 | 193.8 | 443.0 |
| <i>Adjusted for:</i> | | | |
| Share-based payments | 16.8 | 17.4 | 36.2 |
| Depreciation and amortisation | 168.3 | 38.4 | 78.6 |
| Movement in debtors impairment provision | (171.8) | (64.5) | (99.0) |
| Movement in other provisions | (37.7) | 8.8 | 23.3 |
| Other movements | 15.1 | 1.6 | 19.7 |
| Included in cash flow from trading is interest received on trade receivables of R691.6 million. | | | |
| 10.2 Changes in working capital: | 103.4 | 20.0 | 150.7 |
| Increase in inventories | (148.3) | (160.7) | (63.6) |
| Decrease in trade and other receivables | 73.3 | 37.8 | 146.5 |
| Increase in trade and other payables | 187.6 | 147.7 | 77.2 |
| Decrease in payments in advance | (0.7) | (7.9) | (10.9) |
| Decrease in insurance premiums in advance | - | 58.2 | 75.6 |
| Decrease in reinsurance and insurance liabilities | (8.5) | (55.1) | (74.1) |

| | 6 months ended 30 Sept 2019 Unaudited Rm | 6 months ended 30 Sept 2018 Unaudited Rm | 12 months ended 31 March 2019 Audited Rm |
|---|---|--|--|
| 11. Taxation | | | |
| Taxation charge | | | |
| Normal taxation | | | |
| Current year | 39.1 | 51.8 | 107.0 |
| Prior year | 9.9 | (2.3) | 36.7 |
| Deferred taxation | | | |
| Current year | 32.5 | 16.0 | 23.3 |
| Prior year | 2.2 | 7.3 | (27.7) |
| Withholding tax | – | – | 15.0 |
| Taxation per income statement | 83.7 | 72.8 | 154.3 |
| Tax rate reconciliation | | | |
| Profit before taxation | 254.8 | 223.2 | 463.8 |
| Taxation calculated at a tax rate of 28% (2018: 28%) | 71.3 | 62.5 | 129.9 |
| Differing tax rates in foreign countries | (0.3) | 1.7 | 3.5 |
| Disallowances | 8.6 | 9.6 | 7.9 |
| Exemptions | (8.0) | (6.0) | (11.0) |
| Prior years | 12.1 | 5.0 | 9.0 |
| Withholding tax | – | – | 15.0 |
| Taxation per income statement | 83.7 | 72.8 | 154.3 |
| Effective tax rate (%) | 32.9 | 32.6 | 33.3 |

12. Post balance sheet events

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

Lewis Group Limited

Key ratios

| | | 6 months ended 30 Sept 2019 Unaudited | 6 months ended 30 Sept 2018 Unaudited | 12 months ended 31 March 2019 Audited |
|--|-----------|--|--|--|
| Operating efficiency ratios | | | | |
| Gross profit margin | (%) | 40.3 | 39.9 | 41.2 |
| Operating profit margin | (%) | 7.9 | 6.7 | 7.2 |
| Number of stores | | 787 | 779 | 784 |
| Number of employees | (average) | 7 894 | 8 039 | 8 101 |
| Trading space | (sqm) | 248 876 | 255 829 | 254 590 |
| Inventory turn (annualised) | (times) | 2.6 | 2.5 | 3.1 |
| Current ratio | | 4.3 | 3.8 | 5.9 |
| Credit ratios | | | | |
| Credit sales | (%) | 58.1 | 57.2 | 57.9 |
| Debtor costs as a percentage of debtors at gross carrying value | (%) | 5.5 | 5.5 | 13.3 |
| Debtors impairment provision as a percentage of debtors at gross carrying value | (%) | 39.8 | 43.5 | 42.0 |
| Arrear instalments on satisfactory paid accounts as a percentage of total debtors at gross carrying value | (%) | 10.0 | 9.8 | 8.8 |
| Arrear instalments on slow paying and non-performing accounts as a percentage of total debtors at gross carrying value | (%) | 25.8 | 30.4 | 26.2 |
| Credit applications decline rate | (%) | 37.9 | 38.5 | 37.4 |
| Shareholder ratios | | | | |
| Net asset value per share | (cents) | 6 111 | 5 922 | 6 081 |
| Gearing ratio – pre IFRS 16 | (%) | (5.0) | (0.9) | (4.2) |
| Gearing ratio – post IFRS 16 | (%) | 11.9 | – | – |
| Dividend payout ratio | (%) | 54.9 | 57.0 | 61.1 |
| ROE (annualised) after tax | (%) | 7.1 | 6.2 | 6.4 |
| ROCE (annualised) after tax | (%) | 7.0 | 5.4 | 6.5 |
| Average return on assets before tax | (%) | 8.9 | 7.2 | 8.5 |

Notes:

1. All ratios are based on figures at the end of the period unless otherwise disclosed.
2. The net asset value has been calculated using 78 225 000 shares in issue (2018: 81 694 000).
3. Total assets exclude the deferred tax asset.

Lewis Group Limited

Corporate information

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



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